ERM SUSTAINABILITY INSTITUTE

THE NEW DISCLOSURE LANDSCAPE

ISSB's IFRS S1/2: Laying the foundation for global mandatory disclosures

February 2024

Contents

Executive Summary

In the evolving landscape of sustainability disclosure frameworks and regulations, the International Sustainability Standards Board's (ISSB) inaugural standards bring consolidation and alignment to the sustainability disclosure field. IFRS S1 and IFRS S2 (IFRS S1/S2), issued by the ISSB in June 2023, will broadly influence both corporate strategies and market dynamics.

All companies can start applying IFRS S1/S2 now, which became effective for annual reporting as of January 1, 2024. IFRS S1/S2 will become mandatory when and if regulators integrate them into financial reporting frameworks and regulatory requirements.

The adoption of the standards has been swift; several regulatory bodies and jurisdictions have declared intent to mandate disclosure aligned with IFRS S1/S2, while others will use the standards as a baseline to draft new disclosure regulations.

To comply with this new framework, companies will need to align their financial and non-financial reporting practices, ensuring their consistency and comparability.

Corporates should not see these standards as another standalone reporting framework. IFRS S1/S2 have consolidated and incorporated several familiar frameworks (TCFD, SASB, CDSB, and others). Although it may take time for companies to notice a reduction in reporting burden, these standards signal that the industry is headed toward meaningful alignment.

To assist companies on their journey to understand and prepare for IFRS S1/S2 reporting, this briefing explores the essential components of the IFRS S1/S2 standards, maps the consolidation of reporting frameworks, and provides actionable recommendations companies can take to tackle the task ahead.

How to Prepare

To prepare for the rollout of the standards, companies should begin by reviewing their geographic footprint and exposure to determine if they are or will be subject to IFRS S1/S2 disclosure requirements.

Upon determining applicability, companies should evaluate relevant timelines and local requirements and begin planning for disclosure as there may be varying timelines or requirements between jurisdictions.

We recommend the following actions to help prepare your company to report in accordance with the IFRS S1/S2 (and other sustainability or ESG frameworks):

- **Review your recent materiality assessment and conduct a new one if needed:** If you have already conducted a materiality assessment (double or single), review your materiality process to ensure it explicitly incorporates financial considerations and addresses value trade-offs and short-, medium-, and long-term impacts.
- **Complete a gap analysis and create a roadmap:** Assess your current state of reporting and management to determine whether you are ready to comply with IFRS S1/S2. Prepare a plan to close reporting gaps.
- **Educate and upskill:** Prepare key leadership and internal stakeholders for disclosing to IFRS S1/S2.
- **Establish a sustainability governance framework:** Ensure that all sustainability-related commitments and decisions are appropriately considered, approved, and monitored.
- **Improve data management and assurance:** Implement a robust data management framework, incorporating efficient processes and internal controls to ensure accurate, reliable, and transparent data.
- **Monitor:** Monitor your relevant jurisdictions regarding IFRS S1/S2 mandatory disclosure, when regulations become effective, and what transition reliefs are available. Also, be on the lookout for additional ISSB standards in the future.
- **Transform your program:** Leverage data and insights from the IFRS S1/S2 disclosure process to inform and ratchet ambition in climate and/or sustainability strategy. Consider how to integrate sustainability-related risks and opportunities into the enterprise risk management framework, existing governance mechanisms, and capital allocation decisions.

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Part one:

Introduction to ISSB, IFRS S1/S2, and the consolidation that made it happen

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Introduction

The launch of the International Sustainability Standards Board's (ISSB) inaugural standards in 2023 marked a significant milestone in corporate sustainability reporting. The ISSB's IFRS S1 and IFRS S2 (IFRS S1/S2) formalize a much-awaited convergence of sustainability and financial disclosures and alignment of reporting frameworks.

While much of the focus remains on the mandatory disclosure frameworks, such as the EU's Corporate Sustainability Reporting Directive (CSRD), the ISSB standards are rapidly gaining endorsement from governments and companies and are set to have wide-reaching impacts on companies and markets globally.

IFRS S1/S2 became effective for annual reporting periods as of January 1, 2024. While the standards can now be used for voluntary reporting, multiple jurisdictions have indicated intent to mandate IFRS S1/S2 requirements.

Companies may find preparation requires significant resources both to comply and extract the full value from alignment. This briefing examines IFRS S1/S2's components and their implications for businesses and stakeholders and provides actionable recommendations companies can take to prepare.

Setting the stage: IFRS and ISSB

After two years of drafting and consultations, the ISSB issued its inaugural standards – IFRS S1 and IFRS S2 in June 2023. IFRS S1 covers general sustainability-related disclosure requirements and IFRS S2 includes climate-related disclosure requirements. By starting with IFRS S1/S2, ISSB intends to create a comprehensive baseline of sustainability disclosure standards. The standards are voluntary until jurisdictions adopt them into local regulations or combine them with jurisdiction-specific requirements.[1]

While IFRS S1/S2 joined a crowded space of sustainability frameworks, IFRS S1/S2 have introduced much-needed alignment of financial and non-financial reporting. The new ISSB framework has also consolidated several frameworks into a single, overarching standard.

The issuance of IFRS S1/S2 for reporting on climate- and sustainability-related matters reflects a growing recognition of the importance of environmental, social, and governance factors in financial reporting. IFRS S1/S2 are poised to underpin several global sustainability-related reporting regulations, a clear move toward integrating sustainability-related disclosures into financial reporting.

While the primary target audience of the ISSB standards is investors, the IFRS S1/S2 disclosures will likely be used by a broad range of stakeholders.

Accounting standards and standard-setters 101

Two of the major accounting standards for financial reporting are **IFRS** and **U.S. GAAP** (Generally Accepted Accounting Standards), each with its own accounting principles and guidance but with the similar goal of standardizing financial disclosures. Most large companies follow IFRS or U.S. GAAP.

IFRS®

IFRS
IFRS' accounting standards are used in over 140 countries, excluding a few economies (like the U.S.). Countries and jurisdictions implement local interpretations of IFRS, either by mandating or permitting their use.

IASB (International Accounting Standards Board) is the independent accounting standard-setting body of the IFRS Foundation. The ISSB, a combination of the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF), launched by the IFRS Foundation at COP26, was established in November 2021 to sit alongside IASB.[2]

U.S. GAAP

U.S. GAAP
The U.S. GAAP is a distinct set of standards which acts as the United States' counterpart of the IFRS standards. The FASB (Financial Accounting Standards Board) is a private standard-setting body recognized by the U.S. Securities Exchange and Commission as the designated accounting standard-setter for public and private companies and not-for-profit organizations that follow the Generally Accepted Accounting Principles (GAAP).[3]

Some companies may voluntarily choose to use IFRS or U.S. GAAP even if they are not required to disclose.

What do IFRS S1/S2 cover (and where did their components originate)?

Convergence of reporting standards within IFRS S1 and S2

The issuance of the IFRS standards marks a significant milestone in the consolidation and alignment of disclosure frameworks. IFRS S1/S2 were influenced by several pre-existing standards, frameworks, and disclosure platforms, including the GRI, Integrated Reporting Framework, Task Force on Climate-Related Financial Disclosures (TCFD), Climate Disclosure Standards Board (CDSB) and Sustainability Accounting Standards Board (SASB), among others. Some of these frameworks, namely CDSB and the Integrated Reporting Framework, were folded under the ISSB's umbrella in their entirety to create a single, standardized framework for disclosures.

Though some of the informing frameworks may still function as standalone guidance (such as SASB), their consolidation under a single entity encourages consistent and comparable data disclosures. It may take time for companies to notice a reduction in reporting burden, and that effort will be reallocated to preparing investor-grade sustainability data, but it is a necessary step toward meaningful consolidation and alignment.

Figure 1: Convergence of accounting and sustainability standards

ISSB has consolidated and incorporated several reporting entities and frameworks within IFRS S1/S2. This figure illustrates a relationship map between several key reporting bodies and frameworks.

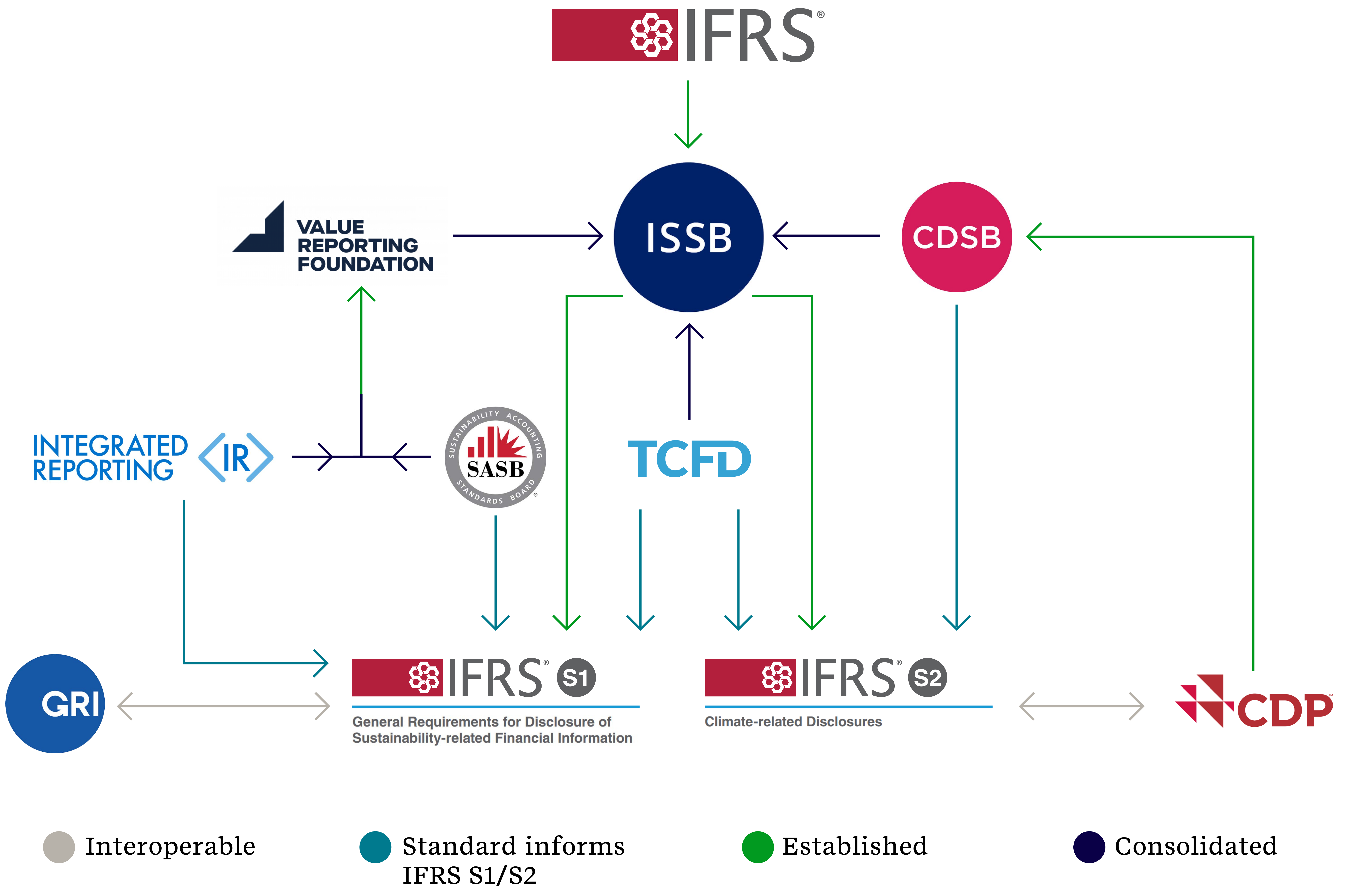

Table 1: Framework consolidation within ISSB

Framework	Status	Notes
International Integrated Reporting Council (IIRC) and **Integrated Reporting Framework** (<IR>)	Consolidated	Integrated Reporting is now part of the IFRS Foundation. The Integrated Reporting Framework provides the language necessary to bring sustainability into business conversations (e.g., the six capitals: financial, manufactured, intellectual, human, social and relationship, and natural). Integrated Reporting concepts are embedded in IFRS S1. ISSB encourages companies currently using the Integrated Reporting Framework to continue doing so.
SASB (Sustainability Accounting Standards Board)	Consolidated	Responsibility for the SASB standards now sits with the ISSB. The SASB standards will continue to evolve, and ISSB encourages preparers and investors to continue to use them.[4] The IFRS General Requirements instruct that reporters refer to and consider the applicability of the disclosure topics listed in the SASB standards. • Companies can use the SASB standards to identify the sustainability-related risks and opportunities that should be reported through IFRS S1. • IFRS S2 outlines the disclosures associated specifically with climate and requires industry-specific metrics derived from the SASB standards. • The SASB standards were revised in June 2023 to align with the IFRS disclosures. • In December 2023, the ISSB published amendments to the SASB Standards to enhance their international applicability and facilitate implementation and application of IFRS S1 for preparers.[5]
CDSB (Climate Disclosure Standards Board)	Consolidated and Informed IFRS S1/S2	CDSB was consolidated into the IFRS Foundation (ISSB) in 2022. • According to ISSB, IFRS S1/S2 reporters may refer to the CDSB Framework Application Guidance when applying IFRS S1 to identify sustainability-related risks and opportunities.
TCFD (Task Force on Climate-Related Financial Disclosures) Recommendations	Consolidated and Informed IFRS S1/S2	The requirements in IFRS S2 are consistent with the four pillars and eleven recommended disclosures published by the TCFD. • Companies applying IFRS S1/S2 will meet the TCFD recommendations as the recommendations are fully incorporated into the ISSB Standards.[6] • The ISSB will assume the TCFD's responsibilities to monitor progress of companies' climate-related sustainability disclosures from 2024. The Financial Stability Board said that the publication of the new ISSB standards "can be seen as a culmination of the work of the TCFD."[7] • For further reading, the IFRS has published "Making the transition from TCFD to ISSB".[8]

Table 2: Other relevant frameworks

Framework	Status	Notes
CDP	Interoperable with IFRS S2	CDP transferred CDSB's intellectual property and staff to IFRS to enable the formation of ISSB. CDP plans to align with the ISSB climate reporting standard (IFRS S2) in 2024, which will require 23,000+ companies to collect and structure a IFRS S2 data set.
GRI (Global Reporting Initiative)	Interoperable with IFRS S1	Most widely-used standard for sustainability reporting. GRI informed IFRS S1/S2. In March 2022, GRI and IFRS established a memorandum of understanding, seeking to coordinate their work programs and standard-setting activities. GRI remains separate from ISSB but has supported ISSB's formation and development.
TNFD (Taskforce on Nature-related Financial Disclosure)	Informed IFRS S1/S2	TNFD recommendations are compatible with the ISSB standards. Both the TNFD recommendations and ISSB standards incorporate the architecture of the TCFD recommendations. TNFD aligns with the CDSB frameworks.

IFRS S1/S2 Overview

IFRS S1: General sustainability disclosures

IFRS S1 sets out general reporting requirements, while other ISSB Standards (e.g., the S2 climate standard) set out topic-specific disclosures. ISSB designed the IFRS S1 disclosures to guide the primary users of general-purpose financial reporting.

IFRS S1 requires a company to disclose material information about the sustainability-related risks and opportunities that could affect its cash flows, access to finance, or cost of capital over the short-, medium-, and long-term.[9] In the context of disclosing to IFRS S1, “material information” refers to information that, if omitted, misstated, or obscured, could influence the decision-making of primary users of those disclosures. Materiality is entity-specific and should be determined in the context of a company’s sustainability-related financial disclosures.

IFRS S1 also requires companies to disclose current and anticipated effects of sustainability-related risks and opportunities on its business model and value chain. Furthermore, IFRS S1 requires disclosure of the effects of sustainability-related risks and opportunities on decision-making, **including trade-offs between sustainability-related risks and opportunities that the entity considered** (for example, in deciding on the location of new operations, an entity might have considered the environmental impacts of those operations and the employment opportunities they would create in a community).

In the absence of a specific ISSB standard, IFRS S1 refers reporters to other standards and frameworks (e.g., SASB, CDSB).

IFRS S1 is designed to be GAAP-agnostic and therefore is applicable across jurisdictions, including non-IFRS jurisdictions.

IFRS S2: Climate-related disclosures

IFRS S2 is designed to be used in accordance with IFRS S1 and **requires a company to disclose its climate-related information.**[10] Specifically, IFRS S2 requires material disclosure of information about physical risks (e.g., flood risk), transition risks (e.g., regulatory change), and climate-related opportunities (e.g., new technology). Additionally, IFRS S2 includes a requirement to provide industry-specific disclosures and metrics.

Note: IFRS S2 expands on CDP, CDSB, and the TCFD’s recommendations around climate-related financial disclosures to meet the needs of investors and capital markets.[11]

IFRS pillar structure

Both IFRS S1 and IFRS S2 use the TCFD’s four pillars of governance, strategy, risk management, and metrics and targets as a foundation for disclosure requirements.

Companies managing mature sustainability programs may already have much of the governance, strategy, risk management, and metrics and targets implemented for relevant sustainability topics. However, for companies that have not been developing a sustainability management program, IFRS S1/S2 may influence how they structure their sustainability processes and procedures and create meaningful disclosures for interested stakeholders.

Figure 2: Use the four pillars to disclose in line with IFRS S1/S2

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Part two:

How ISSB will influence financial and sustainability disclosures

How ISSB will influence financial and sustainability disclosures

The formation of the ISSB and the introduction of IFRS S1/S2 has expedited the convergence between financial and sustainability disclosures in the main business report.

Interestingly this convergence, and IFRS S1/S2 more broadly, has also sparked several debates among sustainability practitioners. One debate revolves around whether the IFRS standards should be called "sustainability-related" given that the focus is on financial value rather than external sustainability impacts. Another debate centers on reinforcement of shareholder primacy, considering that the objective of IFRS S1/S2 is for companies to disclose information deemed important to investors. However, the most animated debate focuses on materiality.

ISSB and "single" (financial) vs double materiality
Materiality is the conceptual foundation for how a company should set its sustainability strategy, allocate resources, and disclose information to stakeholders. However, there are practical differences between how the ISSB standards and European Sustainability Reporting Standards (ESRS) from the CSRD discuss materiality. Essentially, it is the difference between materiality as ISSB defines it (single, focused on the reporting entity) and double materiality.

IFRS S1 states that "an entity shall disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects."[12] This perspective is inward-looking, focusing on the impact of sustainability-related topics on an entity's financial viability and ability to deliver returns to its investors.

By contrast, the CSRD requires a double materiality assessment, which calls for organizations to consider their sustainability risk and opportunities as well as the impacts they have on people and the planet (an outward-looking perspective).

However, these positions are not as polarized as they may sound. IFRS S1/S2 are designed designed to capture "dynamic materiality", that is, risks or opportunities on the horizon that while they may not be deemed material today, could become so tomorrow, as regulation, physical, and transition risks and/or opportunities come to bear.

The nuance between these approaches is particularly important for companies based in countries where IFRS S1/S2 will not be explicitly adopted.

Companies impacted by both CSRD and IFRS S1/S2 should look to IFRS for detailed guidance on how to report on the financial impacts of sustainability topics. Companies looking to comply with both IFRS S1/S2 and CSRD should prepare a double materiality assessment, ensuring that the process incorporates the components expected by IFRS S1.

To further understand how these standards complement each other please visit our additional briefings on sustainability disclosure requirements:

- Responding to sustainability disclosure requirements (erm.com)
- Implementing the CSRD: Preparing for a New Era of ESG Disclosure (sustainability.com)

Market adoption, regulatory support, and enforceability

Market adoption

The IFRS S1/S2 standards have been well-received internationally and continue to garner the support of both regulatory and non-regulatory bodies. During COP28, ISSB announced that almost 400 organizations (companies, investors, stock exchanges, NGOs, etc.) from 64 jurisdictions have committed to advancing the adoption or use of the ISSB's climate-related reporting, IFRS S2, at a global level.[13]

In another important, early signal to capital markets and governments, in July 2023, the International Organization of Securities Commissions (IOSCO), an association of organizations that regulate the world's securities and futures markets, endorsed ISSB's IFRS S1/S2.[14]

Additionally, CDP will incorporate the IFRS S2 Climate-related Disclosures requirements into its global environmental disclosure platform allowing CDP's 23,000+ users to disclose data structured to IFRS S2 in the 2024 disclosure cycle.

Regulatory support and enforceability

IFRS S1/S2 are unique in their jurisdiction and enforceability. While the European Commission has the authority to enforce CSRD's ESRS disclosure and the U.S. Securities and Exchange Commission will be authorized in the U.S. to enforce companies subject to the climate-related disclosure proposal's requirements (if and when the proposal is adopted), IFRS S1/S2 were not developed by a regulatory body and thus do not have any standalone enforceability. They are not tied to a singular jurisdiction nor does ISSB have the authority to mandate disclosure.

However, IFRS countries have regulatory autonomy, which means that regulators can integrate the standards into national legislation and make them mandatory for companies that fall under their jurisdiction. Regulatory bodies across geographies can 'copy and paste' IFRS S1/2 rather than building their own standards. The standards save regulatory bodies time and resources in developing sustainability-related disclosure regulations and therefore promote further harmonization, comparability, and consistency of mandatory disclosures across regions and jurisdictions.

Once IFRS S1/S2 becomes mandatory, companies will have to diligently prepare or risk the penalties of non-compliance, including being fined, sued, or risk Directors serving jail time.

When and how to comply

IFRS S1/S2 became effective for annual reporting as of January 1, 2024, on a voluntary basis. Different jurisdictions will set their own timelines for mandatory IFRS S1/S2 reporting, so it is important for companies to monitor their geographic exposure and compliance timelines. For example, the Accounting and Corporate Regulatory Authority and Singapore Exchange Regulation launched a public consultation on recommendations that would require listed issuers to report ISSB-aligned, climate-related disclosures starting in 2025, with large non-listed companies to follow suit in 2027.

According to IFRS S1, an entity is required to provide disclosures required by IFRS Sustainability Disclosure Standards **as part of its general-purpose financial reports**. The mandatory "teeth" behind the requirement will come from regulators – as of January 2024, no jurisdictions have active mandates for IFRS S1/S2 reporting this year.

In some jurisdictions, IFRS S1/S2 will operate on a comply or explain basis, meaning an issuer must state in its financial reporting if it complies with IFRS S1/S2. This means that companies would, in addition to the disclosures they do have, disclose any IFRS components they do not yet comply with along with explanations and any relevant intent to rectify.

While ISSB has taken over the responsibilities of CDSB, TCFD, and the VRF (SASB and IIRC), local regulators may still mandate disclosures using the CDP, CDSB, TCFD, SASB, or other relevant standards. Unlike CSRD, IFRS S1/S2 does not require assurance, but the information will have the ability to influence financial decisions and could be covered by an external audit.

Option for transition reliefs

IFRS S1/S2 both include transition reliefs to allow companies time to comply. Most importantly initial reliefs (one year in length) include:

- **Content timing:** In a company's first year of adoption, they can report to the requirements in IFRS S1 only to the extent that they relate to the disclosure of climate-related information. In the second year that a company applies the IFRS Sustainability Disclosure standards, information about other sustainability-related risks and opportunities would need to be disclosed (the rest of IFRS S1). Also, in the first year of adoption, companies do not have to provide annual sustainability-related disclosures at the same time as their related financial statements.
- **Comparative information on non-climate topic disclosures:** Companies do not need to provide comparative information in the first year of disclosure for sustainability-related risks and opportunities on non-climate topics.
- **Scope 3:** Disclosing Scope 3 greenhouse gas (GHG) emissions in the first year of reporting is not required to allow companies more time to understand, map, and calculate their value chain emissions. This will allow companies to prepare for other sustainability-related risks and opportunities that arise in their value chain.

Companies can use the relief time to prepare for accurate and comprehensive sustainability disclosure on par with financial reporting standards.

Note that reporters who are already disclosing broader ESG risks and opportunities and Scope 3 emissions are encouraged to keep doing so.

Implementation of standards and frameworks across regions

There are already several regulatory bodies and jurisdictions that have declared intent to adopt IFRS S1/S2 as mandatory disclosures or use them as a framework to build new regulations. Several regulatory bodies and stock exchanges in countries including Japan, Canada, Brazil, Egypt, Nigeria, Chile, the United Kingdom, and Australia, have announced their intent to incorporate the standards into national legislation. It is expected that many IFRS-reporting nations will implement aligned requirements in the coming years.

Table 2: Early adopters of IFRS S1/S2

Region	Example	Insight
Asia Pacific (APAC)	**Singapore** Singapore Exchange Regulation (SGX) and The Accounting and Corporate Regulatory Authority (ACRA).[15] • Proposal to adopt IFRS S1/S2 standards in place, and • Will apply for listed companies and some non-listed companies (over 1 billion SGD).	Numerous countries in APAC have been moving quickly to adopt and align to IFRS S1/S2. Singapore announced its intent to align several days after the June IFRS S1/S2 release.
	Hong Kong Hong Kong Exchanges and Clearing Limited (HKEX) • HKEX intends to implement mandatory climate disclosures based on IFRS S2 by January 1, 2025 (postponed from January 1, 2024), to allow issuers more time to familiarize themselves with the new disclosure requirements.	
	Japan • The Sustainability Standards Board of Japan is developing local standards based on the IFRS sustainability standards.	
	Australia • The Australian Auditing Standards Board have issued the draft Australian Sustainability Reporting Standards for consultation with a proposed staggered timeline based on company size and emissions for reporting July 1 2024-2027.[16]	
Europe, Middle East, and Africa (EMEA)	**Nigeria** • The standards have been adopted by Nigeria and launched by the Nigerian Exchange Group Regulation Limited (NGX Co) and the Financial Reporting Council (FRC) of Nigeria.	The largest African economies (e.g., South Africa, Nigeria) appear to be embracing the standards and making public plans for integration. In the UK, the expectation is that the government will announce the mechanism for formal adoption of the ISSB standards in 2024.
	United Kingdom (UK) • The UK is developing its own set of standards for company sustainability disclosures, based in part on ISSB's IFRS S1 and S2.[17]	In Europe, CSRD is dominating the conversation as it is already mandatory for applicable companies.

Region	Example	Insight
Latin America	**Brazil** • Starting in 2026, ISSB-aligned disclosures will be mandatory for all public companies and investment funds, with voluntary reporting beginning as of January 1 2024.[18] **Mexico** • National standard setters in Mexico have been discussing plans to utilize ISSB standards.	In Latin America, Brazil is the first country planning to mandate ISSB disclosures. Notably, both Chile and Columbia have mandated the use of TCFD, which aligns to IFRS S2 and SASB.
North America	**Canada** • The Canadian Sustainability Standards Board (CSSB) is gearing up for a public consultation to advance the adoption of sustainability disclosure standards in Canada. The CSSB will issue proposals on its first standards, Canadian Sustainability Disclosure Standards (CSDS) 1 and 2, in March 2024. • Committed to the global baseline the ISSB established, CSDS 1 and 2 align with IFRS S1/S2 – but with Canadian-specific modifications suggested. Proposed modifications will include a Canadian-specific effective date and transition relief proposals to help with eventual implementation of the standards.	Several significant global economies in this region do not follow IFRS. See "Non-IFRS" regions below.

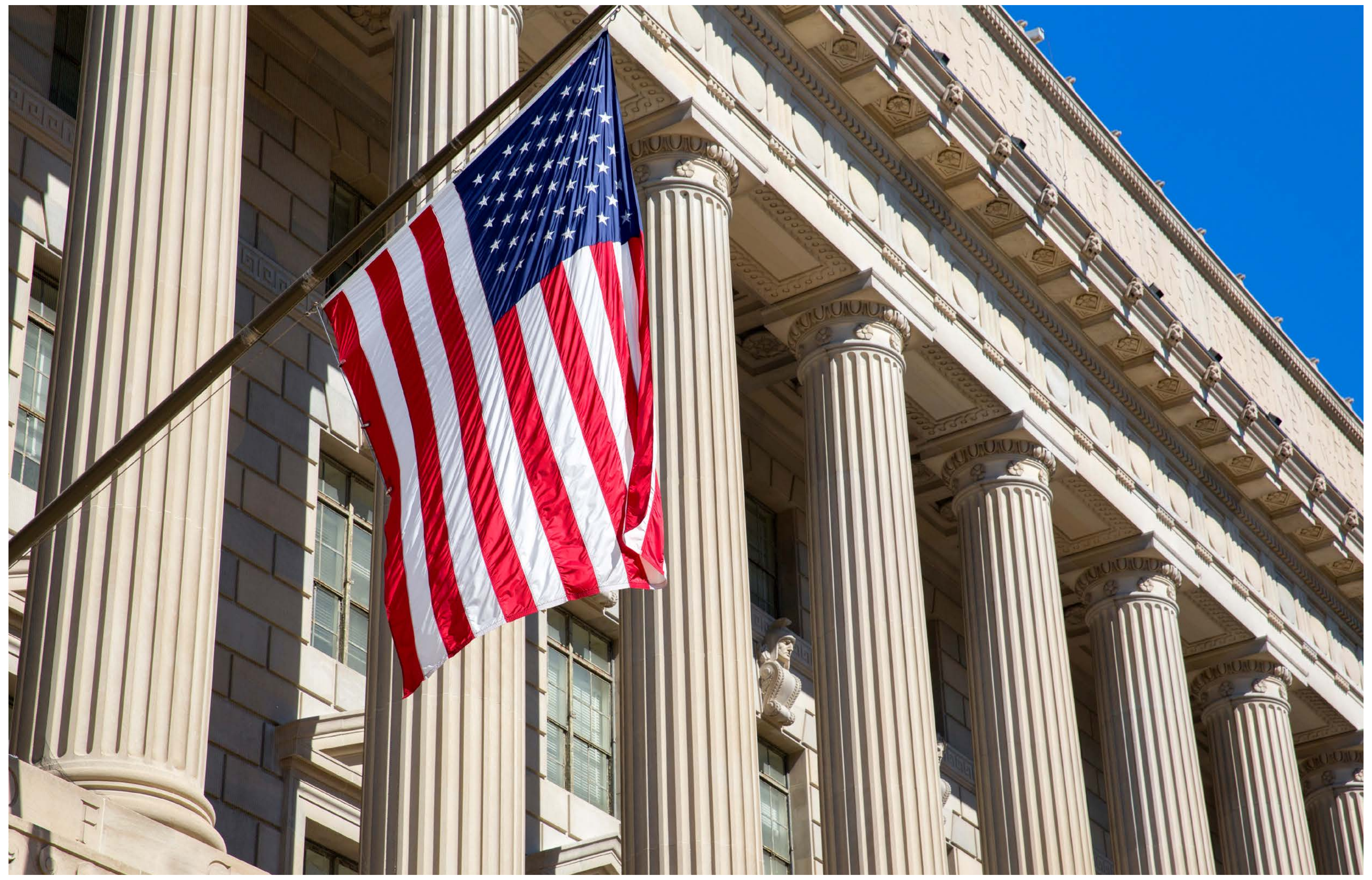
Non-IFRS regions

For regions not following IFRS, such as the United States, ISSB standards will not be mandated unless other accounting bodies like U.S. GAAP choose to implement similar best practice sustainability standards. However, ERM expects that all jurisdictions will closely follow best practices in sustainability and reporting regulation.

Additionally, other stakeholders may set the expectation that companies voluntarily disclose. For example, Nasdaq encourages listed companies to consider applying IFRS S1/S2 on a voluntary basis.

An organization may apply IFRS Sustainability Disclosure Standards irrespective of whether its financial statements are prepared in accordance with IFRS Accounting Standards or other accepted accounting principles or practices (like U.S. GAAP). The California legislature recently passed two wide-reaching bills, SB 253 and SB261, which cover similar content to IFRS S2 and will impose mandatory and significant climate-related reporting requirements for large public and private companies doing business in the state.

It is also important to note that the speed of uptake of sustainability disclosure this year may be affected by major upcoming elections in several countries (U.S., UK, India, Mexico, etc.).



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Part three:

What actions should corporates take? What are the benefits of alignment?

What actions should corporates take?

To prepare for ISSB implementation, companies should first review their geographic footprint and determine if they are or will be subject to any mandatory rules to disclose the S1 and S2 standards.

Upon determining applicability, companies should evaluate relevant timelines and local requirements to begin planning for disclosure alignment. There may be varying timelines or specific requirements depending on which regulations a company is subject to or what their stakeholders are requesting from them.

There are many reasons for companies to align their reporting with ISSB standards that go beyond regulatory compliance. For instance, investors and value chain partners may request S1- and S2-aligned disclosures from their portfolio companies or partners. Companies should evaluate requests from these stakeholders to determine if alignment with IFRS S1 and S2 would meet their needs.

How to prepare

After a company decides to disclose information prescribed by IFRS S1/S2 and understands its local regulations, it can consider the following actions to prepare:

- Prioritize material topics or review completed materiality assessment
- Conduct a gap analysis
- Upskill stakeholders
- Establish a sustainability governance framework
- Ensure robust data management and assurance processes
- Monitor applicability
- Program transformation

This approach will help a company not only align with IFRS S1/S2, but also extract maximum value from the data collection and disclosure process.

Conduct a materiality assessment or review your assessment process

IFRS S1 requires a company to disclose material information about the sustainability-related risks and opportunities that could affect its cash flows, access to finance, or cost of capital over the short-, medium-, and long-term.

Given the rapidly evolving requirements for sustainability and financial reporting, conducting a full-scope materiality assessment with a financial materiality perspective will help companies prepare their disclosures of sustainability-related financial information. ERM recommends the double materiality approach, including engaging stakeholders and evaluating internal and external impacts across the value chain, as best practice. This assessment will help meet requirements for both the CSRD and IFRS S1/S2.

If you have already conducted a materiality assessment, review your materiality process to ensure that it explicitly incorporated financial considerations and addresses value trade-offs (short-, medium-, and long-term impacts). Companies conducting double materiality assessments may use the output, particularly if prioritized by financial impact, to inform their IFRS S1/S2 disclosures.

TIP:
A topic review is one component of a full-scope materiality assessment. To determine sustainability topics to include in your IFRS reporting, review the SASB Standards, Integrated Reporting Framework (<IR> Framework), CDP questionnaires, CDSB Framework, and GRI Standards for topics relevant to your business.[20] To best prepare your company to report sustainability-related financial information, conduct a full-scope materiality assessment.

Conduct a gap analysis of IFRS S1/S2 requirements and create a roadmap

Conduct a gap analysis and understand the changes required for internal processes, systems, and resources to prepare for disclosure. Assess your current state of reporting and management to determine whether you are ready to comply with IFRS S1/S2. Understand what regulations and components are applicable to your business, identify the timing of the regulation, and use this information to determine a roadmap to close gaps and address. In the analysis, make sure to review both IFRS S1 and IFRS S2 as well as use the four pillars to evaluate performance and disclosure for each material topic.

Educate and upskill stakeholders

Prepare key leadership and internal stakeholders for disclosing to IFRS S1/S2. Train the Board and senior leadership on climate-related and emerging sustainability risks/opportunities to support proper oversight and decision making. Encourage finance and sustainability teams to learn from one another, both financial and sustainability metrics, respectively. Upskilling across the organization will help strengthen reporting competency and performance within the organization.

Establish a robust sustainability governance framework

A robust and transparent sustainability governance framework that is cross-functional is crucial. The framework should ensure that all sustainability-related commitments and decisions are appropriately considered, approved, and monitored. It should also oversee the quality of sustainability reporting, as well as the impact of any new reporting requirements with the same rigor as financial reporting.

Data management and assurance readiness

Establish a rigorous data management framework with efficient, robust processes and comprehensive internal controls. This ensures data accuracy, reliability, and transparency, facilitating seamless auditability and building confidence in data integrity. This action aligns well with the increasing pressure on companies to create investor-grade, auditable sustainability data. While it may represent a large investment, improving data management processes enables both accurate reporting and better management.

Monitor applicability

Ensure continual tracking of developments in the disclosure space and monitor the following in particular:

- Whether your stakeholders expect your IFRS S1/S2 disclosures,
- Which standards are mandatory (when and where),
- When mandatory standards become effective in your local jurisdictions, and
- What transition reliefs are available.

RESOURCES:

Resources to check the use of IFRS S1/S2 for your region:

- Local stock exchange announcements
- Carrots & Sticks (carrotsandsticks.net)

Program transformation

Overall, companies can leverage data and insights from the IFRS S1/S2 disclosure process to inform and ratchet ambition in their climate and/or sustainability strategy. Using these preparation steps, reporters can consider how to integrate sustainability-related risks and opportunities into the enterprise risk management framework, existing governance mechanisms, and capital allocation decisions.

RESOURCES:

Just ahead of the January effective date, on Climate Action Day at COP28, the IFRS Foundation launched the IFRS Sustainability knowledge hub to support the use of ISSB Standards, IFRS S1/S2.[21]

Resources include:

- an introduction to the ISSB Standards
- a transition guide from the TCFD recommendations to ISSB Standards
- a set of Frequently Asked Questions (FAQs)

Figure 3: What actions should corporates take?

While there is value in voluntarily aligning disclosures with the IFRS S1/S2 standards, some reporters may be required by regulators or key stakeholders to disclose using these standards. Use this decision tree to determine if and how your organization should consider disclosing to the IFRS S1/S2 standards. If your organization determines it is required to or would benefit from IFRS disclosure alignment, consider starting with the actions included in this brief.

Start here

Is the organization present in IFRS-aligned reporting geographies such that it is or will be subject to regulatory requirements that:
A. Directly require alignment with IFRS S1/S2 guidance; and/or,
B. Use IFRS S1/S2 as a guide or framework for disclosure requirements.

Yes

Is the regulatory requirement more prescriptive, less prescriptive, or the same level of prescriptiveness as the IFRS S1/S2 standards?

More

- The organization should evaluate what additional components will need to be disclosed to comply with the local regulatory requirement.
- The organization should then evaluate relevant timelines to begin planning for disclosure alignment with the IFRS S1/S2 standards.
- Review the four recommended actions in this brief.

Same/Less

- The organization should evaluate the regulation's timelines and requirements to begin planning for alignment with the IFRS S1/S2 standards.
- Review the four recommended actions in this brief.

No

Does the organization's stakeholders (investors, value chain partners, etc.) request or require disclosures included in the IFRS S1/S2 standards?

Yes

- Evaluate what additional components will need to be disclosed e.g., double-materiality process.
- Evaluate relevant timelines to begin planning for disclosure alignment with IFRS S1/S2.
- If the company plans to disclose to CDP on climate, prepare to collect, structure, and disclose an ISSB S2-aligned data set.
- Review the four recommended actions in this brief.

No

The organization may consider disclosure aligned with the IFRS S1/S2 standards, but it will likely not be required to do this and there may be limited value to engaging.

Benefits of aligning with ISSB: Improving performance and building business value

Companies that proactively embrace and prepare for IFRS S1/S2 can reap benefits.

Securing internal buy-in

The soon-to-be mandatory design of IFRS S1/S2 makes sustainability reporting a business imperative. This will help secure internal buy-in for sustainability progress from leadership and further integrate sustainability-related considerations into a company's operations.

Risk and opportunity identification and management

The benefits of proactive preparation include clearer insights into sustainability-related risks and opportunities and therefore reduced exposure to risk. Additionally, integrating new reporting controls into existing business structures enables sustainability value creation by allowing identification and management of areas for improved performance.

Financial benefits

Further advantages may include access to lower costs of capital, new markets, and more. Businesses providing investor-grade sustainability management plans and disclosure will further benefit from a more attractive cost of capital.

Benchmarking

IFRS S1/S2 will inform mandatory reporting requirements across jurisdictions. Companies will therefore be able to use IFRS S1/S2-aligned reports to benchmark against global peers. Insights can help generate new ideas, strategic repositioning, and innovation. Reporting alignment also means that investors will be able to compare companies more easily.

Risks of non-compliance

Failing to properly prepare for IFRS S1/S2 disclosure could lead to fines, legal issues, higher costs of capital, exclusion from investor portfolios, and reputational damage. Furthermore, misleading sustainability reporting could trigger the same legal consequences as misleading financial reporting.

Preparation may require significant resources, but the benefits of preparing for and reporting along IFRS S1/S2 will outweigh the costs.

What's next for ISSB?

The ISSB will continue to support the implementation of IFRS S1/S2 and set new sustainability standards with additional ISSB standards for biodiversity and water at the top of the list. Investors, representing over $1 trillion in assets under management, are also publicly urging ISSB to develop reporting standards for human rights and human capital.[19]

The ISSB will continue to engage stakeholders and seek partnerships to enable smooth IFRS S1/S2 adoption. In November 2023, the ISSB met to discuss feedback on its Request for Information (RFI) Consultation on Agenda Priorities. The RFI sought feedback on the strategic direction and balance of the ISSB's activities, the suitability of criteria for addressing which sustainability-related matters to prioritize, and a proposed list of new research and standard-setting projects. Four research projects were proposed for inclusion in the ISSB's next two-year work plan, including biodiversity, ecosystems, and ecosystem services; human capital; human rights; and on the integration of sustainability information in financial reporting.

Companies and investors should look out for new standards as they will likely inform future regulation and influence best practice disclosures.

Conclusion

As the journey toward unified sustainability reporting standards reaches critical milestones, the ISSB is set to become a pivotal player. It will be important for businesses to plan for IFRS S1/S2 alignment as they look ahead to reporting on their sustainability progress. Fortunately, IFRS S1/S2 integrate and build on many existing frameworks and companies working toward mature sustainability programs have been moving in this direction for years.

The Institute expects that it will take time for companies to notice a reduction in the reporting burden, and that instead of disappearing, this effort will be reallocated to preparing investor-grade data. Still, it seems that the sustainability reporting lanscape is finally headed toward meaningful consolidation and alignment.

Reporters that proactively embrace and prepare for IFRS S1/S2 stand to reap business benefits including lower costs of capital, risk mitigation, and new market access.

The world watches as a paradigm shift occurs in corporate reporting—one that demands attention, foresight, and swift action from entities navigating these uncharted regulatory waters. There is no time to wait, companies must prepare now.

Endnotes

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