Sustainability Reporting Developments

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EY Global Public Policy

An update on sustainability reporting policy and regulatory developments

Over the past few months, significant strides continue to be made in the transition toward corporate sustainability reporting, with the International Sustainability Standards Board (ISSB), the EU, and the US state of California taking steps toward the implementation of new sustainability disclosures standards.

In July, the **ISSB** received an endorsement of its standards from the **International Organization of Securities Commissions (IOSCO)**, thereby giving the standards further recognition in international markets. Within the same month, the **European Commission (EC)** adopted the final version of the **European Sustainability Reporting Standards (ESRS)** drafted by the **European Financial Reporting Advisory Group (EFRAG)**. Pending no objection from the EU Parliament and the EU Council, the ESRS will become effective for reporting periods beginning 1 January 2024. In a separate announcement on 7 September, the EC announced that the development of the ESRS sectoral standards will be postponed to provide companies time to implement the first set of ESRS.

The ISSB will now focus on encouraging countries to adopt the ISSB standards if they have not already adopted them or adopted other sustainability disclosure rules. The ISSB's efforts also include the publication of implementation guidance materials to support capacity-building and disclosure preparedness. Notably, both the ISSB and EFRAG acknowledge the need for further work to make the ISSB and EU standards more interoperable, or compatible, with each other.

Meanwhile, in the **US**, on 12 September, the **California state legislature** has passed a bill requiring companies that generate more than $1 billion per year in revenue and operate in California to report their annual carbon emissions. The bill now heads to the California governor's desk for consideration. If the Governor signs the bill into law, the emissions reporting requirements will be phased in beginning 1 January 2026. At the federal level, the **Securities and Exchange Commission (SEC)** remains poised to release a climate disclosure regulation, although the precise timing of that release is unknown at this time.

In a significant development for assurance over sustainability reporting, in August, the **International Auditing and Assurance Standards Board (IAASB)** issued its draft standard on assurance over sustainability-related information for public consultation.

A more complete rundown of global policy developments relating to sustainability reporting is below. For quick access to regional developments, use the following links: Global; Americas; Europe, Middle East, India and Africa (EMEIA); Asia-Pacific.

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Key developments

Global

In late July 2023, IOSCO formally endorsed the ISSB's final standards, *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1)* and *IFRS S2 Climate-related Disclosures (IFRS S2)*. IOSCO called on its 130 member jurisdictions – representing over 90% of the world's securities markets – to consider incorporating the ISSB standards into their respective regulatory frameworks. IOSCO Chair Jean-Paul Servais stated that, should the ISSB standards be adopted by most or all IOSCO member countries, as many as 130,000 companies globally could be subject to the standards.

Additionally, the IOSCO endorsement came on the heels of the Financial Stability Board (FSB) announcement that the publication of the ISSB standards **marked the culmination of the FSB's work on the popular Task Force for Climate-Related Financial Disclosures (TCFD) initiative**. Given that IFRS S1 and IFRS S2 incorporate the entirety of the TCFD recommendations, the FSB also requested to transfer the responsibility of monitoring the TCFD framework wholly to the ISSB, whereupon the ISSB accepted the request shortly thereafter. This shifting of responsibility for monitoring will take place from 2024 when the ISSB standards start being applied around the world.

Following the close of its consultation on its 2024-2026 workplan on 1 September, the ISSB has **one remaining open consultation**, its IFRS Sustainability Disclosure Taxonomy, which will be open until 26 September 2023. Per ISSB Chair Emmanuel Faber, the ISSB will now focus its attention on implementation efforts, cooperation with the EU on interoperability with the ESRS, and capacity-building support like the recently announced "Knowledge Hub", for interested stakeholders.

Meanwhile, in August, the **International Auditing and Assurance Standards Board (IAASB)** announced the publication of its draft assurance standard, the International Standard on Sustainability Assurance (ISSA) 5000, for public consultation. The draft standard covers both limited and reasonable assurance and will be one of the most comprehensive sustainability assurance standard available to all assurance practitioners across the globe. The consultation period will close on 1 December 2023.

Asia-Pacific

The **Financial Supervisory Commission (FSC)** of **Taiwan** has released a roadmap for listed companies to align with the ISSB standards. The FSC will take a phase-in approach, beginning with large Taiwanese companies (greater than NT$10 billion) in fiscal year 2026.

On 17 Aug, the **Australian Auditing and Assurance Standards Board (AUASB)** released a consultation paper seeking public feedback on the IAASB's proposed sustainability assurance standard. The AUASB will consider the feedback received when it responds to the IAASB and identify potential compelling reasons (if any) to modify the IAASB standards for application in Australia. Comments are due by 10 Nov 2023.

In Malaysia, an affiliate of the **Securities Commission Malaysia** has launched a public consultation on its Simplified ESG Disclosure Guide (SEDG) for Small to Medium Enterprises (SMEs) to provide a simplified and standardized set of ESG disclosures that align with selected global and local frameworks.

Meanwhile, the **Philippines's** securities regulator has announced it is drafting new sustainability guidelines for listed firms that will "take into consideration" the ISSB standards.

Americas

In the **United States**, the timing of the release of the **SEC** final climate disclosure rule and proposed human capital management rule remains uncertain, but both rules remain on the agency's regulatory agenda. The climate rule continues to attract significant political attention in Congress, both for and against the proposal. In August, 77 congressional Democrats wrote a joint letter to Chair SEC Chair Gary Gensler urging the SEC to finalize a "strong and durable" climate disclosure rule. Most recently, in his testimony given before the Senate Banking Committee hearing on 12 September, Gensler declined to give a timeline for when the rule might move forward: "We try not to do things against a clock," he told the lawmakers at the hearing. The SEC Chair also informed the committee members that his agency was particularly focused on how to handle Scope 3 emissions, noting that, "really important issues have been raised" around whether to include Scope 3 emissions in the climate disclosure rule.

In **California**, legislation to mandate climate-related disclosure, CA SB 253, passed the state legislature on 12 September and will be sent to Governor Gavin Newsom for consideration. The legislation would apply to an estimated 5,400 companies (that is, any company, public or private, doing business in the state and generating more than $1 billion in annual revenue) starting in 2026. Recent changes to the bill around Scope 3 greenhouse gas emissions include narrowing the definition of Scope 3 emissions, delaying the requirement for reporting those emissions to 2027, and allowing entities to use industry averages when reporting. The bill has also been amended from requiring that disclosures be "verified" to requiring an "assurance engagement" provided by an "independent third-party assurance provider."

Europe, Middle East, India and Africa (EMEIA)

In the **European Union**, the European Commission adopted the final version of the first set of **ESRS** (also referred to as the cross-cutting and sector-agnostic standards) drafted by EFRAG, marking the completion of one the major remaining procedural steps before the standards will be ready to accompany the **Corporate Sustainability Reporting Directive (CSRD)** for its application date of 1 January 2024. The European Parliament and European Council are now expected to review the ESRS in accordance with their allotted two-month scrutiny period. If no objections are made by either body, the ESRS will become the binding framework for sustainability reporting under the CSRD.

Following the Commission's announcement, EFRAG moved forward with developing **implementation guidance** (all still in draft status until a public consultation is announced on these materials) around the interpretation of "value chain" in the CSRD, assessing materiality for preparers, and issuing a draft mapping table to compare the ESRS and the ISSB standards. According to EFRAG, two unaligned issues remain between the ESRS and ISSB standards: around (i) financed emissions and (ii) how GHG emissions targets are treated. However, it should be noted that the ISSB did not provide input on this mapping table and may still publish its own version.

In a move towards relief from duplication in reporting, on 5 September EFRAG, in coordination with the **Global Reporting Initiative (GRI)**, published a joint statement on the "high level" of interoperability between their two standards. The publication states that "entities reporting under the ESRS are considered as reporting with reference to the GRI standards," which is a significant development given the sizable global adoption of the GRI standards, particularly among large corporates. The statement also indicates that "this means entities can report in accordance with both the ESRS and GRI Standards through one report."

As for the **second set of the ESRS** (also referred to as the sector-specific standards), EU Commissioner Mairead McGuinness announced plans to prepare a proposal to **postpone the**

deadline for development of these second set of standards from 2024 to 2026, in a speech before the European parliament on 7 September. McGuiness cited the Commission's initiative to reach a 25% reduction of reporting burden and the need for more time for companies to apply the first set of standards as the rationale behind this decision.

In the **United Kingdom**, the Department for Business and Trade has published guidance on how it intends to assess the suitability of the ISSB standards for application within the UK. The government has been a strong supporter of the ISSB and decide on whether to formally endorse the ISSB standards by July 2024, which will inform the guidance of the UK Sustainability Disclosure standards (SDS) for registered companies and LLPs. Relatedly, the UK Financial Conduct Authority (FCA) has published the details of its proposed approach to implementing the ISSB standards if endorsed for use in the UK, as mentioned above.

On the horizon

Key dates to watch over the next 90+ days:

TBC: In the US, release of the SEC's final climate-related disclosure rule and draft human capital management disclosure rule.

September 2023: The Taskforce on Nature-related Financial Disclosures (TNFD) is expected to publish its final framework.

September 2023: The consultation period ISSB sustainability disclosure taxonomy will close.

December 2023: The consultation period for the IAASB sustainability assurance standard will close.

Q4 2023: The UK FCA is expected to publish its final Sustainability Disclosure Requirements (SDR) for asset managers, confirm a new classification and labelling system for sustainable investment products and a bring into force a new general anti-greenwashing rule applicable to all FCA regulated firms.

January 2024: The application period for the CSRD will commence in all 27 member countries of the European Union.

January 2024: The application period for the ISSB standards IFRS S1 and IFRS S2 will commence.

In case you missed it

What's next for Japanese sustainability disclosures. From EY, this piece lays out the sustainability landscape for Japan, including how the nascent rules in the EU and US could affect Japanese companies. Link.

SBTi Monitoring Report. The Science Based Targets initiative (SBTi) reported a significant growth in the number of companies and financial institutions setting science-based targets in 2022, despite an increasingly challenging global backdrop of more frequent and destructive extreme weather, conflict, and economic and political instability requirements. Link.

Nature in Green Finance: Bridging the gap in environmental reporting. From CDP, the report finds that nature is consistently overlooked in financial decision-making by most financial institutions, despite stepping up climate considerations. Link.

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