

31 December 2023 Year-end Sustainability Reporting Update

International Sustainability Reporting Bulletin

2024/01

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Background

This publication provides a ‘snapshot’ of sustainability reporting developments with a focus on the updates following the International Sustainability Standards Board’s (ISSB) issue of two IFRS Sustainability Disclosure Standards (IFRS SDS) on 26 June 2023 and the European Commission’s adoption of the European Sustainability Reporting Standards (ESRS) on 31 July 2023.

BDO will issue a separate publication on jurisdictional updates on sustainability reporting developments for select jurisdictions.

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.

Major events in Sustainability Reporting During 2023

COP28 Commitments and Collaboration

Close to 400 organisations from 64 jurisdictions, including BDO, have committed to advancing the adoption or use of the ISSB’s climate-related reporting at a global level at COP28 in Dubai. The commitment represents support from companies, investors, stock exchanges, the accountancy profession, multilaterals, NGOs, universities, data analytics providers, corporate advisors and others. [The declaration of support](#), announced during Finance Day at COP28, demonstrates the strong support to advance action-oriented responses to the risk of climate change.

At COP28, the IFRS Foundation and the International Organization for Standardization (ISO) have confirmed their shared commitment to cooperate to support efficient and resilient global economies. [The press release](#) states that:

ISO 14000 Environmental management and greenhouse gas emission standards can help companies that have sustainability and climate commitments implement them, and support disclosures in line with IFRS S2.

Companies that have implemented such robust management system standards will be well placed to communicate with investors using the ISSB Standards.

At COP28, a group of major Multilateral Development Banks which includes the Asian Infrastructure Investment Bank, the European Investment Bank, the Inter-American Development Bank and the European Bank for Reconstruction and Development have [issued a statement](#) confirming their support for the work of the ISSB.

Furthermore, regulators and standard setters from many countries welcomed the work and reaffirmed their support for the work of the ISSB.

Basel Committee’s Proposal on Climate-Related Financial Risks

The Basel Committee on Banking Supervision has proposed a Pillar 3 disclosure framework to address climate-related financial risks to the global banking system. The framework would build on the IFRS SDS with more detailed disclosure requirements for the international banking sector, with some disclosures mandatory and others subject to national discretion. The proposed framework is open for [consultation](#) until 29 February 2024.

Executive Summary

The ISSB’s inaugural IFRS S1 and IFRS S2 took effect 1 January 2024. The TCFD has fulfilled its remit and has been disbanded with monitoring responsibilities transferred to the ISSB from 2024 with the TCFD framework being incorporated into IFRS S2.

The ESRS have been approved and will apply for financial years starting on or after 1 January 2024 as required by the CSRD.

The US SEC will consider finalizing the proposed climate rule in April 2024, and two U.S. state senate bills have been signed into California Law in a bid to increase transparency and encourage standardised climate-related disclosure.

The Greenhouse Gas (GHG) Protocol

The GHG Protocol is permitted or required to be applied under numerous reporting frameworks. These include, but are not limited to:

- IFRS SDS
- ESRS
- TCFD
- Sustainability Accounting Standards Board (SASB) recommended disclosures.

Many standard setters and jurisdictions currently developing sustainability reporting requirements are also expected to refer to the GHG Protocol, including climate reporting rules being considered by the US Securities and Exchange Commission (SEC).

The GHG Protocol's primary documents have not been updated in some time, and the World Resource Institute (WRI) is undertaking a process to update the standards. Outreach has been performed throughout 2023 to gather information on which aspects of the Protocol should be updated.

The WRI has released a [Summary of Responses](#). Major topics where the WRI received feedback include:

- The organisational boundary: should so many options be permitted when the equity share approach is rarely used?
- Should organisational boundary be aligned with applicable financial statements (e.g. IFRS 10 for entities applying IFRS Accounting Standards)?
- Remove inconsistencies between standards (e.g. is Scope 3 required in order to comply with the Protocol)?
- General inconsistencies / outdated guidance (e.g. references to operating vs. finance type leases in Scope 3 guidance).
- Further guidance on scope 1, consistent with the supplementary guidance issued on scopes 2 and 3.

The WRI maintains the GHG Protocol and as the Protocol is becoming more widely applicable, the WRI is establishing due process around how the Protocol is maintained and updated. As part of that due process, the WRI is constituting a '[Technical Working Groups](#)' to provide support on specific topics to develop the technical content of the standards.

Launch of the Sustainability Innovation Lab

In November 2023, the Global Reporting Initiative (GRI) announced the launch of the Sustainability Innovation Lab (SIL) based in Singapore, in coordination with the IFRS Foundation. The SIL is bringing together global and local partners to advance capabilities for reporting using the GRI Standards and the IFRS SDS. Through SIL, key stakeholders, including GRI and ISSB representatives, will collaborate on emerging sustainability disclosure topics, developing concepts, best practices, and data-driven solutions.

IFRS Foundation and GRI publish summary of interoperability considerations for GHG emissions

The IFRS Foundation and the GRI have published a new analysis and mapping resource: *Interoperability considerations for GHG emissions when applying GRI Standards and ISSB Standards*. The publication illustrates the areas of interoperability a company should consider when measuring and disclosing Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions in accordance with both *GRI 305: Emissions* and *IFRS S2 Climate-related Disclosures*.

The requirements in GRI 305 and IFRS S2 demonstrate a high degree of alignment. For example, both draw on the GHG Protocol. The alignment means companies that already disclose Scope 1, 2 and 3 GHG emissions using the GRI Standards will be well positioned to report information about GHG emissions in accordance with IFRS S2. In addition to this, other GHG emissions disclosures can be aligned, depending on the choices a company makes in applying GRI 305 and IFRS S2.

The aim of the publication is to support more efficient reporting for companies using both the IFRS SDS and the GRI Standards.

The mapping resource may be accessed [here](#).

IFRS Foundation developments

Following the publication of the ISSB's inaugural IFRS SDS – IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and IFRS S2 *Climate-related Disclosures* (IFRS S2), the last year has been known by a number of events and developments in relation to the ISSB updates and future agenda.

Resources for IFRS SDS Implementation

Ahead of the IFRS SDS—IFRS S1 and IFRS S2—taking effect in January 2024, the ISSB provided new and updated resources to help companies apply the Standards. Specifically, the IFRS Foundation has published new educational material '*Nature and social aspects of climate-related risks and opportunities*'. The educational material includes three examples that help illustrate how companies might consider 'nature and social aspects' of climate-related risks and opportunities when applying IFRS S2. The educational material may be accessed [here](#). The publication follows the launch of the [IFRS Sustainability knowledge hub](#) at COP28, a core component of the IFRS Foundation's focus on capacity building initiatives. The hub is a key component of the IFRS Foundation's capacity building programme. Resources on the hub include an introduction to the IFRS SDS, a guide for transitioning from TCFD recommendations to IFRS SDS and a set of Frequently Asked Questions (FAQs). The launch of the hub coincides with an update to the IFRS Foundation's Fundamentals of Sustainability Accounting (FSA) Credential Level 1. It has been updated to reflect the work of the ISSB. The IFRS Foundation is focused on supporting the implementation of the IFRS SDS through capacity building initiatives and is working with a number of partners to advance this work.

Transition Implementation Group (TIG)

The ISSB launched [Transition Implementation Group on IFRS S1 and IFRS S2 \(TIG\)](#) to solicit, analyse and discuss stakeholder questions arising from implementation of the new Standards. The inaugural meeting of the Transition Implementation Group on IFRS S1 and IFRS S2 was held on 21 November 2023. The members discussed operating procedures and members' observations on implementation to date.

The first substantial discussion of the TIG is expected in Q1 2024.

TCFD Disbandment

The Task Force on Climate-Related Disclosures (TCFD) created by the Financial Stability Board (FSB) in 2015 to improve and increase reporting of climate-related financial information has fulfilled its remit and was officially disbanded at COP28.

The TCFD [website](#) will remain available to serve as a resource for materials developed by the Task Force but will no longer be updated or monitored. The ISSB has taken over the monitoring of the progress of companies' climate-related disclosures from 2024. The TCFD framework has been incorporated into IFRS S2.

IFRS Foundation Projects

| Project | Summary | More Information |
|---|---|---|
| ISSB Consultation on Agenda Priorities | <p>The public consultation period for the ISSB’s Request for Information <i>Consultation on Agenda Priorities</i> (RFI) closed on 1 September 2023. The RFI sought feedback on the ISSB’s priorities for its next two-year work plan.</p> <p>The RFI sought feedback on:</p> <ul style="list-style-type: none">• The strategic direction and balance of ISSB activities;• The 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. <p>The International Accounting Standards Board (IASB®) and the ISSB met on 25 January 2024 to discuss feedback on the RFI. Specifically, the boards discussed feedback on a potential project on integration in reporting and feedback on connectivity.</p> <p>The ISSB’s RFI included questions on:</p> <ul style="list-style-type: none">• The priority of a potential project on integration in reporting relative to the other three proposed sustainability-related projects that could be added to the ISSB’s work plan;• Whether that project, if considered a priority, should be undertaken as a formal joint project with the IASB or as an ISSB-led project (which could still draw on input from the IASB); and• Whether that project, if pursued, should build on the concepts from the IASB’s Exposure Draft Management Commentary, the Integrated Reporting Framework and other sources. <p>The RFI did not include a question on connectivity; however, respondents provided feedback on that topic.</p> <p>The ISSB has a view to finalise its two-year workplan in the first half of 2024.</p> <p>The ISSB also remains focused on supporting and driving adoption of the IFRS SDS throughout 2024. As part of this work, the ISSB continues to prioritise discussions about interoperability, including with jurisdictional and voluntary initiatives focused on stakeholders beyond investors, and will continue to coordinate its work with its sister board the IASB.</p> | <p>IASB project page</p> <p>BDO comment letter on the RFI</p> |

| Project | Summary | More Information |
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| <p>IFRS Sustainability Disclosure Taxonomy</p> | <p>The ISSB is also focused on advancing work to develop the IFRS Sustainability Disclosure Taxonomy to enable the digital consumption of information when the IFRS SDS are applied. The ISSB published a proposed digital taxonomy for public consultation, which ended on 26 September 2023.</p> <p>In developing the Proposed IFRS Sustainability Disclosure Taxonomy, the ISSB considered feedback staff received on fundamental matters discussed in a prior request for feedback, including comments from external groups of experts, including the IFRS Taxonomy Consultative Group (ITCG).</p> <p>The ISSB met on 15 November 2023 in Beijing to discuss feedback on the Proposed IFRS Sustainability Disclosure Taxonomy for digital reporting reflecting the requirements in IFRS S1 and IFRS S2. Almost all respondents agreed the proposed Taxonomy appropriately reflects the requirements in IFRS S1 and IFRS S2 and will enable digital reporting of sustainability-related financial disclosures. Decision was taken for the ISSB to discuss changes to the Proposed IFRS Sustainability Disclosure Taxonomy resulting from the feedback.</p> <p>The consultation was open for comment until 26 September 2023. The ISSB will consider feedback on the <i>Proposed IFRS Sustainability Disclosure Taxonomy</i> and the need for further changes before publishing the IFRS Sustainability Disclosure Taxonomy.</p> <p>Thereafter, the IFRS Sustainability Disclosure Taxonomy will be updated after public consultations to reflect any amendments to IFRS SDS, common reporting practice and emerging reporting issues.</p> <p>During the board meeting in December 2023 the ISSB discussed the planned next steps for the digital taxonomy, which is intended to be published in the first half of 2024.</p> | <p>IASB project page</p> |
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| <p>International Applicability of SASB Standards</p> | <p>On 11 October 2023, the ISSB published blackline documents detailing revisions to the SASB Standards. These revisions are informed by feedback on the Exposure Draft <i>Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates</i>, published in May 2023. Comments were not requested on these blackline documents.</p> <p>In December 2023, the ISSB published amendments to the SASB Standards to enhance their international applicability. These amendments were intended to help preparers apply the SASB Standards regardless of the jurisdiction in which they operate or the type of generally accepted accounting principles they use without substantially altering the SASB Standards' structure or intent. The SASB Standards facilitate the implementation and application of IFRS S1 for preparers.</p> | <p>IASB project page</p> <p>SASB Standards</p> |
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The amendments will be effective for annual reporting periods beginning on or after 1 January 2025, with early application permitted.

EFRAG

Adoption of ESRS completed on 21 October 2023

The scrutiny period for the European Parliament and the Council ended on 21 October 2023 without objection, meaning that the ESRS have been finalised and have been brought into EU law. The Delegated Act for the ESRS was adopted by the EC on 31 July 2023, with the scrutiny period starting on 21 August. ESRS have been approved and will apply for financial years starting on or after 1 January 2024 as required by the CSRD.

EFRAG Launches ESRS Q&A platform

To support the implementation of the ESRS, EFRAG has introduced the ESRS Q&A Platform. This platform serves as a hub for collecting and answering technical implementation questions from preparers and other stakeholders. EFRAG, in its role as a technical advisor to the European Commission, will provide non-authoritative responses through a due process. Answers will be provided by EFRAG following its due process. The platform may be accessed [here](#).

EFRAG publishes draft ESRS Implementation Guidance

EFRAG has published three draft ESRS Implementation Guidance (IG) documents:

- Draft EFRAG IG 1 - Materiality assessment implementation guidance: it describes the reporting requirements on the materiality assessment including the illustration of possible steps of the process and FAQs on the double materiality assessment.
- Draft EFRAG IG 2 - Value chain implementation guidance: it describes the reporting requirements on the value chain. It also discusses the reporting boundary of the group and contains FAQs.
- Draft EFRAG IG 3 - Detailed ESRS datapoints implementation guidance and accompanying explanatory note: it presents the complete list of the detailed requirements in an Excel format.

The documents are open for feedback until 2 February 2024. The documents may be accessed [here](#).

EFRAG ESRS XBRL Taxonomy

The EU Taxonomy is a tool designed to support investors, companies, emitters and project promoters in the transition to a low-carbon, resilient and resource-efficient economy. The classification system created by the introduction of the Taxonomy Regulation helps to promote capital flows towards sustainable investments.

The Corporate Sustainability Reporting Directive (CSRD) requires undertakings in the EU to report EU Taxonomy disclosures and ESRS statements as part of the management report, starting from fiscal year 2024. The European Single Electronic Format (ESEF) will be used, which is based on Inline XBRL. Companies have to tag (markup) the disclosures with a digital XBRL taxonomy, having a unique definition for every data point. The XBRL taxonomy has more than 1000 data points with a wide range of types, e.g. GHG emissions, water & energy consumptions, headcount, pollution, and large number of narrative disclosures etc. The Inline XBRL report is human-readable and machine readable

at the same time. It allows users (analysts, investors, etc.) to easily identify individual disclosures and extract numerical data points for analytical purpose.

The next steps agreed by EFRAG during the meeting held on 12 October 2023 are:

- Finalisation of the Draft ESRS XBRL Taxonomy and approval in the Sustainability Reporting Technical Expert Group and Sustainability Reporting Board
- Finalisation of the Draft Article 8 XBRL Taxonomy
- Development of tagged illustrative reports and accompanying documentation (guidance)
- Public consultation on the draft XBRL taxonomies
- Work on digital interoperability with IFRS SDS and GRI
- Final Sustainability Reporting XBRL Taxonomy to be handed over to the EC and ESMA in 2024.

EFRAG and CDP Collaboration

EFRAG and Carbon Disclosure Project (CDP) have joined forces to accelerate the market uptake of the ESRS. This collaboration involves creating technical guidance for the 23,000 companies currently reporting to CDP. The guidance aims to facilitate reporting on ESRS data points through the widely used CDP questionnaire.

CDP to Align With ESRS, IFRS Climate-Related Disclosures

CDP, the environmental global disclosure system used by over 23,000 companies, will update its questionnaires to align with the ESRS. CDP disclosure will also [align with the IFRS S2 Climate-related Disclosures](#) and reflect the Taskforce on Nature-related Financial Disclosures (TNFD) framework.

EFRAG and TNFD sign a cooperation agreement

EFRAG and the TNFD have announced the signing of a cooperation agreement, to further advance nature-related reporting.

The ESRS disclosures and the TNFD recommendations are aligned, among others, in the following ways:

- Both are organised around the four pillars of the disclosure recommendations of the TCFD.
- Both the TNFD and ESRS put high emphasis on the need to disclose on nature-related impacts, risks and opportunities (IROs), as well as dependencies from nature to the extent they generate material risks.
- All 14 recommended disclosures of the TNFD are addressed in the ESRS.
- The TNFD framework has been designed to accommodate an impact materiality perspective, facilitating alignment with the ESRS.
- The ESRS state that companies can conduct their materiality assessment on the sustainability matters, pollution, water, biodiversity and ecosystems and circular economy using the LEAP approach phases, which was developed by the TNFD.

As a next step, EFRAG and the TNFD will issue a detailed interoperability mapping illustrating the high level of commonality achieved. The mapping is expected to be published in early 2024. The press release by EFRAG may be accessed [here](#).

Sustainability standards for SMEs

EFRAG has launched a public consultation on two Exposure Drafts on sustainability standards for SMEs - for listed SMEs (ESRS LSME ED) and voluntary reporting standard for non-listed SMEs (ESRS VSME ED).

The ESRS LSME will be issued as delegated act and will be effective on 1 January 2026 with an option to opt out for an additional two years. As per the press release by EFRAG, the purpose of the ESRS LSME ED is to set reporting requirements that are proportionate and relevant to the scale and complexity of the activities and to the capacities and characteristics of LSMEs.

The ESRS VSME ED proposes a simple reporting tool to assist non-listed SMEs in responding to requests for sustainability information that they receive from business counterparts (i.e., banks, investors or larger companies for which non-listed SMEs are suppliers) in an efficient and proportionate manner as well as to facilitate their participation in the transition to a sustainable economy.

The Exposure Drafts are open for comments until 21 May 2024.

US SEC and state legislation

US SEC

The US Securities and Exchange Commission (SEC) continues to deliberate on its proposed climate reporting rule. As of the Commission's updated [rulemaking agenda](#), made public in early December 2023, the SEC will consider finalizing the rule in April 2024.

State legislation

In a bid to increase transparency and encourage standardised climate-related disclosure, two state senate bills were signed into California Law that require certain public and private US entities, including foreign entities with US-based subsidiaries doing business in California to provide quantitative and qualitative climate disclosures.

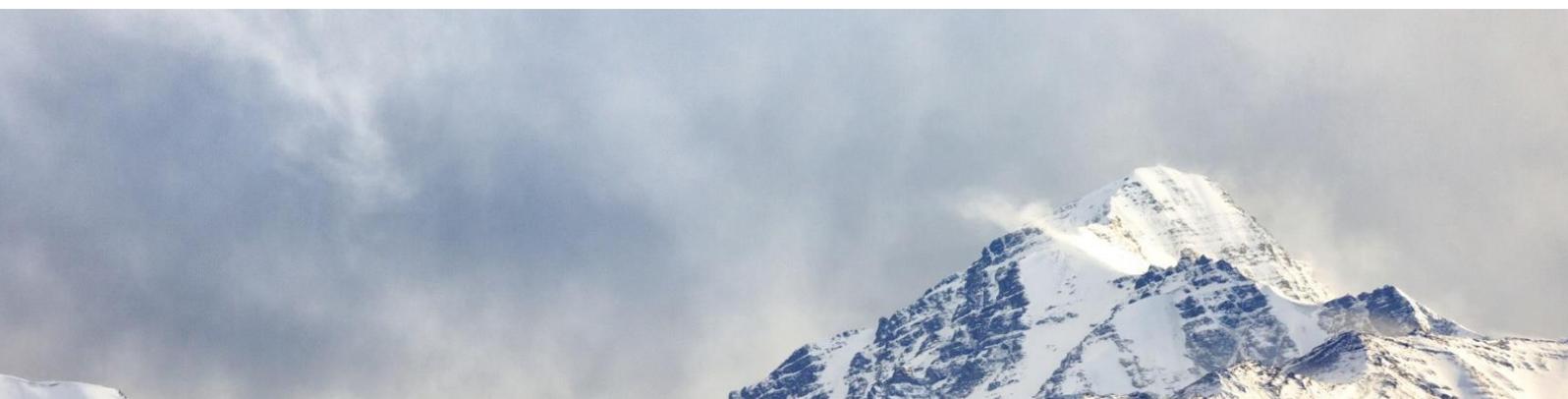
- GHG emissions law. SB-253, the Climate Corporate Data Accountability Act, mandates the disclosure of GHG emissions.
- Climate risks law. SB-261, the Climate-Related Financial Risk Act, mandates the disclosure of climate-related financial risks and measures adopted to reduce and adapt to such risks.

[SB-253 Climate Corporate Data Accountability Act](#) 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. The law requires:

- Disclosure obligations beginning in 2026 for Scope 1 and 2 emissions, and in 2027 for Scope 3 emissions.
- Companies to obtain third party assurance for their emissions reporting, with limited assurance beginning in 2026 for Scope 1 and 2 emissions, and reasonable assurance in 2030.
- Limited assurance for Scope 3 beginning in 2030.

[SB-261 Greenhouse Gases: Climate-Related risk](#) 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.

Some other states have introduced draft bills requiring disclosure of Scope 1, 2, and 3 emissions based on the GHG Protocol. However, these bills have not yet been signed into law.



Timeline for Implementation of Sustainability Reporting

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

| Proposed requirements | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|--|------|---|--------------------------|--|------|---|
| IFRS Sustainability Disclosure Standards** | | IFRS S1 and IFRS S2 | | | | |
| ESRS | | Entities currently within the scope of the NFRD | All other large entities | Listed SMEs (with opt-out option until 2028) | | Non-EU companies with branches/subsidiaries |
| US state legislation - California | | | | SB-253 & SB-261 | | |

**The ISSB issued IFRS SDS in June 2023. Local standard setters, regulators and governments will need to decide whether to endorse or otherwise require IFRS SDS for use in their own jurisdictions. Consequently, IFRS SDS 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 SDS until at least 2025.

Sustainability Reporting Resources

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.

BDO published Sustainability at a Glance - European Sustainability Reporting Standards

BDO has published [Sustainability At a Glance - European Sustainability Reporting Standards \(ESRS\)](#). 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.

BDO published Sustainability at a Glance - The Greenhouse Gas Protocol

[Sustainability At a Glance - The Greenhouse Gas Protocol](#) summarises measuring scope 1, 2 and 3 emissions into a few pages, making it a useful resource for those familiarising themselves with this protocol.

For further information and guidance on sustainability, please refer to BDO's Global [Sustainability Reporting Micro-site](#).

For further information on the proposed SEC Climate Disclosure rule, please refer to BDO US's [Sustainability and ESG](#) site.

FOR MORE INFORMATION:

[Sustainability Reporting](#)
[Policy Committee](#)

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