SLAUGHTER AND MAY/

ESG: GETTING READY SERIES

INTERNATIONAL SUSTAINABILITY STANDARDS BOARD STANDARDS

GOVERNANCE & SUSTAINABILITY
Part of the Horizon Scanning series

WHAT

In June 2023, the International Sustainability Standards Board ("**ISSB**") published two sets of corporate disclosure standards, which are set to become the global baseline for sustainability and climate-related reporting ("**the Standards**"):

- IFRS S1, which sets out overarching reporting requirements relating to **sustainability**-risks and opportunities that could reasonably be expected to affect an entity's prospects in the short, medium and long term; and
- IFRS S2, which sets out supplementary specific **climate**-related disclosures designed to be used with IFRS S1.

The Standards are intended to provide investors worldwide with more consistent, complete and comparable sustainability-related financial information that is able to "*tell their sustainability story in a robust, comparable and verifiable manner*"[1]. Importantly, the Standards are focused on enhancing interoperability, by incorporating or building on existing frameworks, standards and recommendations such as those from the Task Force on Climate-related Financial Disclosures ("**TCFD**"),[2] the Sustainability Accounting Standards Board, and the Global Reporting Initiative ("**GRI**").[3]

WHEN

The Standards are currently voluntary and can be used for annual reporting periods straight away, with the first batch of reports expected to be published in 2025 based on 2024 data (although we are aware of companies starting to align with IFRS S2 in the upcoming reporting cycle).

In the first year of reporting, companies reporting under the Standards are encouraged by ISSB to prioritise putting in place reporting practices and structures to provide information about climate-related risks and opportunities[4]. In the second year, companies looking to comply would be expected to report on other sustainability-related risks and opportunities beyond climate.

1 IFRS - ISSB issues inaugural global sustainability disclosure standards

2 A comparison of what IFRS S2 requires as compared to the TCFD recommendations can be found here

3 A summary of interoperability considerations for GHG emissions when applying GRI Standards and ISSB Standards can be found here

4 IFRS - ISSB decides to prioritise climate-related disclosures to support initial application

Mandatory reporting under the Standards will depend on national implementation and regulatory processes. The UK government has said it aims to make a UK-endorsed version of the Standards available in Q1 2025, with implementation into law to follow thereafter. As implementation will require consultation and legislation, the government has said any changes that may be introduced would be effective no earlier than accounting periods beginning on or after 1 January 2026. In parallel, the UK's Financial Conduct Authority has confirmed that it intends to update its existing climate-related reporting rules for listed companies once the Standards are endorsed. The FCA also plans, as part of its consultation on implementing the UK-endorsed Standards, to consult soon on strengthening its expectations for transition plan disclosures with reference to the TPT Disclosure Framework, given the overlap with IFRS S2.

One of the first jurisdictions to finalise climate reporting rules substantially based on IFRS S2 is Hong Kong, which will apply to companies listed on the Main Board of the Hong Kong Stock Exchange from 1 January 2025 in a phased manner.[5]

UK IMPLEMENTATION TIMELINE

June 2023	IFRS S1 and S2 (the "Standards") published.
August 2023	UK Government announces intention to create UK-specific sustainability disclosure standards which, as of May 2024, it refers to as the UK Sustainability Reporting Standards (SRS).
Q1 2025	UK expected to make available the UK-endorsed Standards and create the UK SRS, which can then be referred to in legal and regulatory requirements. This was previously expected in June 2024. The FCA is expected to consult on the disclosure regime for listed companies in line with the Standards following endorsement. New Listing Rules requirements were expected to apply for accounting periods starting on or after 1 January 2025, but are now expected to be pushed back.
January 2026	Earliest date from which legislative requirements implementing the UK SRS would apply.

WHO

The Standards are expected to be adopted widely just as TCFD has been. The International Organization of Securities Commissions and the G20's Financial Stability Board have quickly endorsed the Standards, which should incentivise national authorities worldwide to adopt them.

In fact, in addition to the UK and Hong Kong, the Standards have already received support from Australia, Brazil, Canada, Chile, Egypt, Japan, Kenya, Malaysia, Nigeria, Singapore and South Africa amongst others, who have indicated that they are considering implementing one or both of the Standards. Following COP28, close to 400 organisations from over 64 jurisdictions committed to advancing the adoption or use of the Standards at a global level.

WHY

The Standards' key objectives include promoting consolidation rather than the proliferation of voluntary reporting initiatives, which will help enable companies to disclose decision-useful and comparable information more effectively and at lower cost.

Having absorbed a number of voluntary standards already,[6] and by achieving widespread support, the Standards are also succeeding in setting the global baseline which should help promote consistency in terms of market, regulatory and other stakeholder expectations.

However, they are not the complete picture. The EU's European Sustainability Reporting Standards ("**ESRS**"), for instance, go further than the Standards and require businesses to adopt a "double materiality" approach to reporting. This means that companies are required to report on the impact they have on people and planet ("impact materiality"), as well as the impact those factors have on the business ("financial materiality"). The ISSB and EFRAG have recently published interoperability guidance which states that there is a high degree of alignment between the two frameworks and sets out how companies can comply with both regimes.

That said, as the ISSB standards do not require impact materiality reporting, the alignment is primarily limited to financial materiality related reporting. This means that companies reporting in accordance with the CSRD will, in effect, already be providing most of the disclosures required under the ISSB standards. Some corporate groups may find themselves subject to both regimes because, for example, they are listed in a jurisdiction that requires ISSB reporting but also have a significant EU footprint. Such groups will have to consider how best to structure their reporting approach and will need to rely on interoperability guidance when doing so.

Conversely, some policymakers are adopting a more conservative approach compared to the Standards. The US Securities and Exchange Commission's finalised rules published in March 2024 (but which have been stayed for now pending litigation against the rules in the U.S. Court of Appeals) do not require disclosure of upstream and downstream ("Scope 3") emissions, which is envisaged under the Standards. The UK is also consulting on the inclusion of Scope 3 emissions.

5 Reporting on a comply-or-explain basis will apply from this date, save for Scope 1 and Scope 2 emissions which will be mandatory. Large cap issuers (Hang Seng Composite LargeCap Index constituents) will upgrade to mandatory reporting for the remaining aspects (including Scope 3) from FY2026.

6 For example, the Climate Disclosure Standards Board and Value Reporting Foundation were consolidated into IFRS.

GETTING READY

In light of growing regulatory, governmental and investor interest in the Standards, businesses can prepare for reporting by:

1. **Carrying out gap analysis and engaging with available guidance.** There are a number of guidance resources which can enhance companies' preparedness and help them identify the gaps between what they do currently and what more is needed to meet the Standards. These include, for example, the ISSB's accompanying guidance to IFRS S1 and IFRS S2 and, for those companies already aligning with other frameworks, the comparative tables that draw out commonalities and divergences between the different standards, such as the TCFD/IFRS S2 table and the ISSB/GRI table. Jurisdictional guidance may also be available (such as the Hong Kong Stock Exchange's Implementation Guidance for Climate Disclosures).
2. **Focusing on governance.** Whilst mandatory reporting may still be a while away for some companies, preparing for compliance (or even voluntary alignment) can take time, as sustainability reporting requires cross-functional efforts across a number of different teams. This may include: identifying what new reporting requirements mean for a business; collecting, evaluating and verifying the data; allocating responsibilities such as ownership for new required data; and updating internal processes to ensure that the relevant teams review and sign-off on the new sustainability information (such as risk, finance, legal and sustainability teams).
3. **Thinking about materiality.** Given reporting regimes' different approaches to materiality, as a first step, businesses will need to take stock of how they currently approach materiality in respect of sustainability reporting and how that may need to evolve and expand over time as they look to align with different reporting regimes.
4. **Reviewing your approach to assurance.** There is currently limited guidance on the level of assurance envisaged for the Standards, which is likely to be determined at the national level on a country by country basis. This is expected to evolve over time, particularly as the role of assurance in respect of sustainability disclosures continues to grow. Companies should closely monitor the development of the draft ISSA 5000 standard from the International Auditing and Assurance Standards Board. This is intended to apply to sustainability information reported across any sustainability topic prepared under multiple frameworks, so could also feed into ISSB reporting. Various jurisdictions have indicated the development of local assurance standards which are likely to reference the ISSA 5000 once finalised.

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