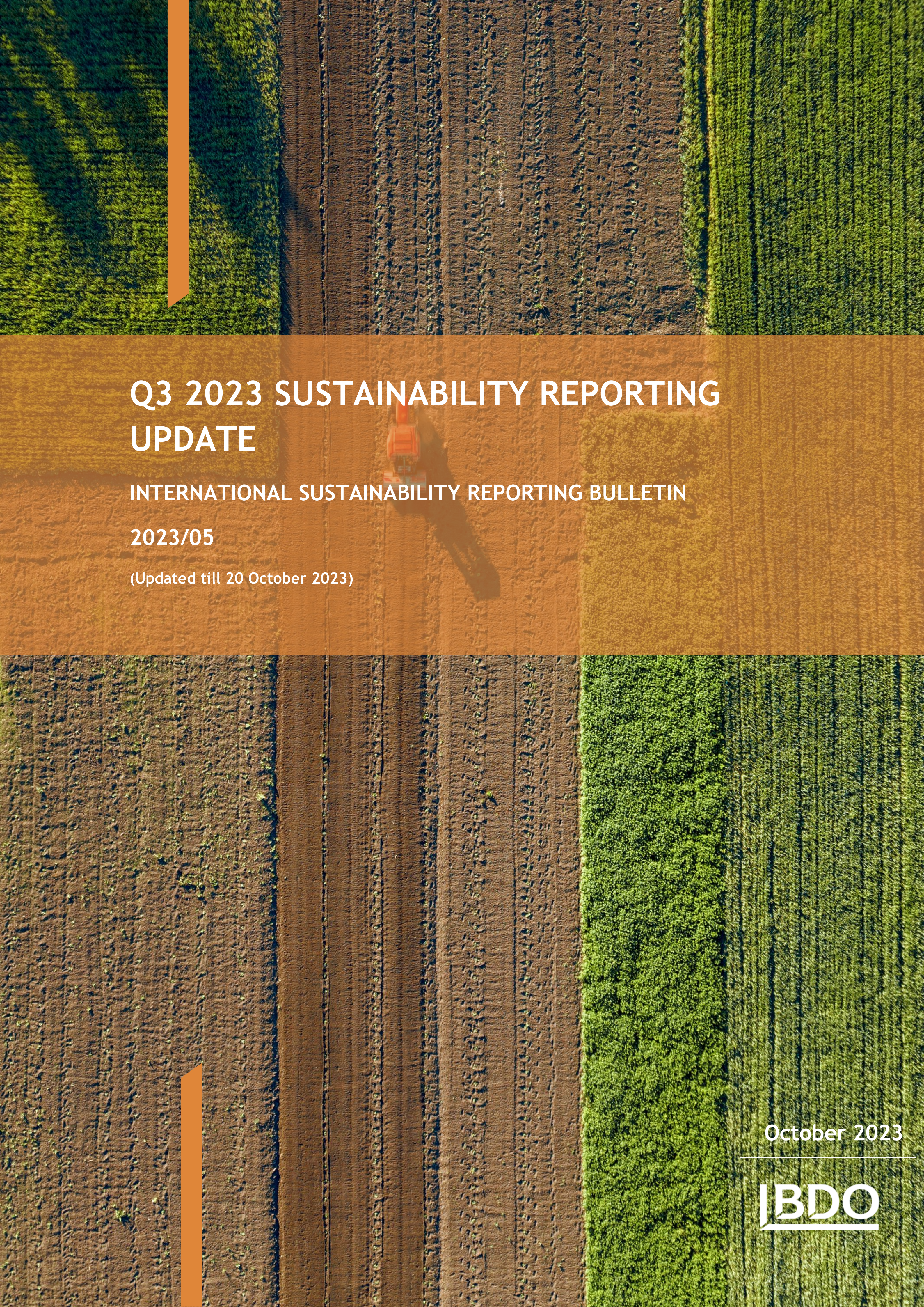

Q3 2023 SUSTAINABILITY REPORTING UPDATE

INTERNATIONAL SUSTAINABILITY REPORTING BULLETIN

2023/05

(Updated till 20 October 2023)

October 2023

BACKGROUND

The third quarter of 2023 witnessed the International Sustainability Standards Board (ISSB) and the European Commission proposing sustainability reporting requirements through the issuance of the inaugural IFRS® Sustainability Disclosure Standards (IFRS SDS) and the European Sustainability Reporting Standards (ESRS) in June and July 2023, respectively. The IFRS SDS, post its launch in June 2023, have been endorsed by multiple international securities regulators.

While the Securities and Exchange Commission (SEC) in the United States (US) is yet to bring forward the final ESG rulings, recent announcements of the bills approved by the California Legislature is a testimony of the imminent changes expected in US Sustainability landscape.

This publication provides a 'snapshot' of sustainability reporting developments as of 30 September 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.

EXECUTIVE SUMMARY

The issuance of the IFRS SDS led to the International Organisation of Securities Commissions (IOSCO) to request its 130 member jurisdictions to consider how they can incorporate the ISSB Standards into their respective regulatory frameworks to deliver consistency and comparability of sustainability-related disclosures across jurisdictions globally.

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

The information around sustainability risks and opportunities that was available for many years surrounding various standard frameworks were neither consistent nor customised to the needs of the investors. The ISSB by consolidating the existing resources like that of the Sustainability Accounting Standards Board and incorporating the references of the Task Force for Climate-related Financial Disclosures (TCFD), have led to enhanced disclosure requirements, making them clearer and aligned for a global baseline thus reducing conflicting and overlapping requirements.

In the couple of months following the issuance of the IFRS SDS, the inaugural standards have been widely acknowledged by the investors globally who are appreciative of the consistency and comparability of information that the Standards bring in. The launch of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* , is also supported by the endorsement of the standards by the International Organization of Securities Commissions (IOSCO) and announcement of the Financial Stability Board stating that with the introduction of the new sustainability standards, the work of the Task Force on Climate-related Financial Disclosures (TCFD) is complete. With the ISSB Standards marking the 'culmination of the work of the TCFD' - the IFRS Foundation has published a comparison of the requirements in IFRS S2 and the TCFD recommendation. Although the work of the TCFD is complete, companies can continue to use the TCFD recommendations should they choose to do so.

The ISSB is looking forward to working closely with the European Union, embracing the commitment from the European Commission and European Financial Reporting Advisory Group (EFRAG), with a joint focus on how to enhance the internal consistency between the two standard frameworks.

The next step for the ISSB is to review and evaluate the views submitted by the key stakeholders on the next 2-year agenda priorities for ISSB. The ISSB published the Request for Information *Consultation on Agenda Priorities* ('RFI') on 4 May 2023 (the comment submission process closed on 1 September 2023) to seek feedback on its priorities for its 2024-2026 work plan and intends to discuss the feedback received in the fourth quarter of 2023.

The objective of this RFI is to ask all those interested in sustainability-related financial reporting for their views on (a) the strategic direction and balance of the ISSB's activities; (b) 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 (c) the scope and structure of potential new research and standard-setting projects.

As a follow-up activity to the launch of the IFRS SDS, the ISSB is working on multiple activities being undertaken to support the implementation and consistent application of IFRS S1 & S2 across companies looking to adopt the ISSB Standards globally.

The ISSB SASB Standards Board Advisor Group has issued the blackline documents detailing upcoming revisions to the SASB Standards informed by feedback received in response to the Exposure Draft *Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates*. The revisions will not be final until ratified and issued by the ISSB, anticipated in December 2023.

Earlier during the year, the ISSB hosted the IFRS Integrated Thinking & Reporting Conference. The event had industry practitioners, market participants and academics sharing their insights and best practices on integrated thinking and reporting and demonstrated how the ISSB is embedding the principles of the Integrated Reporting Framework. The key takeaways from the conference include:

- Integrated thinking and reporting improve engagement and discourse between investors and investees -
    - Having clearer information enables investors to make better investment decisions.

- Integrated thinking and reporting are integral to the IFRS Foundation's development of a comprehensive global corporate reporting system –
    - The ISSB and IASB Chairs remain committed in using the principles and concepts of the Integrated Reporting Framework to achieve comprehensive corporate reporting system which is accepted globally.

- Integrated thinking and reporting improve performance –
    - Integrated thinking and reporting help organisations worldwide to express their value creation stories in a more connected and insightful way.

- Integrated thinking and reporting can be a natural link between investor- and impact-focused sustainability reporting –
    - Based on the integrated thinking principles, the Integrated Reporting Framework ensures that the IFRS Foundation and the Global Reporting Initiative (GRI) attain their joint goal of developing a comprehensive corporate reporting system that addresses the information needs of the capital markets as well as the various stakeholders.

- Integrated thinking and reporting are complementary to the ISSB Standards –
    - The Integrated Reporting Framework and the Integrated Thinking Principles, when used together with ISSB Standards, creates a holistic value creation process through governance, strategy, risk and opportunity management to drive connections between financial statements and sustainability-related financial disclosures.

The Task Force on Nature-related Financial Disclosures (TNFD) has published its recommendations for nature-related risk management and disclosure. The recommendations build on those of the TCFD and are consistent with the global sustainability standards of the ISSB.

The recommendations are structured around the same four pillars as the TCFD recommendations:

- Governance
- Strategy
- Risk and Impact Management
- Metrics and Targets

The IASB has decided to explore targeted actions to improve the reporting of climate-related and other uncertainties in the financial statements. The possible actions include development of educational materials, illustrative examples, and targeted amendments to IFRS Accounting Standards to improve application of existing requirements.

The press release by the IASB and the material by the IASB are currently available here to support companies in their reporting of the effects of climate-related and other uncertainties in the financial statements.

BDO published Sustainability at a Glance - IFRS Sustainability Disclosure Standards

IFRS S1 and S2 set a 'global baseline' for disclosure of sustainability-related financial information and are expected to be endorsed and/or adapted by many jurisdictions worldwide. Sustainability At a Glance - IFRS Sustainability Disclosure Standards summarises IFRS S1 and S2 into a few pages, making it a useful resource for those familiarising themselves with these new standards.

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.

In September 2023 the European Commission published a Commission Delegated Directive that, if adopted, would increase the financial thresholds in the Accounting Directive for determining the size category of a company to account for inflation in the European Union. The increase will result in an increase in the threshold for "large" entities by approximately 25%: the turnover threshold would be increased from €40 million to €50 million and the balance sheet threshold from €20 million to €25 million, reducing the scope of application of the CSRD accordingly. The application of the new thresholds is planned for financial years beginning on or after 1 January 2024.

In a recent resolution published by the European Parliament, there was a proposal to reject the ESRS Delegated ACT (the DA) which was adopted by the European Commission earlier on 31 July. The ESRS were under a two-month scrutiny period starting on 21 August 2023, with the DA being adopted unless either the European Council or the European Parliament object. This was to be decided by a vote of the Members of the Parliament and on 18 October 2023, the European Parliament voted to reject the motion objecting to the Delegated Act for the ESRS.

EUROPEAN SUSTAINABILITY REPORTING STANDARDS

EFRAG is reviving the sector-specific communities created in 2022 and invites participants willing to develop draft sector-specific ESRS to join the EFRAG sector-specific community. EFRAG will be organising workshops for the sector-specific communities during the second half of 2023. The current multi-year work plan covers sectors which have high impact on the industry and the financial institutions sector. The following are the sectors identified by EFRAG and looking forward to industry specialists currently not a part of the EFRAG and willing to interact with the EFRAG Sustainability Reporting Writing Teams through dedicated workshops, and outreach events happening during the drafting process. They are:

- Agriculture, Farming and Fishing
- Food and Beverage Services
- Mining, Coal, and Quarrying
- Motor Vehicles
- Oil and Gas
- Power Production and Energy Utilities
- Road Transport
- Textiles, Accessories, Footwear and Jewellery.

The European Commission has released its Work Programme 2024, wherein it has proposed to delay the adoption date of the sector-specific ESRS for large non-EU companies that operate in the EU by two years.

EFRAG and the GRI have issued a joint statement that acknowledges that EFRAG and GRI have achieved a high level of interoperability between their respective standards in relation to impact reporting.

The joint statement notes that ESRS and GRI definitions, concepts and disclosures regarding impacts are fully or closely aligned. It further observes that existing GRI reporters will be well prepared to report under the ESRS given the many shared disclosures and high level of alignment achieved.

BDO has published ***Sustainability At a Glance - European Sustainability Reporting Standards (ESRS).***

ESRS will require companies in the EU or that do significant business in the EU to disclose thousands of new data points on topics such as climate change, pollution, own workforce and business conduct. The requirements of the new standard are complex, and BDO's Sustainability At a Glance – European Sustainability Reporting Standards (ESRS) summarises all topical ESRSs into a few pages per standard.

JURISDICTIONAL UPDATE – UNITED STATES

BDO's Insight

The SEC has delayed action on final rules addressing climate change disclosure and proposed human capital management. With the ISSB sustainability standards and the ESRSs launched earlier this year, the California legislature announcement adds a new dimension to the US sustainability reporting landscape.

Over the last many months, there have been discussions and speculations about the SEC's climate proposal and the expected timing of the final rule.

Earlier during the year, the SEC in its Spring 2023 Regulatory Flexibility Agenda, had 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 a recent speech to the House Financial Services Committee, the SEC Chair Gary Gensler raised concerns about the unreliability of the lesser developed Scope 3 (supply chain emission) reporting requirements. This is in response to many companies raising concerns with the SEC about the difficulty to include Scope 3 emissions originating in areas outside the company's control. In spite of speculations floating that the finalised rule may release anytime soon, Gensler mentioned that they are not doing this against the clock, only when the Staff is ready and Commission is ready.

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.

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 to 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.

On October 7, 2023, the California Governor signed two climate disclosure laws that will affect the climate disclosure practices for many US corporates that meet specified revenue thresholds and do business in California.

In a bid to increase transparency and encourage standardised climate-related disclosure, California has passed the laws:

- GHG emissions law. SB-253, the Climate Corporate Data Accountability Act, mandates the disclosure of GHG emissions.
- Climate risks law. SB-261, the Climate-Related Financial Risk Act, mandates the disclosure of climate-related financial risks and measures adopted to reduce and adapt to such risks.

SB 253 requires companies with revenues greater than $1 billion that do business in California to report annually on their Scope 1, Scope 2, and Scope 3 emissions based on the GHG Protocol.

- Disclosure obligations would begin in 2026 for Scope 1 and 2 emissions, and in 2027 for Scope 3 emissions

- The law would also require companies to obtain third party assurance for their emissions reporting, with a limited assurance beginning in 2026 for Scope 1 and 2 emissions, and reasonable assurance in 2030.
- A limited assurance level for Scope 3 beginning in 2030.

SB 261 applies to companies that do business in California and with revenues greater than $500 million to prepare a climate-related report in accordance with the TCFD framework, beginning 1 January 2026, and biennially thereafter.

The laws will now be implemented by the California Air Resources Board, which needs to pass regulations by 1 January 2025, before companies start filing disclosures in 2026.

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.

EFRAG will publish for public feedback several sets of implementation guidance on key topics, in particular: materiality assessment, value chain and data points for gap analysis.

Once the US SEC finalises their sustainability standards, 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		
	Accelerated filer and non-accelerated filer		All proposed disclosures, but excluding scope 3	Scope 3 disclosure and limited assurance		Reasonable assurance	
	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.