



Sustainability Reporting Developments

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EY Global Public Policy

An update on sustainability reporting policy developments

Key developments

Global

Following the recent World Economic Forum at Davos, Emmanuel Faber, the Chair of the **International Sustainability Standards Board (ISSB)**, [reflected](#) that we are at a “regulatory tipping point for introducing sustainability standards.” In the [Davos panel discussion](#), where he appeared with EY Global Chairman and CEO, Carmine di Sibio, Faber said that “the momentum needs to be maintained” to establish “that global baseline” of mandatory reporting standards.

As the [Financial Times](#) put it, “we are either heading towards increased fragmentation, which will be hard for companies to navigate, or momentum may emerge for a more unified model.”

[Bangladesh](#) (for bank and financial institutions only) and [Costa Rica](#) (link is in [Spanish only](#)) have recently announced their intent to align with the ISSB sustainability disclosure standards, joining [Australia](#), [Brazil](#), [Colombia](#), [Hong Kong](#), [Japan](#), [Korea](#), [Malaysia](#), [New Zealand](#), [Nigeria](#), the [Philippines](#), [Singapore](#), [Taiwan](#), and [Turkey](#), to bring the total number of countries to 15 that have publicly-expressed their intention to align with the ISSB standards. [Canada](#) and the [UK](#) are also considering whether to align with the ISSB. Nevertheless, it remains to be seen, in many cases, how closely these countries will adhere to the ISSB baseline.

ISSB Chair Emmanuel Faber [reiterated](#) that the ISSB’s focus during the first half of 2024 will be on supporting countries that decide to align with the ISSB standards, working with other jurisdictions on their adoption roadmaps, and finalizing the ISSB’s [two-year work plan](#). The two-year work plan is expected to specify new sustainability topics, like human capital and biodiversity, about which the ISSB Board may decide to develop model disclosure standards.

In late December, the ISSB published [amendments](#) to the SASB Standards to enhance their “international applicability”, helping preparers apply the standard regardless of their jurisdiction. The SASB Standards are industry-specific guidance that, following these amendments, can now help facilitate the implementation and application of the IFRS S1 standards, though they may still be used by preparers independently from ISSB Standards. (Note: the SASB consolidated into the ISSB in August 2022).

The **Global Reporting Initiative (GRI)** has published GRI-ISSB [interoperability guidance](#) for GHG emissions reporting. While this document is not a comprehensive assessment of all requirements, it illustrates the areas of interoperability a company should consider when measuring and disclosing Scope 1, 2, and 3 emissions. The GRI also issued a draft [Interoperability Index](#) with the **European Financial Reporting Advisory Group (EFRAG)** late last year to explain the interoperability of GRI

and the **EU ESRS**, and to serve as a mapping tool to help entities understand the commonalities between the two sustainability reporting standards.

In late January, the **International Ethics Standards Board for Accountants (IESBA)** [announced](#) two new standards on ethical considerations in sustainability disclosures and assurance. The [first exposure draft](#) provides a framework of expected behaviors and ethics provisions for use by all sustainability assurance practitioners regardless of professional background, while the [second exposure draft](#) proposes an ethical framework for the evaluation of external experts used in providing sustainability assurance. Both are now open for public comment, with responses to the first exposure draft due by 10 May 2024, and responses to the second exposure draft due by 30 April 2024.

Asia-Pacific

On 13 February, China's three major stock markets, the Shanghai Stock Exchange (SSE), Shenzhen Stock Exchange (SZSE), and Beijing Stock Exchange (BSE), published draft sustainability reporting guidelines for listed companies. The surprise announcement imposes new reporting requirements for large cap and dual-listed Chinese companies around a broad range of environmental, social, and governance topics, with the first reports due 30 April 2026 for fiscal year 2025 data.

For climate reporting, companies will be required to disclose climate risk information in line with the **Task Force for Climate-Related Financial Disclosures (TCFD)** framework, which reflects the similar approach taken by the ISSB, EU CSRD, and proposed US SEC rule. The new reporting requirements also adopt the principle of double materiality, meaning that companies will need to consider how sustainability-related risks will impact their business as well as how their business will impact environment and society. One notable distinction is that the Chinese rules do not require Scope 3 emissions reporting, scenario analysis, or external assurance, although these are “encouraged.” Beyond climate and environmental reporting, these guidelines outline reporting requirements on science and technology ethics, supply chain security, equal treatment of SMEs, data security and client privacy, human capital metrics, as well as China-specific elements such as rural revitalization. Draft guidelines are open for comment until 29 February. [SSE](#), [SZSE](#), [BSE](#) (links are in *Chinese only*).

On 12 January, the **Australian Treasury** published its draft legislation on corporate climate-related financial disclosures. The [exposure draft](#) follows two earlier consultations from Treasury ([2023](#), [2022](#)) and sets out measures – like the scope, timing, and assurance requirements of the law, among others – to mandate the corporate climate disclosures in Australia. Responses were due by 9 February 2024. EY Oceania’s analysis of the draft legislation can be found [here](#). Note that this consultation is separate from the ongoing [consultation](#) by the Australian Accounting Standards Board (AASB) which is open for comment until 1 March 2024. The AASB is the standard-setter responsible for developing the corresponding reporting requirements under the Treasury’s legislation.

Meanwhile, in **Hong Kong**, a new working group reported to the Green and Sustainable Finance Cross-Agency Steering Group on the progress in developing a [roadmap](#) on adoption of the IFRS Sustainability Disclosure Standards.

Americas

In the **United States**, the **Securities and Exchange Commission (SEC)** [reportedly](#) is continuing work to finalize its long-anticipated climate disclosure rule. A final rule may be released in the next

several months. If and when released, it will likely be subject to [court challenge](#), which could delay or derail its implementation.

In **California**, a coalition of business groups led by the US Chamber of Commerce [filed](#) a lawsuit challenging the state's recently enacted climate disclosure laws. The groups argue that the laws violate companies' rights by "compelling companies to engage in costly speech on 'climate change,'" and they also argue that the laws are impermissible because they force the state government to operate as the de facto national emissions regulator. **California Governor Gavin Newsom's** administration has not yet commented on the legal challenge.

Additionally, Newsom's recently announced budget proposal did not allocate funds for the **California Air Resources Board (CARB)** to carry out the rulemaking required to implement provisions of the new climate disclosure laws, adding further uncertainty around the implementation and enforcement of these laws.

President Biden has [tapped](#) John Podesta to replace outgoing US special climate envoy John Kerry. Podesta will continue to oversee the implementation of the Inflation Reduction Act (IRA), which incentivizes the development of cleaner energy and more sustainable methods of manufacturing. In addition, he will lead US efforts abroad to advance the Biden Administration's climate-related policy objectives.

Europe, Middle East, India and Africa (EMEIA)

The European Union's sustainability reporting laws, the [European Sustainability Reporting Standards \(ESRS\)](#), are now in effect and the first reports are expected in January of next year from Public Interest Entities (PIEs) with more than 500 employees (essentially, large, listed companies) in the EU. Meanwhile, the **Corporate Sustainability Reporting Directive (CSRD)** continues to undergo its transposition by the EU member states, a process each EU member state must undertake to establish the national laws, regulations, and administrative provisions necessary to comply with the CSRD. The deadline for the member states to transpose the law is 6 July 2024. France was the first country to complete the transposition, and a few other countries, notably Spain and the Netherlands, have now initiated their transposition processes.

On 7 February, the **Council of the EU** and the **European Parliament** reached an [agreement](#) on the decision to delay the adoption of the sector-specific ESRS and third-country ESRS by two years. The provisional agreement supports the objectives of the **EU Commission's** October 2023 [proposal](#) to postpone the timelines. The provisional agreement will now need to be formally endorsed by both the Council and the Parliament.

Following its announcement to prioritize the development of sustainability reporting guidance for small- and medium-enterprises (SMEs) late last year, the **European Financial Reporting Advisory Group (EFRAG)** [published](#) in January two exposure drafts which aim to offer a "proportionate" conceptualization of the ESRS to be applied specifically to SMEs.

The first draft standard is designated for [listed SMEs](#) and is effective 1 January 2026. The second draft standard is for [non-listed SMEs](#) and will be voluntary. The consultation periods for both exposure drafts close 21 May 2024. On 2 February, EFRAG closed its 4-week [consultation](#) on various ESRS and CSRD implementation guidance materials: a draft guidance on [assessing materiality](#), a draft guidance interpreting the [definition of "value chain"](#) in the CSRD, and a draft [excel-based tool](#) for ESRS datapoints. The final materials are expected by the end of March 2024.

Lastly, the **European Sustainability Reporting Board (SRB)** has approved and published the [draft ESRS XBRL Taxonomy](#), with public comments due 8 April 2024.

Separately, the European Commission has [published](#) updated guidance on reporting obligations under the **Carbon Border Adjustment Mechanism (CBAM)**. The guidance provides clarifications primarily around the timeline for reporting periods and quality of information in the CBAM reports.

In **Turkey**, following the government's COP28 announcement to adopt the ISSB standards, the country's accounting authority has published further information on the scope, timing, and text of the [Turkish Sustainability Reporting Standards \(TSRS\)](#).

In addition, **Bangladesh** recently issued a [guideline](#) for banks and finance companies on disclosures for the sustainability and climate-related risks based on IFRS S1 and IFRS S2 in phases starting from 2024.

On the horizon

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

March 2024: Japan is expected to issue draft sustainability disclosure standards based on the ISSB standards.

April-May 2024: The consultation periods close for the IESBA exposure drafts on ethics in sustainability assurance.

May 2024: EFRAG to close consultation period for exposure drafts for modifying the ESRS for both publicly listed SMEs (mandatory requirements) and non-listed SMEs (voluntary guidance).

1H 2024: UK FCA plans to consult on rules and guidance for listed companies to disclose in line with UK-endorsed ISSB standards and the Transition Plan Taskforce (TPT) framework.

1H 2024: The ISSB plans to finalize its two-year workplan.

September 2024: The International Auditing and Assurance Standards Board (IAASB) is expected to finalize its sustainability assurance standard, ISSA 5000.

November 2024: COP 29 will begin in Baku, Azerbaijan.

End of 2024 or early 2025: EFRAG to consult on the sector-specific ESRS and the modified ESRS for non-EU companies.

In case you missed it

What executives were saying at Davos. As reported in the Wall Street Journal, executives from PepsiCo, Hitachi, BCG, and EY discuss various global challenges related to climate change and other issues, including artificial intelligence, geopolitics, political divides, and macroeconomics. [Link](#).

SEC presses companies on potential inconsistencies between financial filings and sustainability reports. According to *Bloomberg*, the US SEC has sent climate-related queries to

more than a dozen large companies over the past three months on matters related to possible discrepancies in the level of information about climate risk in their financial filings with the SEC and sustainability reports to shareholders and other stakeholders. [Link](#).

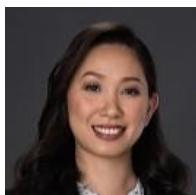
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