NATIXIS
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The ISSB Sustainability Standards: Simple in words, complex in deeds

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Key takeaways

- The ISSB Sustainability Standards (the Standards) set a blueprint for sustainability and climate-related reporting. **It will prove particularly useful for countries and firms which lag behind in terms of sustainability reporting, helping them understanding which data is required and meaningful for investors, creditors and other stakeholders**. In jurisdictions with already advanced regulatory disclosure requirements, such as the EU, the ISSB could serve as a benchmark to calibrate requirements applicable to the overseas activities of their firms.
- The decision to adopt the ISSB Sustainability Standards (**General Requirement for the Disclosure of Sustainability-related financial information, aka IFRS S1, and Climate-related disclosures, aka IFRS S2**) is at the discretion of each individual jurisdiction. **Its voluntary nature may lead to the coexistence of diverse and varied disclosure requirements**. Jurisdictions may choose between comply-or-explain, voluntary, or mandatory adoption by companies. Continuous dialogue between jurisdictions and standard-setters will remain crucial to help companies navigate between coexisting, sometimes competing or even worse contradicting requirements.
- Countries can **adopt the ISSB Standards (partially or fully) mirroring its requirements**, as announced by Brazil, Singapore, Malaysia, and Nigeria, or can **build upon the Standards**, as announced by the UK's Financial Conduct Authority (FCA), which will reference the ISSB and the EU, by Australia's Accounting Standards Board (AASB), which released an Exposure Draft for Climate-Related Financial Information for Consultation aligned to the ISSB, and by Canada's Securities Administrators (CSA), which have expressed their intention of adopting the Standards with changes needed for the local market.
- The **ISSB will take over the role of the TCFD starting in 2024** as it will be responsible for monitoring companies' progress against the TCFD's climate-related disclosure.
- **Under the ISSB Climate-Related Standards (IFRS S2), companies are required to disclose Scope 3 emissions** and use the **GHG Protocol**. The company should consider the entire **value chain – upstream and downstream – and financed emissions** if in asset management, commercial banking, and insurance industries. There is a specific relief during the first year of reporting on not disclosing **Scope 3 emissions and not using the GHG Protocol.**
- **The ISSB Sustainability Standards (IFRS S1 and IFRS S2) will apply on or after the 1 January 2024. The first disclosures are expected for 2025**. Early application is allowed and, in this case, both Standards should be applied. Note that the sustainability/climate-related disclosures is for both the parent company and its subsidiaries.
- The International Financial Reporting Standards (IFRS) **mandate does not include developing assurance standards nor determining assurance level**, but it is working with the International Auditing and Assurance Standards Board (IAASB) around this topic.
- **Divergences on materiality will remain at the center of discussions as the EU rolls out its sustainability reporting Standards,** and as the ISSB is incorporated into the disclosure requirements of several jurisdictions across the world. **While reporting on financial materiality is necessary, it should not come at the expense of impact materiality. Furthermore, what is financially immaterial today, may become financially material in the future**.
- IFRS Sustainability disclosure requirements will continue to increase as well as the number of reporting entities. The ISSB Standards are likely to be used by more than 130,000 companies, **mostly entities exposed to capital markets with need of financing** (through equity or debt) are incentivized to report. **As the ISSB expands its Standards it should consider improvements and additions to ensure it is capturing the most pressing sustainability/climate topics**, such as biodiversity and social factors (e.g., human capital/rights).

INTRODUCTION

The following publication examines the ISSB Sustainability Standards. The first part is **a qualitative and synthetic assessment of the drivers of the Standards, its development and potential adoption formats. This is followed by a list of 31 questions and answers addressing more specific aspects**, including how it compares to the European Union's upcoming sustainability reporting standards.

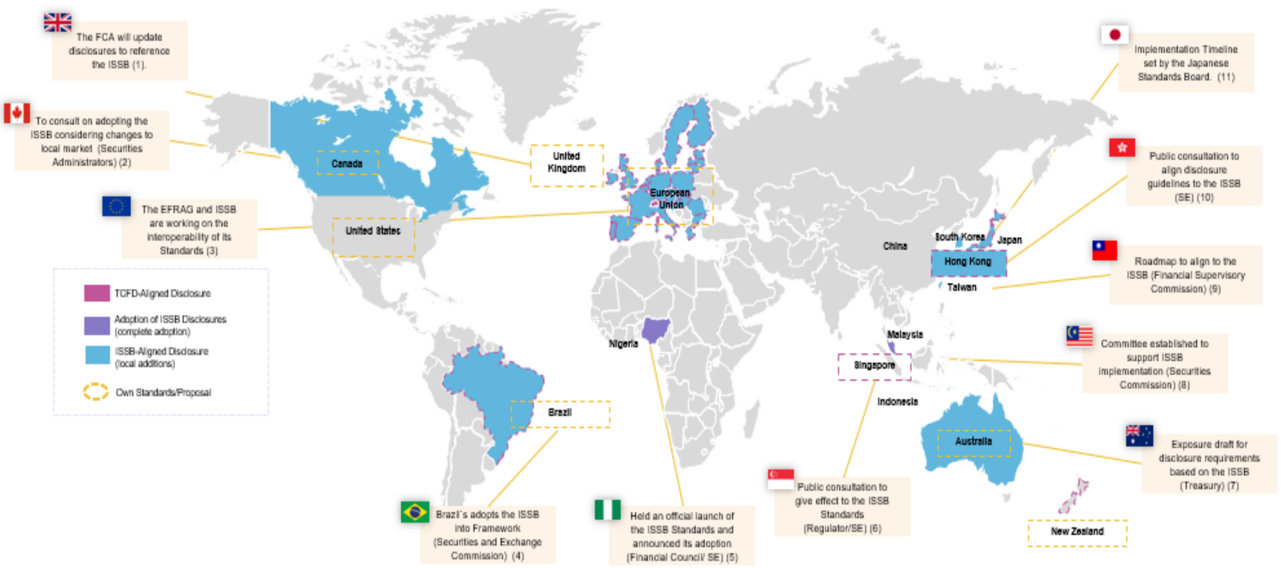
The need for a global sustainability reporting standard

On 26 June 2023, the International Sustainability Standards Board's (ISSB) published its **long-awaited disclosure Standards**, the IFRS S1 (sustainability-related requirements) and IFRS S2 (climate-related requirements); **to be adopted by public and private companies from or after 1 January 2024**. This initiative contributes to the collective endeavor of creating a universal reporting standard as the demand for **corporate sustainability information** increases, particularly from investors facing regulatory requirements. **However, the ISSB Standards is facing some criticism for its exclusive emphasis on investors, and consequently, for the choice of single materiality as its underlying approach**. Materiality is multifaceted and should not ignore social and environmental impacts, as they are inter-related and independent to a company's wider performance. **Financially immaterial issues can become financially material, as observed with climate change and biodiversity**. Ignoring impact materiality may lead to a short-sighted view of future risks and opportunities.

Concerns remain over the ability of the Standard to mitigate some of the inherent challenges associated with sustainability reporting, such as standardization, data quality and accuracy, subjectivity and what should be reported (materiality): Will it enable corporates to deliver meaningful information to investors as to their ability to cope with the sustainability challenges. Such ability includes product mix and whether firms deliver products and services contributing to sustainability objectives and deliver products and services that contribute to sustainability objectives? Will the ISSB Standards be able to prompt relevant, comparable and consistent sustainability disclosures across global capital markets, reducing and simplifying the reporting headaches? Or will it require information that remains complicated to compile while of limited use for investors?

Over the past two decades the number of sustainability and climate-related disclosures increased due to the push of regulatory and voluntary requirements. Taking the world's largest 250 companies assessed in KPMG's 2022 Sustainability Reporting Survey, this number went from 83% in 2009 to 96% in 2022. Nonetheless, companies have to choose to fulfill – and in some cases have to comply when endorsed by regulators - numerous disclosure requirements, e.g., the Corporate Sustainability Reporting Directive (**CSRD**), the Task Force on Climate-Related Financial Disclosures (**TCFD**), the Global Reporting Initiative (**GRI**), the Sustainability Accounting Standards Board (**SASB**), Taskforce on Nature-Related Financial Disclosures (**TNFD**), besides local sustainability or ESG requirements set by stock exchanges/securities regulator (e.g., South Africa, Malaysia and India). **By converging a few of these requirements, particularly the SASB and from next year the TCFD, the ISSB Standards reduces the number of voluntary international requirements corporates would need to adopt or comply to.**

Figure 1. Existing and Upcoming Disclosure Requirements



Source: Natixis GSH

Setting a common foundation?

While jurisdictions have the discretionary power to determine ISSB use, **it sets a common blueprint to guide all public and private companies on the type of information investors are demanding – see** Figure 1. While multinationals may benefit the most from the Standards, as they have to comply with differing requirements across jurisdictions, they were designed for all types of companies, not only the most sophisticated.

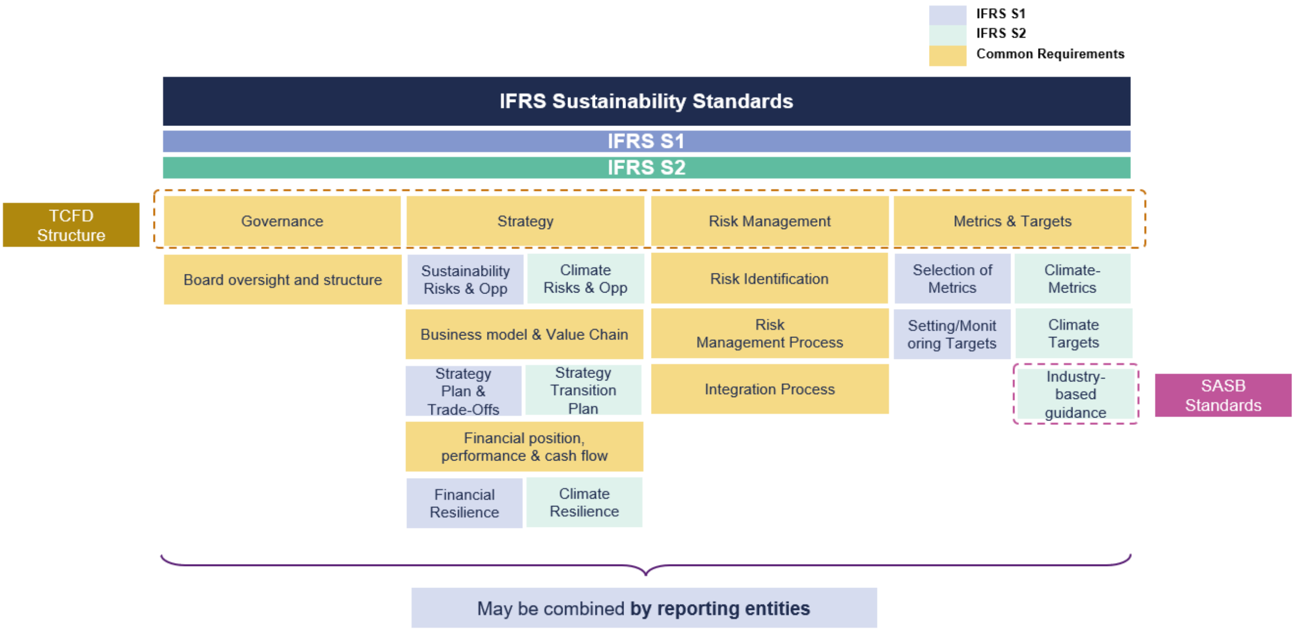
The IFRS S1 defines general requirements for sustainability reporting, specifying the broader topics that the reporting entity should address, particularly the risks and opportunities that will impact its financial performance (single materiality).

While the **IFRS S2, on the other hand, addresses climate-related risks and opportunities**, including industry specific metrics and targets.

Both Standards require the inclusion of a mix of **qualitative (e.g., climate-related plans/strategy, scenario narratives) and quantitative (exposure to climate-related physical risk, opportunities and capital deployment, climate targets) information**, as well as forward-looking information to assess risks and opportunities in the medium and long-term.

A main point of attention is that the ISSB does not require external verification or assurance to demonstrate compliance to the Standards.

Figure 2. ISSB Sustainability Standards Requirements



Source: Natixis CIB GSH

In theory, the ISSB **creates a common global blueprint that can be adopted or be built upon by jurisdictions**. Countries can **adopt the ISSB Standards (partially or fully) mirroring its requirements**, as announced by Brazil, Singapore, Malaysia, and Nigeria, or can **build upon the Standards**, as announced by the UK's Financial Conduct Authority (FCA), which will reference the ISSB and the EU, by Australia's Accounting Standards Board (AASB), which released an Exposure Draft for Climate-Related Financial Information for Consultation aligned to the ISSB, and by Canada's Securities Administrators (CSA), which have expressed their intention of adopting the Standards with changes needed for the local market. **Location matters to determine how the ISSB Standards will be used**. Most jurisdictions already have some form of ESG disclosure requirement in place for listed companies, with variations on the scope and nature (voluntary/mandatory) of these requirements[1]. For countries with lower levels of sustainability reporting, such as Angola, Saudi Arabia, Panama[2], **the ISSB can support companies to raise the bar and report to international best standards**. In countries with good levels of reporting and exposure to international capital markets, **the ISSB can be a blueprint for**

[1] Requirements may target companies operating within a certain jurisdiction or headquarter in a jurisdiction. These may also include the size of such companies (e.g., number of employees, revenue).
[2] 2022, KPMG. Survey of Sustainability Reporting.

companies to measure their alignment to co-existing requirements (e.g., corresponding with local standards such as CSRD/ESRS, SEC disclosure requirements). Yet, in jurisdictions with more stringent mandatory reporting requirements, such as the European Union, the ISSB will not be adopted as such by regulators, though EU regulators have taken it into account when drafting the European Sustainability Reporting Standards (ESRS) for interoperability purposes and will work on demonstrating alignment between both Standards**.**

As the market evolves and becomes more mature, improvements and additions to the Standards should be considered, such as impact materiality, external assurance beyond metrics and target setting, as well as the inclusion of other thematics such as biodiversity and workforce (points that are all included in the EU ESRS). **The ISSB has opened a consultation on priority topics for 2024-2025, which include biodiversity, ecosystem and ecosystem services, human capital and human rights**. These topics may not yet be part of the ISSB framework, but they are included in the **GRI Standards**, which cover financial and non-financial issues (e.g., GHG emissions, human rights, supply chain practices), and that have been widely adopted by the market. The ISSB and GRI have signed a Memorandum of Understanding to align both Standards and how they can be jointly used. By adopting the ISSB and GRI, corporates can be better prepared for the upcoming regulatory requirements from the EU or United States. The GRI also published a joint statement with the European Financial Reporting Advisory Group - EFRAG (EU) on the high-level alignment of the GRI and ESRS. A reference list on corresponding requirements and data points should be published in due course. The convergence between ISSB and EU ESRS is also particularly strong on climate-related disclosure, with European Commission, EFRAG and ISSB confirming "a high degree of climate-disclosure alignment". **Alignment amongst Standards should facilitate reporting by avoiding duplication.**

The uncompleted challenge of comparability and harmonization

The variation in the adoption of the ISSB may lead to a coexistence of heterogeneous standards in disclosure requirements. The European Union has approved its sustainability disclosure regulation, and the United States' SEC has published a proposal that is yet to be finalized. Together with the ISSB, they should remain as the most influential reporting standards. Apart from the EU and the US, countries across Latin America, Asia and Africa should mirror or incorporate the ISSB Sustainability Standards, with a potential risk of double reporting if non-EU companies are required to comply with the ESRS[3] or if EU companies operating abroad have to comply with other national regulations. To avoid such risk, the ISSB has been working with other Standards to identify if definitions, concepts and requirements are aligned. Interoperability has been repeatedly highlighted, particularly against the ESRS. **Though no equivalence system has yet been developed, the ISSB is working with the EU (EFRAG) to provide guidance to assist companies in navigating both standards. An initial mapping by EFRAG has confirmed a high-level of interoperability between both standards. In practical terms, this would mean reporting against the ESRS, due to its regulatory mandate and double materiality requirements.**

Interoperability should continue to be achieved through **frequent dialogue** between the ISSB and jurisdictions or other standard-setters to ensure a close alignment in **content** as well as in the **structure despite the jurisdiction. However, despite** these efforts, the proposed approach by the ISSB Standards is likely to result in differing requirements (e.g., stringency or granularity of disclosed information). **First, because the voluntary nature of the ISSB undermines its ambition to harmonize reporting**. Despite the endorsement by the International Organization of Securities Commission (covering 95% of the world's financial markets), jurisdictions – and corporates, on a voluntary basis **- may adopt, apply, or draw insights from the Standards**, this could potentially allow cherry picking and variation on what is in fact disclosed**, with all shades of adoption and level of implementation being possible. Second, the level of ambition of ISSB Standards remains investor centered** and solely focused on financial materiality.

The never-ending debate on single (financial) materiality vs. double (financial and impact) materiality has certainly been excessively put forward by policymakers and civil society as the core issue of the globalization of sustainability reporting standards. The difference in approaches continues to be stressed, with double materiality being recently criticized for being too ambitious and unable to quickly respond to the urgency of the transition by Emmanuel Faber, Chair of ISSB. Yet, **references to the Paris agreement in the IFRS S2 are indirect (latest international climate agreement) and one option among other climate-related scenarios. While it is included,** the ambition remains hidden and low as it remains at the hand of regulators and end-reporters to choose whether to disclose their climate ambitions against a 1.5°C pathway.

Disclosure requirements should encourage companies to become more ambitious and catalyze change. **Double materiality is not unknown to companies and is becoming increasingly used in sustainability**

[3] As per the provisions that require non-EU companies to report from 2028 onwards (when they have EU operations generating more than 150 million euros of revenue for 2 years in a raw and an EU branch or subsidiary with more than 40 million of revenue.

reporting. The KPMG survey, previously mentioned, found that 21% of N100 and 30% of G250 companies are assessing material topics considering their impact on the company, its stakeholders and broader society. A regulatory push could gradually encourage further reporting across these topics.

Rather than rejecting impact materiality, the ISSB can level the playing field by first allowing newcomers and laggards to begin/improve their sustainability/climate-related disclosures and move towards a more holistic approach. The interactions and dialogue with the GRI is a testimony that other topics should not go unnoticed. While the text officially remains limited to financial materiality, the IFRS S1 does recognize the *interactions between the entity and its stakeholders, society, the economy and the natural environmen*t, "the entity's *dependencies* on those resources and relationships and *its impacts on* those resources and relationships (that) give rise to sustainability-related risks and opportunities." The ESRS, for instance, includes that entities must report on the type of impacts (positive and negative) identified, their **magnitude** (scale, scope and likelihood) and their relevance to **stakeholders** (e.g., employees, suppliers, consumers). **The sustainability disclosure landscape is likely to remain complicated over the coming years as different approaches coexist**. Although the ISSB's aim in simplifying sustainability disclosures may not be fully achieved, it provides an initial and common foundation for jurisdictions to begin or expand sustainability/climate-related disclosures.

Q&A

Contents

Standards Purpose and Development Process

Q1 What are the IFRS Sustainability Standards?

The IFRS Sustainability Standards were developed to create a global baseline for corporate sustainability disclosure and reduce discrepancies. Its main purpose is to cater to investors' need for consistent, comparable, and reliable data. By applying these Standards, the investor-company dialogue could be improved. The data being newly gathered and reported could also underpin the design of sustainable finance products and solutions. The Standards can also be used as a basis for jurisdictions looking to develop their own disclosure requirements, **either by refining existing ones or by fully adopting the IFRS Sustainability Standards**.

Q2: Why do investors need company reporting data, and how do they use it?

There has been growing awareness from investors on how sustainability issues can affect business performance, lead to negative and positive environmental and social impacts, and consequently bring risks and opportunities. This combined with a growing pressure from regulators on investor sustainability reporting (e.g., SFDR, FCA SDR, EU Sustainable Finance Taxonomy) has driven the need for corporate sustainability data for investors to meet their own reporting duties. In addition to voluntary and mandatory requirements, investors may also request sustainability data to:

- **Diversify investment portfolios** to entities that have not yet disclosed sustainability data. The presence of sustainability reporting is often the minimum requirement to invest in a company. **Some investors may be confronted to a bias in their portfolio, giving benefit to entities in developed countries**.
- **Engage** with entities in which they hold debt or equity on material sustainability aspects in their portfolio.
- **Divestment,** corporate sustainability data may be used as a justification if engagement reveal unsuccessful.
- **Improve proxy quality**, through the growth of sustainability data, particularly for corporates that are not concerned by mandatory sustainability reporting.

By setting a global baseline for disclosure, the ISSB could **level the sustainable disclosure playing field across developed and emerging markets, as the stringency and level or requirements significantly vary**. The use of a global baseline could also ease the reporting burden, converging sustainable disclosure into an accepted and endorsed format.

Q3: Who developed the IFRS Sustainability Standards?

The International Sustainability Standards Boards (ISSB) developed the IFRS Sustainability Standards – IFRS S1 (General Requirements) and IFRS S2 (Climate Risk). **The ISSB was established during COP26 in Glasgow in November 2021 with the mission to consolidate and converge existing Standards and frameworks in an effort to simplify the sustainability disclosure landscape**. The IFRS Foundation is an independent, non-profit private-sector body, which has also issued the IFRS Global Accounting Standards**. The IFRS is funded by public authorities and accounting firms[4] (contributed revenue) and from revenues from publications and other sources (earned revenue). In 2022, 66% of the IFRS's income came from contributed revenue sources and 34% from earned revenue sources.**

Q4: What is ISSB's governance and approval process?

The ISSB and its Board is composed of 14 members from multiple backgrounds (academia, corporates, investors, MDBs and service providers) from Asia-Oceania, Europe, America, and Africa, of which a majority of them are "full-time" members. All members, including the Chair of the ISSB Board, have been appointed by the IFRS Foundation Trustees. Meetings and discussion between board members concerning the developments of the Standards are public. A first draft of the Standards was published for consultation in March 2022, and a second draft was published end of 2022, integrating feedback. In parallel, the ISSB board engaged with multiple stakeholders during Q4 2022 and Q1 2023 (consultants, investors, governments, corporates, ISSB advisory group) to ease future integration by jurisdictions. **The approval process and voting requirements vary by type of decisions. For instance, the publication of an exposure draft and the publication of an IFRS standard both require supermajority of 9 members out of the 14, by way of ballot**.

Q5: What are the core contents of the IFRS Sustainability Standards?

The ISSB did not reinvent the wheel. The first set of Disclosure Standards, the IFRS S1 (General Sustainability-Related) and the IFRS S2 (Climate-Related) build **upon the structure and core recommendations of the Taskforce for Climate-Related Financial Disclosures (TCFD) -** (i) **governance**, the processes, controls, and procedures to monitor and manage risk; (ii) **strategy**, approach used to manage risks and opportunities; (iii) **risk management**, process to identify, assess, prioritize, and monitor risks and opportunities; and (iv) **metrics and targets**, performance against identified risks and opportunities, including self-imposed or mandatory targets. It also incorporated the **Sustainability Accounting Standards Board's (SASB) industry-based disclosure**

[4] Largest funders Canada, EU, Germany, Japan, China, Republic of Korea, UK, USA and Deloitte, KPMG, EY, PwC.

requirements. The development of both Standards began in March 2022, followed by a consultation and outreach period, which culminated in the publication of the IFRS S1 and IFRS S2 in June 2023. To date the disclosure scope is more limited than the ESRS, as the EU's Standard also includes other environmental topics beyond climate (e.g., pollution, water and marine resources), as well as social (e.g., workers in the value chain, affected communities).

Q6: What is the binding force of the IFRS Sustainability Standards and who does it apply to?

The IFRS S1 and IFRS S2 are **voluntary Standards** that set best market practice for **companies to disclose sustainability and climate-related risks and opportunities**. Although they can be applied by any company (public or private), the **ISSB does not have the authority to mandate nor to verify its proper use.** However, jurisdictions that incorporate the IFRS Sustainability Standards (see Question 22 for examples) may decide whether to make disclosures mandatory or adopt a comply or explain format.

Q7: What is the benefit of adopting the IFRS Sustainability Standards?

Companies operating in jurisdictions which do not have sustainability/climate-related disclosures or that have not yet integrated the IFRS Sustainability Standards may be incentivized to voluntarily adopt them. By following **recognized market standards companies can better organize themselves to monitor key ESG metrics and define strategies to improve their performance.** This allows companies to be in a stronger position to address risks and adjust their products/services, enhancing their ability to withstand challenges and improving their resilience. Taking these actions also means companies are prepared to answer stakeholder demands, including those from investors, and set themselves apart from their peers. Using the IFRS Sustainability Standards **may also reduce greenwashing risks and enhance transparency**, by requesting the disclosing of factual information and assumptions, to avoid the publication of misleading statements.

Conceptual Foundations and Requirements

Q8: How is materiality approached?

The IFRS S1 borrows its definition of materiality from the IFRS Accounting Standards, which states that "*information is material if omitting, misstating, or obscuring it could reasonably be expected to influence investor decisions*". **This means that risks and opportunities should impact a company's financial performance or business model (single materiality).** However, the **single-materiality view only gives a very limited vision** of an entity's sustainability strategy, as it only considers how the environment might impact an entity's performance, not how the entity is (negatively or positively) affecting its environment. **"Materiality" is solely based on financial materiality**, with materiality judgements being made considering "*the requirements […] that specifically applies to that sustainability-related risk or opportunities*", this includes quantitative and qualitative factors considering the nature, magnitude and likelihood of the effect of risks and opportunities. Companies can use the SASB Standards to make such judgements. The IFRS S1 does not explicitly require entities to disclose their materiality assessment process, yet this is likely to be included in reports. The ESRS has incorporated the IFRS S1 approach on financial materiality. However, it is more prescriptive as it also includes **impact materiality assessment (double materiality)** and provides a list of sustainable matters to be included in defining material impact topics. It also requires the disclosure of the materiality assessment process (e.g., consultation with affected stakeholders, prioritization of negative impacts).

Q9: Why is the concept of materiality the center of debate?

"Materiality" refers to all items (economic, environmental, social) that may reasonably impact a company's business or stakeholders, and consequently decision-making. It is used as a criterion to define which information should be disclosed, as not all sustainability issues may be equally relevant to reporting entities. The underlying question is: "to *whom*" is this information important? It is necessary to stress that the **ISSB Standards were created to cater to *investors' needs***. Traditionally, these primary users of corporate reporting evaluate an entity's value, which has historically been determined by its **future cash flows** (which may or may not be impacted by external risks affecting the entity). This "entity-centric" vision has led to the concept of **single materiality (outside-in),** only considering how external social and environmental impacts affect the reporting entity's financial performance. In contrast, as the **ESRS set of Standards cater to investors *and to* a wider group of user types** including customers, suppliers, broader society, and governments, it considers **double materiality (inside-out)**; which takes into account not only the financial risks deriving from external social and environmental issues (financial materiality), but the entity's impact on people and the environment (impact materiality). The adoption of a double materiality approach allows for more proactive risk management by identifying and addressing environmental and social issues before these convert into material financial risks. Conversely, the use of single materiality may result in a less comprehensive assessment and limit the type of information provided to investors. **The adoption of a single-materiality lens has been criticized as it ignores significant social and environmental impacts an entity may have**, placing it as a secondary element when in fact financial and impact materiality are inter-related and interdependent. This conceptual difference is evidenced by the reporting requirements from the ISSB and ESRS in Figure 3; though those for climate change are quite similar.

Figure 3. ISSB and ESRS Reporting Indicators

	ISSB Standards	ESRS
Environment	**Climate Change (IFRS S2)** • Transition plan climate mitigation • Material risks and opportunities • Direct and indirect mitigation and adaptation efforts • Financial position, performance and cashflow • Gross Scopes 1, 2 3 and total GHG emissions • Financial effect from material and transition risk • Carbon credits • Internal carbon pricing	**Climate Change (ESRS E1)** • Transition plan for climate mitigation • Material impacts, risks and opportunities • Policies related to climate change mitigation and adaptation • Actions and resources in relation to climate change policies • Mitigation and adaptation targets • Energy consumption and mix • Gross Scopes 1, 2 3 and total GHG emissions • GHG removals and carbon credits • Internal carbon pricing • Financial effects from material physical and transition risks • Potential climate-related opportunities
	Not in scope	**Pollution (ESRS E2)** • Pollution of air, water and soil • Targets related to pollution • Anticipated financial effect from pollution-related risks and opportunities
	Not in scope	**Water and marine resources (ESRS E3)** • Target related to water and marine resources • Water consumption • Anticipated financial effects from water and marine resources
	To be included in due course	**Biodiversity and ecosystems (ESRS E4)** • Transition plan • Targets related to biodiversity and ecosystems • Anticipated financial effects from biodiversity and ecosystem-related risk and opportunities
	Not in scope	**Resource use & circular economy (ESRS E5)** • Target related to resource use and circular economy • Resource inflow • Resource outflow • Anticipated financial effects from resource use and circular economy
Social	Not in scope should be included in due course under human capital	**Own workforce (ESRS S1)** • Interest and view of stakeholders • Process for engaging with workers • Process to remediate negative impact • Targets on undertaking employees and non-employee workers • Diversity metrics, adequate wages, social protection, persons with disabilities, training and skills development, health and safety, work-life balance, compensation metrics, incidents complaints
	Not in scope should be included in due course under human capital	**Workers in the value chain (ESRS S2)** • Process for engaging with value chain workers • Process to remediate negative impact • Targets to manage negative impact, advance positive impacts and manage material risk and opportunities
	Not in scope should be included in due course under human rights	**Affected communities (ESRS S3)** • Interest and views of stakeholders • Engagement process • Process to remediate negative impact and channels for affected communities to raise concerns • Targets on managing material negative impact, advancing positive impact and managing material risk and opportunities
	Not in scope	**Consumers and end users (ESRS S4)** • Policies related to consumer and end-users • Process for engaging with consumers and end-user about impacts • Process to remediate negative impact • Targets to manage negative impacts and to advance positive impacts
Governance	Governance (IFRS S1 and IFRS S2) • Board oversight and role • Management procedures • Remuneration policies	**Business conduct (ESRS G1)** • Corporate culture and business conduct policies • Management of relationship with suppliers • Prevention and detection of corruption and bribery • Incident of corruption or bribery • Political influence and lobbying activities • Payment practices

Source: Natixis CIB GSH based on IFRS, 2023 and EFRAG, 2023

Considering the exchanges on the alignment of both Standards, a full correspondence on the required indicators is not expected, nor feasible. The ESRS scope goes beyond climate and financial materiality. In August 2023, EFRAG published a mapping table between the ESRS E1 to the IFRS S2, to demonstrate how these compare and the conclusion is that there is a high-level interoperability. Two main differences were included, the first on financed emissions, required at the moment only by the IFRS S2, but to be included in the ESRS at a later stage. The second on GHG emission targets, where the IFRS S2 allows gross and net (use of removals, carbon credits and avoided emissions) targets, while the ESRS E1 solely requires gross targets. Setting out the alignment between both Standards can be useful for companies to understand where requirements coincide and where they deviate**. In practice, this means companies would be able to avoid double reporting as those using the ESRS S1 would to a certain extent report the same information required by the IFRS S2**. More broadly though, the ESRS requires reporting on environmental, social and governance topics, meaning companies using the ISSB Standards (IFRS S1 and S2) would not report against all the required indicators. The regulatory nature of the ESRS also makes its use imperative by EU and non-EU companies that fall into the CSRD.

Q10: What other important conceptual foundations are considered?

In addition to **single materiality**, of the other four conceptual foundation elements introduced by the IFRS S1, it is worth mentioning **fair presentation and connected information**. **Fair presentation** means **that comparable, verifiable, timely and understandable depiction of sustainability-related disclosure should be provided**. While **connected information** means that the linkages between the disclosed risks and opportunities and the general-purpose financial reports must be clarified. However, as these conceptual foundations shape the Standards and hint on the willingness of the ISSB to create a common base, their influence, particularly for fair presentation, seems limited. In fact, "*to achieve faithful representation, an entity shall provide a complete, neutral and accurate depiction of […] sustainability-related risks and opportunities*". **However**, **no verification is required for either the IFRS S1 or IFRS S2**. Compliance with the principle relies only on the entity, rather on a confirmation from the ISSB as it does not require external assurance, making its stringency insufficient (Question 20).

Q11: What are the requirements set by the IFRS S1 "General Disclosure Requirements for Sustainability-Related Risk and Opportunities"?

The IFRS S1 is a foundational document that aims at providing a holistic reporting package for companies to disclose information on all sustainability-related risk and opportunities that **could affect cash flow, access to finance or the cost of capital in the short, medium, and long-term**. It **emphasizes the need for connection and consistency between financial statement and sustainability disclosures**. Despite the strong investor focus given by the ISSB, other stakeholders such as creditors, suppliers, and civil society may also drive the use of the IFRS S1 due to their interest and exposure to sustainability-related risks and opportunities. The core content of the IFRS S1 builds on the TCFD governance, strategy, risk management and metrics and targets pillars, as well as industry-specific metrics from SASB and the IFRS Accounting Standards:

- **Governance:** companies are required to publish disclosures on internal governance processes, controls, and procedures. This includes the identification of governance structures, roles, decision-making procedures, and risk management (including opportunities). **The IFRS S1 does not provide any recommendations on best practices companies should follow**. Nevertheless, depending on the existing structures and processes, companies may need to reconsider how they address sustainability risks and opportunities.
- **Strategy:** disclosure requirements focus **on how risks and opportunities are identified within the company's business model and value chain, how they affect the financial performance and the resilience to these changes in the short, medium, and long-term**. Companies should clearly present the interconnection of sustainability-related risks and opportunities, to capture their progression in future reporting periods and potential trade-offs. **Changes to the financial position and to resources should be disclosed** (e.g., exposure to revenue or expenses from products and services, costs, or savings) as this affects how the company is responding or adapting to the identified risks and opportunities. **Guidance is quite high-level and definitions on time-horizons are left to the company's discretion** (no explicit requirement to align to a 1.5ºC trajectory, for instance).
- **Risk Management:** information should be disclosed on the processes used to identify, assess, prioritize, and monitor sustainability-related risks and opportunities. **The main focus here is on the processes adopted by reporting companies**. For risks processes, **companies should disclose the use of scenario analysis to inform the identification of its risks and assess the likelihood of these risks to materialize**. On opportunities, companies are expected to describe the process it uses to identify, assess, prioritize, and monitor these opportunities. **Requirements for risks are more granular than for opportunities, though one may argue that these are interconnected**. Furthermore, the level of information presented will depend on the company's materiality assessment, which if not done correctly may obscure relevant information.
- **Metrics and Targets:** companies are required to disclose the metrics and targets it uses to monitor sustainability-related risks and opportunities. Targets and metrics need to be consistently defined and calculated.
    - **Metrics should be specific to the company's business model or industry**. **Under the IFRS S1, companies are required to use cross-industry and/or industry-specific metrics**. In the absence of a specific IFRS Standard that applies to the identified sustainability-related risks or opportunities (e.g., IFRS S2), companies may use the SASB Standards, the CDSB Framework Guidance or "*recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general-purpose financial reports*". **Companies may also choose to define their own metrics. In this case, they should disclose how the metric was defined (underlying methodologies and assumptions), if it will be presented in absolute terms, the used sources to determine the metric and any adaptations made. Here, the IFRS S1 requires information on external third-party validation**.
    - Companies are required to **link the metrics to their targets**, so these can be measured and monitored. The format in which this should be carried out is not prescribed, however **companies need to present how targets in their strategy will be achieved, the time period to which targets apply, their baseline, milestones, and interim targets**. Target revision should also be presented to capture any changes or trends. **The IFRS does not provide guidance on the alignment of these targets - international (e.g., Paris Agreement), regional (e.g., EU Taxonomy) or national (e.g., waste policies) - which would be useful to ensure their ambition**.

This same structure has also been adopted by the ESRS due to the discussions between the ISSB and EFRAG. Although the ESRS also includes impacts in addition to risks and opportunities.

Q12: What are the limitations of the IFRS S1 requirements?

The Standard mainly relies on **good faith** from the reporting entity. It gives entities the possibility of being too broad in their disclosure and cherry pick certain disclosures requirements, leading to unprecise information. For example, the IFRS S1 30.a.I states: "*An entity shall disclose information that enable users […] to understand the sustainability related risks and opportunities* ***that could reasonably be expected to affect the entity's prospects***". Without an external verification, entities can easily conceal the risks it incurs. In addition, IFRS S1.39 states that "*An entity need not provide quantitative information about the anticipated financial effects of a sustainability-related risk or opportunity, about the anticipated financial effects of a sustainability-related risk or opportunity* ***if the entity determines that:*** *a) Those effects are not [identifiable] or b) The level of measurement uncertainty in estimating those effects is so high that the resulting quantitative information [is not] useful*". **Once again, the level of disclosure granularity rests mainly on the reporting entity's good faith.** So far, the voluntary nature of implementation leaves much discretion to companies on how they will report.

Q13: What is the connection between the IFRS Sustainability and Accounting Standards?

The IFRS S1 complements and connects to the International Financial Reporting Standards published by the IASB - International Accounting Standards Board. While the IASB also falls within the IFRS remit, together with the ISSB, each Standard Board is independent. Since its publication in 2003, and following the endorsement of the IOSCO, 145 jurisdiction have adopted the IFRS Accounting Standards for most publicly listed companies; including the EU, where the IFRS was designated as the accounting standard for publicly traded EU companies since 1 January 2005. The Accounting Standards provide a set of guidelines for companies on how they should report financial information. **While the use of the IFRS Accounting Standards are not required by the IFRS S1, they can be used in the preparation of financial statements that should be accompanied by the company's sustainability/climate-related disclosure as part of the general-purpose financial report**. IFRS S1 § 20 "*requires that sustainability-related financial disclosures shall be for the same reporting entity as the related financial statements. For example, consolidated financial statements prepared in accordance with IFRS Accounting Standards provide information about the parent and its subsidiaries as a single reporting entity. Consequently, that entity's sustainability-related financial disclosures shall enable users of general-purpose financial reports to understand the effects of the sustainability related risks and opportunities on the cash flows, access to finance and cost of capital over the short, medium and long term for the parent and its subsidiaries".* There should be a clear link between the sustainability/climate related disclosures and the financial statements to which they related to, with the publication of both report at the same time. The general-purpose report should also reflect the risks and opportunities arising from the company's activities, assets and liabilities and how these may affect the financial statement. This should include "*line items, totals and subtotals within the related financial statements that are likely to be affected or have been affected*". Despite these initial connections, accounting standard-setters from the UK, Australia, Canada, Malaysia and New Zealand provided feedback to the ISSB on further connectivity between financial and sustainability reporting so that the information disclosed is compatible and comparable.

Table 1. Connectivity between the IFRS Sustainability and Accounting Standards

	ISSB Sustainability Standards	IFRS Accounting Standards
Scope	• Sustainability and Climate-related risks and opportunities affecting the financial performance of the company.	• General purpose financial statements and other financial reporting of profit-oriented entities.
Disclosure requirements	• Risks and opportunities that impact the reporting entity's financial performance.	• Financial performance including assets, liabilities, equity, income and expenses of the reporting entity
Materiality assessment	• Information is material if omitting, obscuring or misstating it could be reasonably expected to influence investor decisions. Financial materiality and whether it can influence decision making.	
Reporting Indicators	• Cross industry metrics, industry-specific metrics, GHG emissions, transition risks, physical risks, climate related-opportunity, capital deployment, internal carbon prices, remuneration.	• Financial metrics and measurements (general issues such as changes in equity, cash flows, fair value, financial position, profit or loss, special topics.)
Compliance	• Explicit and unreserved statement of compliance. External assurance depend on jurisdiction but not required by standard.	• Explicit and unreserved statement of compliance of the accounting standard. Audits depend on jurisdictions but not required by standard.

Source: Natixis CIB GSH based on IFRS Sustainability and Accounting Standards 2023

Q14: What are the requirements set by the IFRS S2 "Climate-Related Disclosure"?

The IFRS S2 sets specific requirements for **climate-related risks and opportunities that reasonably affect cash flow, access to finance and cost of capital over the short, medium, and long term**. It addresses both physical and transition risks and opportunities. The IFRS S2 shares the core components of IFRS S1 - **governance, strategy, risk management and metrics and targets. However, it provides additional guidance on climate-related disclosure risks, transition plans, GHG emission reporting and climate scenario analysis**.

- **Governance: shares the same elements as IFRS S1** on the governance processes, controls and procedures used to monitor and oversee risks and opportunities.
- **Strategy: while the IFRS S2 shares overarching** disclosure requirements, focus is given in S2 to the types of climate-related risks, either physical or transition, its impact on the business model and value chain (e.g., acquisitions, divestments, R&D, among others). Companies should also disclose how these affect its strategy and decision-making process. **Climate-specific strategic responses include changes in resource allocations; anticipated adaptation or mitigation efforts** and changes to respond to physical or transition risks**; transition plans** (see Question 18) underlying assumptions and dependencies, including how they support the achievement of targets, such as GHG emission reduction; and resourcing**. Another difference to the IFRS S1, is on the climate-resilience of strategies. Unlike the IFRS S1, the IFRS S2 describes how resilience should be assessed.** These should be based on scenario analysis to consider the exposure to climate-related risks and opportunities and the available, skills, capabilities, and resources. **Selected scenarios should be aligned to the latest agreement on climate change. Despite this requirement, no single scenario methodology is recommended, which can lead to diverse choices of scenarios and variations in the identified risks and impacts.**
- **Risk Management:** the process in identifying risks and opportunities is also similar to the IFRS S1. However, there is an **additional layer in identifying and reporting climate-related risks and opportunities, mainly through the use of scenario analysis.**
- **Metrics and Targets:** disclosure elements are similar to the IFRS S1, but further granularity is given to cross-industry metrics and industry specific metrics.
  - **For cross-industry metrics companies need to disclose information across seven topics (applicable to all types of companies).** These include: i) GHG emissions, ii) transition risks, iii) physical risks, iv) climate-related opportunities, v) capital deployment, vi) internal carbon prices and vii) remuneration. Particularly on **GHG emission, companies are required to disclose Scopes 1, 2 and 3 in line with the GHG Protocol Corporate Standard (unless the jurisdiction requires otherwise). For Scopes 1 and 2 companies should present disaggregated information** (consolidated accounting group and unconsolidated investees). In addition, for **Scope 2 calculations should consider a location-based approach and any contractual instrument related to the management of purchase energy**. For further requirements on Scope 3 emissions see Question 17. **Companies should also disclose the amount and percentage of assets or business activities exposed to transition and physical risks**. They should also disclose the same type of information for **climate-related opportunities, including the percentage of assets and business activities that are aligned to these opportunities**. In addition, they should also disclose information on the amount of capital expenditure, financing, or investment deployed; use of internal carbon pricing; and proportion of executive management remuneration linked to climate-related risks and opportunities within the current reporting period.
  - **Companies operating across various industries, may be required to disclose industry-specific information. The IFRS S2 relies on the SASB Standards, which cover 11 sectors and 77 industries.**
  - Companies are also required to disclose information on **financed emissions** "*if the entity's activities include asset management, commercial banking or insurance*". This can be presented as a percentage and currency value. **There is no prescribed measurement methodology for financed emissions, which once again may lead to discrepancies on data presentation**.
- **On targets,** the information disclosed is the same as requested in the IFRS S1 (related metric, specific quantitative or qualitative target, timeframe, base period, milestones or interim targets, performance, and target revision). However, additional information should be presented on the **objective of the target** – whether **"mitigation, adaptation, or in conformance with science-based initiatives". The Scope of the target – if 1, 2 or 3 – and the gases covered should also be informed, as well as the nature of the target (absolute emission or intensity based**. Verification by a third-party is required to validate the target and its methodology. Finally, the use of carbon offsets should also be disclosed.

Q15: What are the limitations of the IFRS S2 requirements?

As the IFRS S2 is to be used with the IFRS S1, it shares the same limitations as it heavily relies on the judgement of reporting entities**. Nonetheless, considering climate, one of the main limitations is the lack of definition on the alignment to a 1.5ºC scenario and the lack of requirement for entities to disclose how targets enable their alignment to a 1.5ºC scenario, contrary to the ESRS.** "*The entity is required to use an approach to climate-related scenario analysis that enables it to consider all reasonable and supportable information that is* *available to the entity at the reporting date without undue cost or effort*". **The choice of scenarios may impact the identification of the risks and risk management providing an inadequate assessment. There is, however, room for improvements in the ESRS E1 on climate, as it does not reflect enough the "opportunity" side, for instance it does not recommend the disclosure of avoided emissions.**

Q16: How should "Industry-based Guidance on Implementing Climate-related Disclosures" be used?

The IFRS S2 refers to industry-based disclosure requirements. **These derive from the SASB Standards and are organized by industry** to facilitate the identification of the requirements applicable to company's business models and activities. Guidance is available for the following industries: **consumer goods, extractives and minerals processing, financials, food and beverage, health care, infrastructure, renewable resources, and alternative energy, resource transformation, services, technology and communication, and transportation.**

Q17: Is the disclosure of Scope 3 emissions required?

Under IFRS S2, companies are required to disclose Scope 3 emissions and use the **GHG Protocol to measure these emissions** (Corporate Value Chain and Investment categories). The company should consider the entire **value chain – upstream and downstream – and financed emissions** if it takes part in asset management, commercial banking, and insurance. The inclusion of Scope 3 emissions is important as it accounts for a substantial source of a company's GHG emissions. When measuring Scope 3 emissions, **companies should prioritize a direct measurement (direct monitoring of GHG), the use of primary data (obtained directly from activities within its value chain e.g., suppliers), and verified data (either internal or external).** Though estimation and the use of secondary data is also allowed. While the guidance provided is quite detailed, Scope 3 continues to be a challenge and is included in the IFRS transition period (see Question 27).

Q18: Are companies required to prepare and disclose transition plans?

The IFRS S2 requires the **disclosure of climate-related transition plans**. This includes the key assumptions the company has used to develop its plan, the dependencies on which the transition plan relies, and how it is resourcing or expects to resource its plan. The definition of transition plan is included in the Appendix and is referred to as an aspect of the company's overall strategy that sets the targets, action, or resources for its transition toward a low carbon economy, including GHG emission reduction. It fails however to **provide granular guidance** on what should be included in these plans. The ESRS, for instance, indicates that transition plans should be compatible "*with the limiting of global warming to 1.5 °C in line with the Paris Agreement and with the objective of achieving climate neutrality by 2050 and, where relevant, the undertaking's exposure to coal, oil and gas-related activities*". The ESRS also mentions the type of information that must be addressed, such as GHG emission reduction targets, climate change mitigation action, decarbonization levers, drivers of transition risks, CAPEX related to coal, and oil and gas, as well as the progress achieved by the reporting entity. It also incorporates biodiversity considerations on how to "*achieve alignment of its business model and strategy with the vision of the Kunming-Montreal Global Biodiversity Framework and its relevant goals and targets […]".* In this sense, the ISSB requirements are not as guiding and prescriptive as the ESRS.

Table 2. Comparing Corporate Transition Plan Existing and Upcoming Requirements

	European Union	United Kingdom	United States of America
Disclosure Regime	CSRD/(ESRS) – effective	FCA/Climate Related-Disclosure – effective*	SEC/ Climate-Related Disclosure – proposed
Mandatory disclosure	✓	✓	✓
Mandatory adoption	✓	✓	✗
Definition	Strategy to address climate mitigation and ensure compatibility to low carbon economy	Business strategy that lays out targets and actions to achieve a low carbon economy	Strategy and implementation plan to reduce climate-related risk
Transition Plan Requirements			
Governance	• Approval by administrative, management and supervisory bodies and progress on implementation	• Board/Committee approval and oversight, accountability by senior management and incentives; reporting and review and assurance	• Updates on disclosure every fiscal year to capture progress on targets and goals
Strategy	• Key actions planned, including changes to product and services; investment and funding to support implementation (e.g., Capex plan, taxonomy alignment); exposure to coal, oil and gas-related activities.	• Alignment of transition plan with strategy, activities to achieve target, alignment to global temperature goal and assumptions; prioritized opportunities, tactical and operational plans (short-medium term), financial plans, scenario analysis	• Plans for new products, goods and services that facilitate the transition; generation and use of renewable power; production or use of low waste; conservation goals to reduce GHG emissions
Risk Management	• Decarbonization levers, assessment of lock-in of assets and products (transition risk)	• Description of risks	• Plan to mitigate physical risks and to mitigate transition risk
Metrics and Targets	• GHG emission reduction targets and compatibility with 1.5ºC	• Metrics and targets, GHG emission reduction, methodology dates	• GHG emission reduction, metrics and targets to identify and manage physical and transition risk

Note: the UK adopts the TCFD guidance, but from next year will look at incorporating the TPT Framework

Source: Natixis CIB GSH based on CSRD, 2023; FCA, 2023; SEC, 2023

Q19: Where should companies publish their IFRS Sustainability or Climate-Related Disclosures?
The IFRS S1 does not "prescribe the exact location" of the sustainability-related financial disclosures, only that they **should be published as part of the general-purpose financial reports (annually)**. The main **emphasis is on the timing of publication**, which should be the same as the company's financial statements. A few of the referred formats provided in the IFRS S1 text are management report, integrated report, or strategic report. Therefore, disclosures could be reported as part of the entity's general purpose financial report or as a separate document, such as the sustainability report. **To align with EU reporting regulation, it would be recommended that the companies publish their disclosures in the management report**.

Q20: Is assurance or any type of verification required?
No, alignment with **IFRS Sustainability Standards does not require any type of assurance/verification**. **These are subject to jurisdictional regulation** (e.g., the EU requires limited assurance followed by reasonable assurance from 2028 onwards, when the EU Commission will have defined a more precise and common definition of reasonable assurance for sustainability disclosures). While the IFRS' mandate does not include developing assurance standards nor determining assurance level, it is working with the International Auditing and Assurance Standards Board (IAASB) around this topic. It is not surprising that the **IAASB published its proposal for a sustainability assurance standard** not long after the launch of the ISSB Standards (2nd August); open for public consultation until the end of the year. The IAASB Standard may be applied to all financial and non-financial disclosure frameworks, including the ISSB and CSRD. **The addition of an assurance layer is likely to influence enforcement of the ISSB Standard, and consequently allow for a greater harmonization in reporting requirements. It is also an important step to enhance investor confidence and transparency on the implementation of disclosure requirements**.

IFRS Sustainability Standard influence across jurisdictions

Q21: How influential is the International Sustainability Standards Board (ISSB)?
Since its creation, it was **anticipated that the ISSB would have a central role in defining sustainability standards though the combination of regulatory and market support**. First, the ISSB's influence relies partly on the creation of widely adopted accounting standards (from the IASB, which is also part of the IFRS Foundation). Second, as it was recently announced, the **ISSB will take over the role of the TCFD starting in 2024** as it will be responsible for monitoring companies' progress against the TCFD's climate-related disclosure. **Companies reporting against the TCFD should be well placed to report against the ISSB**. A comparison between the IFRS S2 and the TCFD was carried out by the ISSB, with differences in wording, granularity of information and level of disclosures; the IFRS S2 requires further reporting on management responsibilities, includes industry-based guidance, use of carbon credits, to mention a few. In parallel, the ISSB is also closely working alongside a major player in the corporate reporting field, the GRI, to ensure complementarity and need

of meeting wider stakeholder information requirements. **This emphasizes the convergence of sustainability reporting and centralizing role of the ISSB as a global standard setter. A formal endorsement by IOSCO – The International Organization of Securities Commissions has also been announced, which supports the adoption of the Standards across jurisdictions. However, the "extra-territorial" and regulatory / mandatory dimension of the EU ESRS might make the EU Standard even more influential in the long run, since it requires non-EU companies to report under bespoke ESRS[5] at group level from 2028 onwards when they meet required size thresholds[6] (and in addition to prior obligation of ESRS reporting for the non-EU company EU branch or subsidiary that meet the required thresholds).**

Q22: Are jurisdictions adopting the ISSB's IFRS Sustainability Standards to develop their own disclosure requirements?

Australia, Brazil, Canada, Japan, Hong Kong, Malaysia, New Zealand, Nigeria, Singapore, and the United Kingdom have indicated their intention to incorporate the ISSB Sustainability Standards in upcoming climate-related disclosure requirements. **Brazil** was the first country to incorporate the ISSB into its regulation, which will be voluntary up to 2026. **Australia**'s upcoming climate-related financial disclosures should be aligned with the ISSB, with an exposure draft open to public consultation until March 2024. The **Stock Exchange of Hong Kong's** proposal for the upcoming climate-related disclosures were referenced against the IFRS S2 Exposure Draft. Likewise, the UK has also signaled its intention to consult and endorse the Standard, updating the **Financial Conduct Authority** (FCA) climate related disclosures by the end of the year. **As the ISSB has not yet advised on a specific implementation strategy, jurisdictions may freely determine the scope and thresholds of companies that must report against such Standards**. Furthermore, sets of criteria for which the Standards will be mandatory (employing a certain number of employees, reaching a certain level of turnover, having a certain part of the supply chain in this jurisdiction) may vary according to jurisdiction. In addition, jurisdictions may choose between comply-or-explain, voluntary, or mandatory adoption by companies. **This may lead to discrepancies between countries and in result lead to uneven efficiency and comparability. Instead of reducing fragmentation, there may be a variety of diverse disclosure requirements, particularly for companies operating across several jurisdictions**.

Example: A European Company operating in the United States, having investors the EU and the US will have to comply with both the CSRD/ESRS (EU) and with the SEC Climate-Related Disclosure (USA) requirements. Similarly, an American Company operating in Singapore and the European Union, will have to comply with the CSRD, the SEC and the ISSB.

Figure 4. Implementing the ISSB and ESRS across jurisdictions

	IFRS S1 & 2	ESRS
Applicability	Voluntary opt-ins by jurisdictions and firms	Mandatory for applicable firms
Legal Status	Adoption by national authorities/ voluntary adoption by firms	Delegated Act adopted by the EU Commission
Effective Date	From January 2024 (depending on the jurisdiction*)	Gradual application starting in 2025 (based on 2024 FY)
	Scope of Application	
2025	From January 2024 depending on the jurisdiction Existing cases: Brazil: voluntary adoption in 2024 and mandatory adoption in 2026 for listed firms Australia: integration of Standards (ASRS) out for consultation until March 1st, 2024. Adoption period expected between 2024 and 2027	Firms subject to NFRD, including non-EU firms with securities/large subsidiaries listed on EU regulated market and large subsidiaries of large* non-EU firms
2026		All large US firms listed on EU-regulated markets and all large EU subsidiaries of US firms
2027		SME subsidiaries** of US firms listed on EU regulated markets
2028		US based firms that pass the turnover test*** to report at group level

*Large firms are defined in the CSRD as entities that satisfy two of the following three criteria: >250 employees, >20M€ balance sheet, <40M€ turnover in the EU.
** SMEs can choose to defer reporting for two years until 2028.
*** The EU Turnover test can be defined as firms with: (a) an annual net turnover at the consolidated or individual level in the EU exceeding EUR 150 million for each of the last two consecutive financial years; and (b) which have a qualifying EU subsidiary or a branch in the EU that generated an annual net turnover more than EUR 40 million in the preceding financial year.

Source: Natixis CIB GSH based on ISSB, ESRS, CVM and AASB

[5] To be defined by the EU Commission by 2024 or 2026 at the latest
[6] 150 million euros of revenue in the EU for 2 years in a raw and with a branch or subsidiary in the EU with a specific revenue of 40 million euros or more.

Q23: Is the IFRS Sustainability Standards interoperable with the other sustainability disclosures?

The aim of the IFRS Sustainability Standards is to be interoperable with other frameworks for sustainability disclosures. To support this, a **Jurisdictional Working Group** was created in 2022 to compare disclosure requirements and further enhance their integration and alignment to the ISSB Standards. Participating members include the **Chinese** Ministry of Finance, the **European** Commission, EFRAG, the **Japanese** Financial Services Authority, the Preparation Committee of the Japanese Sustainability Standards Board, the **UK's** Financial Conduct Authority, the UK's Financial Reporting Council and the **US** Securities and Exchange Commission. **Interoperability** amongst jurisdictions can be achieved if the jurisdictions adopt the ISSB Standards **as a baseline *as is* for their own sustainability reporting framework, or by choosing to build on it and add stringency on certain aspects**. On the latter, the IFRS S1 is aligned to the ESRS 1 as both include requirements for defining reporting time horizons, yet the ESRS 1 is prescriptive as it determines time intervals. The IFRS S1 § 30 states that "*explain how the entity defines 'short term', 'medium term' and 'long term' and how these definitions are linked to the planning horizons used by the entity for strategic decision-making*", while the ESRS 1 § 77 states "*when preparing its sustainability statement, the undertaking shall adopt the following time intervals as of the end of the reporting period: (a) for the short-term time horizon: the period adopted by the undertaking as the reporting period in its financial statements; (b) for the medium-term time horizon: from the end of the short-term reporting period defined in (a) up to 5 years; and (c) for the long-term time horizon: more than 5 years".* Interoperability does not mean full equivalence, but the alignment of concepts, methodologies, and datapoints to facilitate comparability.

Q24: How does it work alongside other disclosure requirements (e.g., ESRS)?

In jurisdictions where sustainability or climate-related disclosures are not available, companies with exposure to capital markets **may voluntarily use the IFRS Sustainability Standards** to report on sustainability and climate-related risks and opportunities. As mentioned above, there are ongoing efforts to make disclosure requirements interoperable, and the **IFRS Sustainability Standards can support companies in preparing for mandatory sustainability disclosure requirements**. In jurisdictions with their own sustainability or climate-related disclosure requirements, **the rationale for the use of the IFRS Sustainability Standards is for them to either be incorporated to local requirements or serve as the foundation of these requirements.**

Q25: How does it compare with the European Sustainability Reporting Standards (ESRS)?

Initial comparisons among the IFRS and EFRAG's ESRS were published in April 2022 and updated in November 2022 to identify common disclosures and avoid duplicative reporting. Further **guidance material on the interoperability of both Standards will be developed** to understand where incremental disclosures are required. In August 2023, EFRAG published an initial assessment and mapping table that will feed into this more detailed guidance work (Question 9). The scope and reporting indicators of the ISSB Standards and the ESRS are quite divergent due the adopted materiality approach **(**Table 3)**. They remain relatively aligned on climate change.** Both cover the same core areas, but the **level of granularity of requirements varies.** While the ESRS **aligns to the IFRS Standards, there are significant additions in the EU's Standard particularly around climate-related disclosure strategies (e.g., transition plans) and targets and metrics** (**positive and negative impact)** making it more stringent.

Table 3. Comparing IFRS and ESRS Sustainability-Related and Climate-Related Disclosure Requirements

	IFRS S1	ESRS 1 & 2
Governance	**Board oversight:** composition and role of supervisory bodies and management	Additional requirements on **due diligence**
Strategy	**Risk & Opportunities** Impact on Organization Resilience * Focus on financial position	Due to double materiality also focuses on **impacts, as well as stakeholder Interests and views**
Risk Management	**Identification Process** Risk Management Risk Integration (e.g., scenario analysis)	The ESRS includes negative/ positive impacts, & minimum disclosure on policies and actions
Metrics & Targets	**Selection of Metrics** Setting / Monitoring Targets (third-party verification)	Evaluation on **material impacts**, also includes tracking policies and actions

	IFRS S2	ESRS E1
Governance	**Board oversight:** same requirements as IFRS S1	Same requirements as the ESRS 2
Strategy	Risk & Opportunities (transition plan) Impact on Organization **Resilience of strategy**	Difference on the **granularity required for transition plan (e.g., GHG emission targets, etc.)**
Risk Management	Identification Process Risk Management Process Risk Integration	Identification of **impacts (mitigation/adaptation),** risks on energy mix and consumption, etc.
Metrics & Targets	Climate-Related Metrics Scopes 1, 2, 3 Emissions Climate-Related Targets	Focus on impacts, **2030 & 2050 interim targets and 1.5ºC compatible**

Aligned
Partial additions
Significant additions

Source: Natixis GSH based on IFRS S1/S2 and ESRS

The following key differences can be pointed out:

- **Target audience:** the end-users of the disclosed information is of great importance to analyze the divergences between both Standards, particularly materiality. The ISSB for instance, was created for **investors** to analyze entities' sustainability disclosures. While, the ESRS has been created for a **broader group of stakeholders** (including business partners, trade unions, civil society, NGOs, analysts and academics), which are greatly attentive to aspects relating to the reporting entity's impact **on the environment**.
- **Scope:** The ISSB was designed to focus on all types of companies across the world (the IOSCO covers 130 jurisdictions alone). Therefore, the number of entities reporting against these Standards could reach close to 130,000[7] according to estimates from IOSCO. Whereas the ESRS focuses on large and listed companies incorporated in the European Union, meaning that around 50,000 entities should apply it requirements[8]. It is important to note that there may be an overlap between companies reporting against both Standards.
- **Thematics:** the **ISSB Standards focus mainly on general sustainability requirements and climate disclosures**, which gives a partial view of the reporting entity's situation. The ISSB is also currently seeking feedback to create new upcoming Standards concerning biodiversity, human capital, human rights, and connectivity in reporting. In contrast, the **ESRS cover a much larger range of topics** in its 12 parts. These relate to **environmental aspects** (climate change, pollution, water and marine resources, biodiversity and ecosystems, resource use and circular economy), **social aspects** (own workforce, workers in the value chain, affected communities and consumers and end-users), as well as **governance aspects** (business conduct).
- **Materiality:** the **ISSB only considers single materiality**, as investors (the primary users) are attentive to how the environment may impact the reporting entity's cash flows. This is different from the **double materiality** prism that the ESRS adopts, as the entity's impact on the environment matter to the ESRS's users (governments, consumer base, suppliers etc.).
- **Materiality Assessment: The IFRS S1 affirms that "*materiality judgments are specific to an entity*", which means that no thresholds for materiality predetermines what can be material in a specific situation**. In contrast, though the ESRS also require the reporting entity to define what is material, it requires a **verification by a certified third-party organization.** The ESRS also requires the disclosure of mandatory data points, which are independent from the entity's assessment of materiality.
- **Sector-specific prism**: IFRS S1 and IFRS S2 require the use of SASB's industry guidance, which covers 77 sectors. In contrast, the ESRS has not yet implemented the use of industry-specific guidance, which is currently being developed for forty-seven sectors. **Therefore, the ISSB Standards have a more granular view in this matter compared to ESRS for the moment**.
- **Assurance and audit:** Both Standards have differing requirements on how to obtain assurance. **The verification and assurance of the alignment of a reporting entity to ISSB is dependent on the jurisdiction's implementation of the Standards**. Whereas the ESRS requires mandatory assurance by a certified third-party verifier.
- **Implementation:** the CSRD will make the **use of ESRS mandatory for companies meeting the following conditions:**
  1) From 2025 on year 2024: EU firms already reporting under the former NFRD regime. Including EU branch or subsidiary of non-EU company
  2) From 2026 on year 2025: other EU large companies with more than 250 employees and either EUR 40 million of revenue or EUR 20 million on their balance sheet. Including EU branch or subsidiary of non-EU company
  3) From 2027 on year 2026: listed SMEs (10 to 250 employees, EUR 700k to 40M revenue) will have to report. Including non-EU SMEs listed on EU markets
  4) From 2029 on year 2028: non-EU companies that generate over EUR 150 million per year in the EU, reporting at parent level

  This differs from the ISSB Standards, as its use will depend on jurisdictions' own implementation, which **may either lead to voluntary use, comply-or explain use, or fully mandatory use, including the addition of country-specific requirements**.

[7] Environmental Finance, 2023.
[8] European Commission, 2023.

Adopting the IFRS Sustainability Standards

Q26: What is the expected date for reporting against the IFRS Sustainability Standards?
Both the IFRS S1 and IFRS S2 will apply on or after the 1 January 2024. The first disclosures are expected for 2025. Early application is allowed and, in this case, both Standards should be applied.

Q27: Is there a transition period for the adoption of the IFRS S1 and IFRS S2 requirements?
Within the first reporting period, disclosures may be reported after the publication of the related financial statements. This may be at the same time of the **next-second quarter or half-year interim general purpose financial report**, within this timeframe but no more than nine months of the annual reporting period, or within nine months of the end of the annual reporting period. In addition to the timing and scope of reporting, there is specific relief during the first year on not disclosing **Scope 3 emissions and not using the GHG Protocol as the tool to measure Scopes 1, 2 and 3**. While a transition period is important for companies to adjust, they should be encouraged to report against Scope 3.

Q28: Are there any exemptions to the type of information being disclosed?
Companies may omit the disclosure of commercially sensitive information under specific conditions and the reason of this omission should be disclosed. Yet, this should not become an excuse for companies to avoid disclosing information on sustainability and climate-related risk.

Q29: Is there a difference for reporting for parent company and subsidiaries?
The sustainability/climate-related reporting is for the “same reporting entity as the related financial statements” to ensure connected information. **This means leveraging the IFRS Accounting Standards, which views the parent company and its subsidiaries as a single reporting entity**. Therefore, the sustainability/climate-related disclosures is for both the parent company and its subsidiaries.

Q30: What are the expected next steps?
ISSB has stated the following next steps: **(i) implementation**, support companies on the application of the Standard through capacity-building initiatives, **(ii) Standard development**, work alongside jurisdictions that wish to build on the global baseline and (iii) **effective reporting**, work with GRI to support the use of the IFRS Sustainability Standards when applied in combination with other reporting Standards and with the CDP on the alignment of the IFRS S2.

Q31: Are there any gaps to be addressed?
While the ISSB Sustainability Standards sets a common baseline for reporting, there are a few gaps left to address:

- **Level of stringency:** How to meet the different sustainability/climate-related requirements being developed in several jurisdictions is likely to remain an initial challenge as the level of stringency may vary from country to country. **The ISSB should indicate an approved and endorsed method for jurisdictions to implement the Standards, along with a proposed scope of concerned companies**.
- **Adoption by jurisdictions:** The ISSB’s **preferred way for jurisdictions to adopt the IFRS S1 and IFRS S2 Standards is unclear**, as countries have the choice to implement a fully mandatory system, a fully voluntary system, a mixed regime (combining voluntary and mandatory disclosures) or a comply-or-explain system.
- **Interconnection with Sustainable Taxonomies:** The integration of KPIs related to taxonomy alignment could be included in the ISSB Standards in the future. The **use of local taxonomies could also be addressed**, as the EU references this in the ESRS Draft Act and the there is significant evolution expected in the next couple years across several jurisdictions across the world.
- **Inclusion of social topics:** like the ESRS, the IFRS Sustainability Standards should also integrate social thematics (e.g., workforce, affected communities, consumers). **The ISSB has indicated that it should prioritize human capital and human rights** in its next two-year workplan, though these two topics could be merged to highlight their interrelation. Nonetheless, cross-cutting social requirements (e.g., workforce composition, cost, gender breakdown) could already be disclosed under the IFRS S1.
- **Expand emission scope:** include avoided emissions (Scope 4) **to better capture climate-related opportunities** as it includes products/services that either replace a more emission-intensive one or that enables emission reduction elsewhere. While this is a relative new concept and yet to be incorporated into disclosure requirements, the ISSB could take a leading role in establishing this as best practice.
- **Interoperability:** Following the work done with Taxonomies, **setting an official comparability assessment (common ground) would be useful to further ensure alignment** by clearly highlighting

areas of commonalities and differences by creating an equivalence assessment model. This would avoid the risk of doubling reporting as companies meet jurisdictional requirements, benefiting from a common and comparable foundation.

- **Scope:** Even though the ISSB Standards are likely to be used by more than 130,000 companies, **only entities exposed to capital markets with need of financing (through equity or debt) are incentivized to report**. It is necessary for jurisdictions implementing the ISSB Standards to define which entities would be required to report, and also add more stringency to certain aspects (e.g., impact materiality).

DISCLAIMER

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