Sustainability Reporting Developments

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EY Global Public Policy

An update on sustainability reporting policy developments

In late October, the European Union's new sustainability disclosure rules survived a challenge in the European Parliament to weaken its requirements and now remain on schedule to take effect starting in January 2024.

Along with this final endorsement, the European Sustainability Reporting Standards (ESRS) will be subject to additional relief measures (*as anticipated, see EMEIA section for further details*), led by the **European Commission** and published last month. The Commission continues to deliver on its policy objective to reduce companies' reporting burden by 25 percent across the EU.

In Australia, the government has unveiled its "climate-first" version of the **International Sustainability Standards Board (ISSB)** standards, providing an early example how countries can adapt the ISSB standards to fit into their local laws. And in the Americas, **Brazil** announced it will incorporate the ISSB standards into its regulatory framework beginning 1 January 2026 for publicly held companies and investment funds, making Brazil the largest economy to wholly-adopt the ISSB standards to date.

A more complete rundown of global policy developments relating to sustainability reporting is below.

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Key developments

Global

The **ISSB** continues to develop tools to help countries adopt and implement its model sustainability disclosure standards. These tools include the ISSB Knowledge Hub, which will be an online resource for preparers as they begin applying the IFRS S1 and IFRS S2, and is targeted to be finalized later this month. Additionally, ISSB Chair **Emmanuel Faber** is looking to expand the number of translated publications of the ISSB standards to 10 languages before January 2024. The ISSB has already published various materials in Japanese, French, Simplified Chinese, and Spanish.

As the ISSB advances its global adoption strategy, our updated count of jurisdictions that are considering the adoption, or have announced the adoption in some capacity, of the ISSB standards into their local regulatory frameworks include Australia, Brazil, Canada, Colombia, Hong Kong, Japan, Malaysia, New Zealand, Nigeria, the Philippines, Singapore, Taiwan, and the United Kingdom.

In late October, the **International Auditing and Assurance Standards Board (IAASB)** published a set of draft Frequently Asked Questions to help firms better understand the recently proposed International Standard on Sustainability Assurance (known as ISSA 5000). The deadline for responding to this consultation is 1 December 2023.

Across the globe, representatives from governments, standard-setters, the private sector, and civil society are preparing for the upcoming **COP 28 climate conference** at Expo City, Dubai, where in total over 70,000 participants are anticipated to convene. The conference will span 30 November – 12 December 2023, with multi-party discussions around carbon emissions reduction measures, carbon trading, support for emerging markets, and broader climate objectives are expected to be on the agenda. EY will host a number of events, including a panel on sustainability reporting moderated by EY Global Vice Chair for Assurance, Marie-Laure Delarue, and which will include ISSB Chair Emmanuel Faber, IOSCO Chair Jean-Paul Servais, and a representative from the World Economic Forum (WEF).

Asia-Pacific

The Australian government and **Australian Accounting Standards Board (AASB)** have provided the first high-profile example of how a jurisdiction could amend the ISSB standards before local adoption. On 23 October 2023, the AASB issued three draft Australian Sustainability Reporting Standards (ASRS) for comment – ASRS 1, 2, and 3 – which, together, broadly align to the IFRS S1 and IFRS S2 from the ISSB.

However, in a departure from the ISSB standards, ASRS 1 (*ASRS 1 - General Requirements for Disclosure of Climate-related Financial Information*) will cover only climate-related information, whereas IFRS S1 encompasses a wide range of sustainability disclosures. The Australian government signaled this departure earlier this year when it advocated for a “climate first” approach to implementing sustainability disclosure rules. ASRS 2 (*ASRS 2 - Climate-related Financial Disclosures*) remains closely aligned to IFRS S2. Nevertheless, it should be noted that entities disclosing in compliance with the AASB standards will not be able to simultaneously assert compliance with the ISSB standards unless they proactively choose to apply IFRS S1 on top of ASRS 1. The ASRS are open for comment until 1 March 2024.

In **South Korea**, the **Financial Services Commission (FSC)** announced on 16 October that it will delay the implementation of its mandatory ESG reporting requirements, which were originally slated to begin in 2025, until 2026 or later. The FSC explained that its decision was influenced by delays in ESG reporting in other countries like the US and by a desire to ensure alignment with international standards like the ISSB; however, an additional factor in the regulator’s decision-making is likely the Korean business community’s pushback on the timing of the rules, as noted in our previous newsletter.

Americas

On 20 October 2023, the **Brazilian Securities Commission (CVM)** and **Ministry of Finance** announced that Brazil will incorporate the inaugural ISSB standards, IFRS S1 and IFRS S2, into its regulatory framework. Sustainability-related financial disclosures, subject to reasonable assurance, will become mandatory for Brazilian publicly held companies, securitization companies, and investment funds for the fiscal year beginning on or after 1 January 2026. Entities that voluntarily disclose IFRS S1 and IFRS S2 information before 2026 will be required to obtain limited assurance. In both cases, the assurance will need to be conducted by a CVM-registered independent auditor. The **Brazilian Committee for Sustainability Standards (CBPS)** will be tasked with adopting the standards into the local regulatory framework through a process that is expected to include public consultations.

In the **United States**, the **US Securities and Exchange Commission (SEC)** is attempting to finalize its proposed climate disclosure rule, with the timing of final action still unclear. In recent remarks, **SEC Chair Gary Gensler** reiterated that SEC staff are seeking to address commenters' concerns about Scope 3 disclosure requirements in the rule proposal, including to avoid indirectly requiring smaller private companies to provide related disclosures. Meanwhile, the three recently-enacted **California** climate laws (SB-253, which mandates carbon emissions reporting; SB-261, which requires climate-related financial risk disclosures; and AB-1305, which regulates the public reporting of participants in voluntary carbon markets) will all take effect on 1 January 2024. Although SB-253 and SB-261 will be in effect beginning 2024, their implementation will not begin until 2026, and will be preceded by a rulemaking process which will include the opportunity to provide comments.

Europe, Middle East, India and Africa (EMEIA)

In the **European Union**, the European Parliament rejected a motion to weaken the new **ESRS**, paving the way for the standards to be formally adopted before the end of the year. Large Public Interest Entities (PIEs) with more than 500 employees must assess their operations through the ESRS criteria beginning January 2024 and begin disclosing their information accordingly by 2025.

While parliamentary approval of the standards is a win for climate advocates in the bloc, EU institutions, led by the **European Commission**, remain focused on tempering reporting requirements and regulatory burden across the EU. This includes the new sustainability rules under the **Corporate Sustainability Reporting Directive (CSRD)** and the related Corporate Sustainability Due Diligence Directive (CSDDD) proposed by the Commission last year.

Consequently, in mid-October (and as anticipated), the European Commission published two new initiatives to this end: The first is an amendment to postpone the adoption time of the **ESRS sector-specific standards** by two years, as well as postpone the adoption of the ESRS for non-EU companies by the same time interval. Both changes would delay such adoption dates to 2026, from the currently scheduled adoption date of 2024. The second initiative will adjust the size criteria (in terms of revenue and balance sheet total) for companies, in an effort to account for inflation. The new criteria define "large" companies as entities that exceed two of the following: a balance sheet total of €25m (up from €20m), €50m in net turnover (up from €40m), or 250 employees, on average (no change). These changes will apply 1 January 2024 and result in less total companies being subject to the CSRD reporting requirements.

Going forward, EU member countries will begin their respective "transposition" processes which will establish the laws, regulations, and administrative provisions necessary to comply with the CSRD. This process allows for some variation – called "member state options" – that individual countries can elect to include or omit in their local version of the CSRD. Under EU law, member countries must conclude their transposition measures by 6 July 2024.

On the horizon

Key dates to watch over the coming days, weeks, and months:

Not yet confirmed: The release of the US SEC's final climate-related disclosure rule and, separately, a draft human capital management disclosure rule.

November 30 – December 12 2023: COP 28 to be held in Dubai, United Arab Emirates.

1 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 and confirm a new classification and labeling system for sustainable investment products, both expected to come into force in 2024. Also, the FCA is expected to confirm, and bring into force immediately, a new general anti-greenwashing rule applicable to all FCA-regulated firms.

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

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

In case you missed it

World Energy Outlook 2023. As the International Energy Agency's (IEA) flagship annual publication, this report provides in-depth analysis and strategic insights into many aspects of the global energy system, including trends in investment, trade flows, electrification, and energy access. Link.

Technical Line: How the EU's Corporate Sustainability Reporting Directive affects non-EU-based multinationals. Many entities headquartered outside the EU will have to make extensive new sustainability disclosures under the CSRD. From EY, this piece outlines how these entities can evaluate whether they are in the scope of the Directive. Link.

Technical Line: How the climate-related disclosures under the SEC proposal, the ESRS and the ISSB standards compare. From EY, this updated report helps entities understand the three major sustainability-related proposed rules and final standards. Link.

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