Q2 2023 SUSTAINABILITY REPORTING UPDATE

INTERNATIONAL SUSTAINABILITY REPORTING BULLETIN

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BDO

BACKGROUND

The International Sustainability Standards Board (‘ISSB’) has issued its inaugural IFRS® Sustainability Disclosure Standards in June 2023. This is a key milestone for the ISSB in its efforts to enhance faith and confidence in a company’s sustainability-related disclosures for investment decisions alongside the financial statements. With the launch of the IFRS Sustainability Disclosure Standards, the ISSB is gearing up with a series of guidance materials for companies adopting the IFRS Sustainability Disclosure Standards, as well as encouraging countries to adopt the ISSB™ standards at jurisdiction level.

The European Commission has adopted the European Sustainability Reporting Standards (‘ESRS’) for use by all companies subject to the Corporate Sustainability Reporting Directive (CSRD). The final set of standards brings in multiple changes including significant transitional relief.

EXECUTIVE SUMMARY

The ISSB issued the first two sustainability standards in late Q2 2023 and is now focusing on supporting companies to implement the sustainability disclosure standards at country level.

The European Commission has adopted the first set of ESRS. The revised standards include, amongst others, updates on materiality and introduce significant transitional relief.

This publication provides a ‘snapshot’ of sustainability reporting developments as of 31 July 2023 for select jurisdictions with a focus on standards being developed by the ISSB, and those being developed for use by entities in the European Union and the United States.

BDO will issue periodic ISR Bulletins as sustainability standards are evolving quickly. Although it is comprehensive, this summary is not exhaustive and does not include all standard setting activities of the ISSB and other organisations.

IFRS FOUNDATION DEVELOPMENTS

On 26 June, the ISSB issued IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and IFRS S2 *Climate-related Disclosures* (IFRS S2). The first two IFRS Sustainability Disclosure Standards will become effective for annual periods beginning on or after 1 January 2024, however, jurisdictions must first endorse the standards or otherwise bring them into law in order for them to become effective, and they may choose a later effective date. The ISSB has stated they will provide guidance and introduce programmes that support those applying its standards as market infrastructure and capacity is built.

In its bid to support the companies applying IFRS S1 and IFRS S2, the ISSB will permit entities that apply the standards to only make disclosures about climate-related risks and opportunities in the first year of adoption, with disclosure of all sustainability-related risks and opportunities beginning in the second year of adoption. This transition relief has no effect on the application of the requirements in IFRS S2. Consequently, comparative information for climate-related financial information would be required in the second year of application. The relief will enable companies to focus initial efforts on ensuring they meet investor information needs around climate change, prioritising to provide high-quality, decision-useful information about climate-related risks and opportunities in the first year of reporting using the IFRS Sustainability Disclosure Standards.

BDO has released ISR Bulletin 2023/03 summarising the first two IFRS Sustainability Disclosure Standards issued by the ISSB. The publication may be accessed here.

The ISSB has published several documents to support the adoption of IFRS S1 and IFRS S2. Over time the Board mentioned creating a library of resources to help companies apply the IFRS Sustainability Disclosure Standards. Some of these are:

- Basis for conclusions on IFRS S1 which summarises the considerations in developing the requirements in IFRS S1
- Basis for conclusions on IFRS S2 which summarises the considerations in developing the requirements in IFRS S2
- Effects analysis which describes the likely benefits and costs of IFRS S1 and IFRS S2
- IFRS - Ten things to know about the first ISSB Standards
- High level and deep dive webcasts on IFRS S1 and IFRS S2
- Comparison—IFRS S2 with the TCFD Recommendations
- IFRS for SMEs Accounting Standards on how and when to consider climate-related matters in their financial statements.
- Webcast on Connections between accounting and sustainability disclosures

The ISSB published the Request for Information *Consultation on Agenda Priorities* ('RFI') on 4 May 2023 to seek feedback on its priorities for its 2024-2026 work plan. The objective of this RFI is to ask all those interested in sustainability-related financial reporting for their views on:

- The strategic direction and balance of the ISSB's activities;
- The suitability of criteria for assessing which sustainability-related matters (including topics, industries and activities) to prioritise and add to the ISSB's work plan; and
- The scope and structure of potential new research and standard-setting projects.

The shortlisted topics include: (i) biodiversity, ecosystem, and ecosystem services, (ii) human capital, (iii) human rights and (iv) integrated reporting of financial and non-financial – including sustainability-related – information. The consultation will close on 1 September 2023 and the ISSB intends to discuss the feedback received in the fourth quarter of 2023.

In an aim to align the climate-related Sustainability Accounting Standards Board ('SASB') standards with IFRS S2, the ISSB has developed a staff paper to approve amendments relating to revising the SASB standards with the industry-based guidance in S2 and adding disclosure topics and metrics on the topic of financed emission. The ISSB has published an exposure draft *Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates* in May 2023 that aims to improve the international applicability of the SASB standards by focusing on updating references to jurisdiction-specific laws and regulations in the SASB standards. Comments were due by 9 August 2023.

Latest news post launch of inaugural sustainability disclosure standards IFRS S1 & S2

The International Accounting and Auditing Standards Board ('IAASB') previously announced it would accelerate its development of a global sustainability assurance standard. In June 2023, the IAASB approved an exposure draft ('ED') for proposed International Standard on Sustainability Assurance ('ISSA') TM 5000, *General Requirements for Sustainability Assurance Engagements* (ED-5000). When approved, ISSA 5000 will be the most comprehensive sustainability assurance standard available to all assurance practitioners across the globe. The exposure draft may be accessed here. Stakeholders have until December 1, 2023, to provide feedback and insights. The final standard will be issued before the end of 2024.

The Financial Stability Board ('FSB') has asked the IFRS Foundation to take over the monitoring responsibilities of the progress on companies' climate-related disclosures from the Task Force on Climate-related Financial Disclosures ('TCFD') from 2024. The ISSB, after the publication of its inaugural standards - IFRS S1 and IFRS S2, is now working to support the effective implementation of the standards, including capacity building and monitoring progress towards the broad use of high-quality disclosures. The press release from the IFRS Foundation can be found here. The ISSB has published a comparison of IFRS S2 with the TCFD recommendations, illustrating that companies will not need to produce an additional TCFD report as the IFRS Sustainability Disclosure Standards incorporate the recommendations of the TCFD.

The International Organization of Securities Commissions ('IOSCO') has announced its endorsement of the ISSB's IFRS Sustainability Disclosure Standards – IFRS S1 and IFRS S2. IOSCO has noted that after a detailed analysis, it has determined that the ISSB Standards are appropriate to serve as a global framework for capital markets to develop the use of sustainability-related financial information in both capital raising and trading and for the purpose of helping globally integrated financial markets accurately assess relevant sustainability risks and opportunities.

JURISDICTIONAL UPDATE – EUROPEAN UNION

The European Commission has adopted the ESRS under the Corporate Sustainability Reporting Directive ('CSRD'), marking a major step towards the implementation of the law, with reporting set to begin for some companies as soon as the 2024 financial year.

The European Financial Reporting Advisory Group ('EFRAG'), as a technical advisor to the European Commission, submitted the first set of twelve draft ESRS to the European Commission late last year. Following its own process, the European Commission submitted the Delegated Act on the first set of ESRS for a 4-week period of public feedback which ended in July 2023.

EUROPEAN SUSTAINABILITY REPORTING STANDARDS

The European Commission published the revised set of ESRS in June, proposing multiple changes to the original draft ESRS release in November 2022, bringing in significant transitional reliefs. The European Commission invited feedback on the proposed requirements with the feedback period which closed on 7 July 2023.

Subsequently, the Commission adopted the ESRS on 31 July, for use by all companies subject to the CSRD. The revised set of ESRS are available here.

The European Commission, EFRAG and the ISSB have worked jointly to improve the interoperability of their respective climate-related disclosure requirements in the overlapping climate disclosure standards and plan to work on interoperability guidance material that could assist entities in navigating between the standards and to understand where there are incremental disclosures required by only one set of standards. This will lead to a very high degree of alignment, reduced complexity and duplication for entities wishing to apply both the IFRS Sustainability Disclosure Standards and ESRS.

Following is a high-level summary of the major changes made by the European Commission from the original draft ESRS issued in 2022:

Subject	Description
Materiality	All standards, disclosure requirements and data points will be subject to materiality assessment, except for the disclosure requirements in 'General disclosures' ESRS 2.2(a). In the previous draft of ESRS, numerous disclosures and data points were required regardless of materiality if they related to information required by entities to meet certain EU laws (e.g., the Sustainable Finance Disclosure Regulation – 'SFDR').
Phasing-in of certain requirements	Undertakings or groups not exceeding 750 employees may omit: • Scope 3 greenhouse gas emissions in the first year • Social topical disclosures in: (1) ESRS S1 Own workforce for the first year; and (2) ESRS S2, S3 and S4 for the first two years • All disclosure requirements in ESRS E4 Biodiversity and ecosystems in the first two years All undertakings or groups may: • Omit anticipated financial effects related to non-climate environmental standards (ESRS E2, E3, E4 and E5) in the first year; • Omit certain own workforce disclosures (e.g., social protection, persons with disabilities, work-related ill-health, and work-life balance) in the first year; • Provide qualitative disclosures in place of quantitative information concerning certain environmental disclosures for the first three years.
Making certain disclosures voluntary	Certain disclosures that were proposed to be mandatory in the previous draft ESRS are now voluntary, including: • Biodiversity transition plans • Certain indicators about 'non-employees' in the undertaking's workforce • Explanation of why the undertaking may consider a particular sustainability topic to not be material
Flexibility in certain disclosures	Certain disclosure requirements have greater flexibility, including: • The financial effects arising from sustainability risks and on engagement with stakeholders; • Methodology used for materiality assessment; • Modified datapoints on corruption, bribery and whistle-blowers that might have been considered to infringe on the right not to self-incriminate
Coherence with EU legal framework	Technical modifications to ensure better alignment with other provisions in the Accounting Directive and other relevant pieces of legislation (e.g., the Pay Transparency Directive).
Editorial and presentational modifications	Editorial and presentation changes have been made to improve the standards' clarity, usability, and coherence.

Previously on 5 January 2023, the Corporate Sustainability Reporting Directive ('CSRD') entered into force. This new directive modernises and strengthens the rules concerning the social and environmental information that companies must report. See ISR Bulletin 2023/01 for a summary of the requirements.

The CSRD will soon apply to large companies listed in the European Union where these companies will have to disclose their business strategy on sustainability, and any sustainability targets they have set and indeed progress they make towards them.

To have more reliable and comparable information and to also rule out greenwashing, this information disclosed by companies has to undergo assurance.

See ISR Bulletin 2022/05 for further information about the proposals included in the current text of the CSRD.

JURISDICTIONAL UPDATE – UNITED STATES

According to the SEC's Spring 2023 Regulatory Flexibility Agenda, the agency has delayed action on final rules addressing climate change disclosure, cybersecurity risk governance, and enhanced ESG disclosure for investment advisers and funds until October 2023. In addition, the SEC has postponed issuing proposed rules addressing human capital management and corporate board diversity until October 2023 and April 2024, respectively.

In 2022, the U.S. Securities and Exchange Commission (SEC) published a proposed rule requiring publicly traded companies to step up their reporting on climate-related risks. The proposed rules drew over numerous comments and the SEC had indicated that it planned to finalise the rule in April.

BDO's Insight

The SEC's has delayed action on final rules addressing climate change disclosure and proposed human capital management until October 2023. It has been observed that certain aspects of its proposed requirements are similar in many aspects to the disclosure recommendations in the TCFD, which also forms the basis of many of the disclosure requirements in IFRS S2.

The SEC is still considering the scope of the rule, particularly whether to include scope 3 (supply chain) emissions in reporting requirements.

The proposed rules would be applicable to both domestic and foreign registrants and would require significantly enhanced climate-related disclosures in registration statements and annual reports (e.g., on Form 10-K). The proposed financial statement disclosures would be presented in a footnote to the consolidated financial statements, while the other disclosures would be presented in a separately captioned section of the filing prior to management's discussion and analysis (MD&A). Registrants would be required to electronically tag both the qualitative and quantitative disclosures in Inline XBRL.

Refer ISR Bulletin 2023/01 for a summary of these proposals.

Many of the proposals, including phase-in of Scope 3 disclosures and assurance on disclosures is based on the filing status of an entity. See BDO USA's detailed summary of the proposed rule and significant anticipated impacts here.

OTHER JURISDICTIONAL UPDATES

JURISDICTION	SUMMARY	MORE INFORMATION
Australia	In December 2022, in anticipation of the release of forthcoming sustainability standards, the Australian Government opened its first round of consultation on 'Climate-related financial disclosures'. The process closed in February 2023, when the Government received nearly 200 responses. Post launch of IFRS S1 and IFRS S2, the Australian government announced its second round of consultation on implementing climate-related financial disclosures in Australia. There are three key changes noticed to its previous approach in this consultation process: • Changes to the impacted entities and schedule for implementation – more detail below • Requirements for providers of assurance over sustainability reports • Limiting the liability of the directors, for a limited period. One of the key changes is a revised approach to the order of entities being introduced to mandatory climate-related reporting. While the previous consultation paper suggested focusing on large listed and large financial service providers, the new approach includes listed and non-listed organisations with a focus on the size of the company and organisations that meet the reporting requirements of the National Greenhouse and Energy Reporting ('NGER') Scheme.	ESG and sustainability - BDO AU
China	The ISSB increased its global footprint by opening a new office in Beijing, China. The Beijing office will help in supporting the ISSB's work collaborating with the ISSB's other offices. This office will focus on leading and executing the ISSB's strategy for emerging and developing economies, acting as a hub for stakeholder engagement in Asia, facilitating deeper co-operation and engagement with stakeholders, and undertaking capacity building activities for emerging economies, developing countries and SMEs. China Securities Regulatory Commission ('CSRC') is reportedly planning to make ESG disclosures mandatory for all firms listed on domestic markets. The Shanghai Stock Exchange and the Shenzhen Stock Exchange require companies involved in areas such as thermal power generation, steel, cement, electroplated aluminium or mineral production to report on their resource consumption, pollution, pollution control measures and targets, etc. Voluntary ESG disclosure guidelines for local enterprises have already been developed and implemented since 1 June last year. Last May, the China Securities Regulatory Commission proposed revised disclosure rules for listed companies, including requirements to disclose penalties arising from environmental issues. In January 2022, Ministry of Ecology and Environment released the *Rules on the Format of Corporate Environmental Information Disclosure* (effective from 8 February 2022) which specifies the content and format of companies' annual/ interim environmental disclosure reports. In June 2022, China Banking and Insurance Regulatory Commission issued the *Green Finance Guidelines for Banking and Insurance Sectors* which requires Banking and insurance institutions to incorporate the ESG requirements into their management processes and comprehensive risk management systems, strengthen ESG information disclosure and interaction with stakeholders, and improve relevant policy system and process management. The annual meeting held by the CSRC in the first quarter of 2023, included discussion of 'gradually improving China's sustainability disclosure regime by adapting the best global experience to domestic realities' as one of the three topics included for the meeting.	
United Kingdom	The upcoming UK Sustainable Disclosure Standards ('SDS'), which will be the basis of any future requirements in UK legislation or regulation for companies, set out corporate disclosures on sustainability-related risks and opportunities that companies face. The new UK SDS will be published in the UK on or before July 2024, and expected to take effect January 1, 2025. Published by the UK Department for Business and Trade ('DBT'), UK SDS will be based on the IFRS Sustainability Disclosure Standards issued by the ISSB. Financial Reporting Council ('FRC'), UK has published its thematic review of climate-related metrics and targets. The review considers the TCFD metrics and targets disclosures of twenty UK premium and standard listed companies operating in four sectors (materials and buildings, energy, banks and asset managers) covered by TCFD sector-specific supplemental guidance. Earlier this year, the Financial Conduct Authority ('FCA') has released its highly anticipated Sustainability Disclosure Requirements (SDR) Consultation Paper. This is a	UK Sustainability Disclosure Standards Press Release FRC thematic report

JURISDICTION	SUMMARY	MORE INFORMATION
	development expected to bring clarity on how the regulator will approach greenwashing, while also increasing transparency and trust in sustainable investing. While there will be some divergences, the FCA has sought to achieve international coherence with other regimes as much as possible, namely the European Commission's Sustainable Finance Disclosure Regulation ('SFDR') and the approach taken by the US SEC. Listed companies are required to include a statement in their annual financial report which sets out whether their disclosures are consistent with the recommendation of the TCFD, and to provide explanations where they are not consistent. The FCA has indicated that it would ordinarily expect a company to be able to make disclosures consistent with the governance and risk management pillars as well as a) and b) under the strategy pillar (seven of the eleven recommended disclosures). TCFD disclosures will apply to premium listed companies. For periods beginning on or after 6 April 2022, Companies Regulations introduced a requirement for public interest entities (traded companies, banking companies, insurance companies) with more than 500 employees to publish TCFD aligned disclosures.	
Japan	The Japanese Institute of Certified Public Accountants ('JICPA') published "Basic Policies and Actions for Sustainability Capacity Development" and established the "Sustainability Capacity Development Council" through which JICPA intends to promote capacity development through sustainability education in a prompt and effective manner and to promote efforts to ensure the usefulness and credibility of sustainability information in the Japanese capital market. In June 2023, the Expert Panel on Sustainable Finance ('EPSF') in FAS published its Third Report "Enhancing sustainable finance". This follows the progress of the measures recommended in the First Report published in 2021. In July 2023, the Ministry of Economy, Trade, and Industry ('METI') announced an Interim Report Compiled on Discussions by "Working Group on Efficient Collection and Strategic Use of Sustainability-Related Data for Creation of Sustainable Corporate Value" which aim to motivate companies to build a system for efficient collection and strategic use of sustainability-related data.	Interim Report (meti.go.jp) The Third Report by FSA Japan
Canada	The Canadian Securities Administrators ('CSA') welcomed the publication on June 26, 2023, of the International Sustainability Standards Board (ISSB)'s first two IFRS Sustainability Disclosure Standards: IFRS S1 and IFRS S2. The Canadian Sustainability Standards Board ('CSSB') is now operational, having appointed a quorum of members. The CSA looks forward to engaging and collaborating with the CSSB with respect to the IFRS Sustainability Disclosure Standards. The CSA commends the ISSB for developing a global framework for investor-focused disclosure that is responsive to market demand for more consistent and comparable disclosures and appreciates ISSB's proposed capacity building efforts to support adoption of the IFRS Sustainability Disclosure Standards. The CSA does not currently require any mandatory ESG disclosure from issuers, however, the agency plans to start requiring specific ESG reporting and climate disclosures from large Canadian banks, insurance companies, and federally regulated financial institutions starting in 2024. In October 2021, the CSA issued a consultation document requesting comments on a proposed National Instrument *Disclosure of Climate-related Matters*, which would impose mandatory climate-related disclosures on reporting issuers in Canada with limited exceptions. The proposals are largely in compliance with the TCFD requirements. In May 2022, the Office of the Superintendent of Financial Institutions ('OSFI') issued regulations that will apply to federally regulated financial institutions (banks, insurers, etc.). The regulations will require disclosures similar to the TCFD, including scope 1, 2 and 3 emissions, climate scenario analysis, etc. Disclosures will begin to become effective for fiscal periods ending on or after 1 October 2023.	Canadian Securities Administrators statement on proposed climate-related disclosure requirements - Canadian Securities Administrators (securities-administrators.ca)
India	In line with the goal to achieve net zero emissions by 2070, the market regulator Securities and Exchange Board of India ('SEBI') issued a circular in May 2021 announcing the Business Responsibility and Sustainability Report (or 'BRSR'). In July 2023, SEBI has introduced assurance requirements as per the BRSR Core which is a novel ESG reporting framework. From financial year 2023-2024, the top 150 listed companies by market capitalisation would have to subject their BRSR Core to "reasonable assurance", SEBI said in a circular issued on 12 July 2023.	SEBI Circular - Business Responsibility and Sustainability Reporting by Listed Entities FAQs on the BRSR Core

JURISDICTION	SUMMARY	MORE INFORMATION
	In financial year 2024-2025, the top 250 listed entities would have to adhere to this "reasonable assurance" norm; in 2025-2026, it would be the top 500 listed entities; and by 2026-27 it would be the top 1,000 listed companies, SEBI has stipulated. The BRSR apply to the top 1,000 listed companies by market capitalisation and was voluntary for financial years ending 31 March 2022 which resulted in only 175 company disclosures. Although SEBI has developed its own set of requirements, these are intended to be interoperable with leading sustainability disclosure frameworks and there is specific reference to companies that already report in accordance with, for example, SASB, TCFD or Integrated Reporting to be able to cross reference existing disclosures to the requirements in the BRSR.	

WHAT TO EXPECT IN THE COMING MONTHS

With the launch of IFRS S1 and IFRS S2, the ISSB is working on introducing educational material to explain and illustrate how an entity might apply requirements in IFRS S2, to disclose information about some nature and social aspects of climate-related risks and opportunities. The method of adoption of the ISSB standards will be different in various jurisdictions, considering the jurisdictions have vastly different regulatory interests and professional expertise.

Once the US SEC finalises their sustainability standards in 2023, entities will begin to compare the requirements of these standards with IFRS S1 and S2, and ESRSs and begin assessing the data, personnel and other needs to begin applying sustainability reporting requirements.

TIMELINE FOR IMPLEMENTATION OF SUSTAINABILITY REPORTING

Proposals issued by the US SEC have yet to be finalised, meaning that the effective dates for some proposals are subject to change, including the scope of the proposals both in terms of which entities may be required to apply them and the information to be disclosed. See the European Union section of this publication for a timeline relating to the implementation of the CSRD and ESRS requirements.

As currently proposed, set out below is a summary of the effective date of the various proposals:

Proposed requirements	Class of Entities	2023	2024	2025	2026	2027	2028
US SEC	Large accelerated filers	All proposed disclosures, but excluding scope 3	Scope 3 disclosure and limited assurance		Reasonable assurance		
US SEC	Accelerated filer and non-accelerated filer		All proposed disclosures, but excluding scope 3	Scope 3 disclosure and limited assurance		Reasonable assurance	
US SEC	Small reporting companies			All proposed disclosures; exempted from scope 3			
ISSB**			IFRS S1 and IFRS S2				
ESRS			Entities currently within the scope of the NFRD	All other large entities		Listed SMEs, small and non-complex credit institutions and captive insurance undertakings	Non-EU undertakings

**The ISSB issued IFRS Sustainability Disclosure Standards June 2023. Local standard setters, regulators and governments will need to decide whether to endorse or otherwise require IFRS Sustainability Disclosure Standards for use in their own jurisdictions.

Consequently, IFRS Sustainability Disclosure Standards could become effective in different reporting periods around the world. Given the proposed effective dates for other sustainability standards, it is not expected that jurisdictions will require the use of IFRS Sustainability Disclosure Standards until at least 2025.

SUSTAINABILITY REPORTING RESOURCES

For further information and guidance on sustainability, please refer to BDO's Global IFRS Micro-site. Please refer to BDO's Sustainability Country Contacts for local resources.