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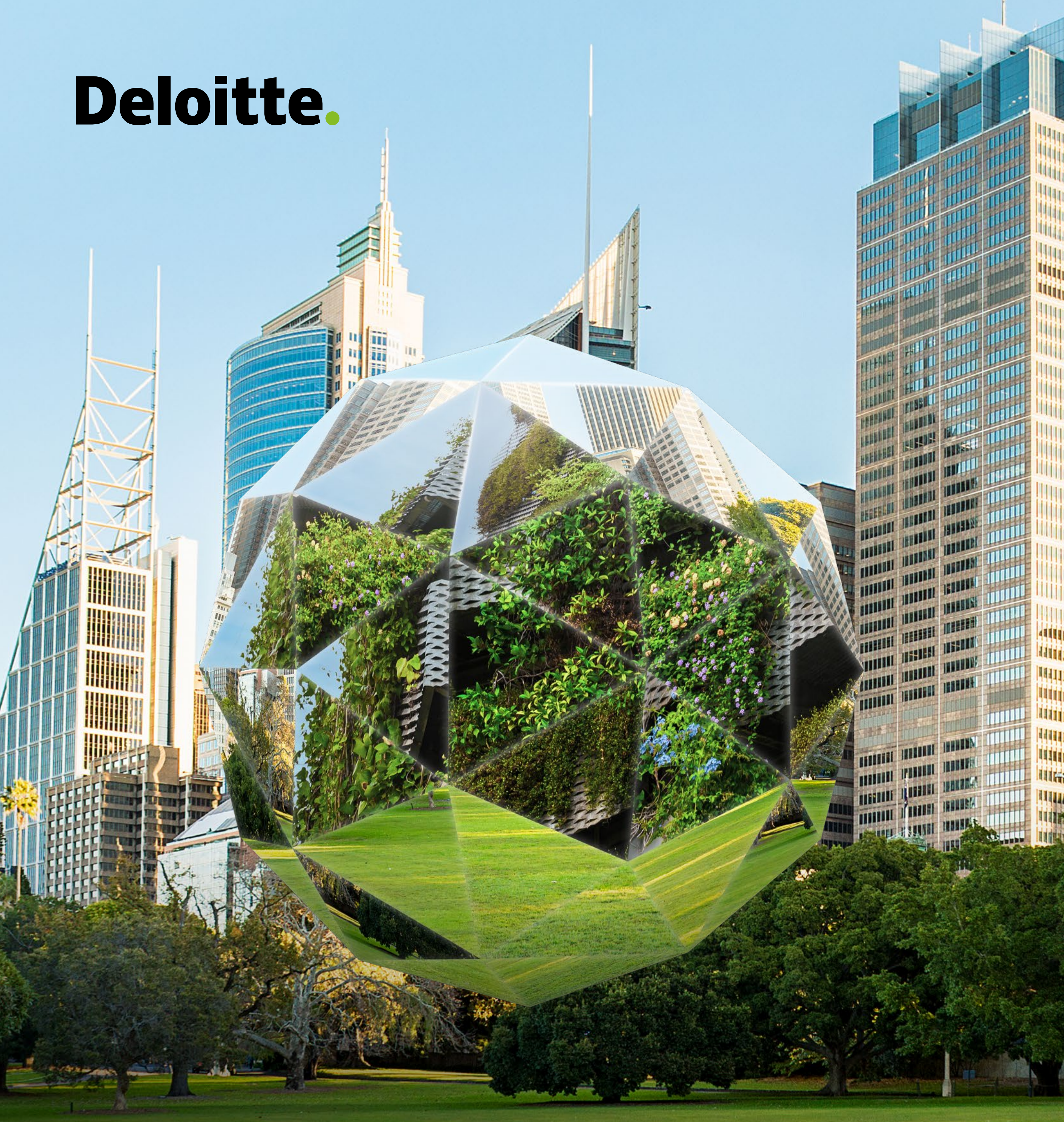

Making sense of ISSB:
Navigating climate regulation, compliance and reporting

Final standards update

October 2023

What is the ISSB?

The International Sustainability Standards Board (ISSB) has been established by the International Financial Reporting Standards (IFRS) Board of Trustees to develop a consistent global baseline for sustainability-related financial disclosures.

ISSB evolution over time

Nov 2021	IFRS launched the ISSB at the UN Climate Change Conference (COP26)
April 2022	Exposure Drafts of the standards were released for feedback and review
July 2022	Feedback period closed
June 2023	Final standards published, IFRS S1 and IFRS S2

The release of IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and S2 (Climate-related Disclosures) marks an important milestone in the standardisation of global corporate sustainability reporting. IFRS S1 and IFRS S2 require an entity to disclose information about material sustainability- and climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

Together, the two standards are intended to meet the information needs of the capital markets and function as a starting point for securities regulators around the world that choose to adopt them to advance their rulemaking. The standards' disclosure requirements are set to enable primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.

What do the ISSB standards entail?

In the context of sustainability-related financial disclosures, ISSB defines material information in alignment with the International Accounting Standards Board's (IASB's) definition. Information is considered material if omitting, misstating, or obscuring it could be reasonably expected to influence decisions that primary users make on the basis of that reporting. The architecture of the standards builds on the four pillars of the Taskforce on Climate-Related Financial Disclosure (TCFD) framework:

1. Governance
2. Strategy
3. Risk management
4. Sustainability-related metrics and targets.

IFRS S1 sets out general requirements for the content and presentation of an entity's sustainability-related financial disclosures:

- Disclosures must pertain to the same reporting entity as the related financial statements.
- Financial data and assumptions must be consistent with the corresponding financial data and assumptions applied in the entity's financial statements.
- Any judgments made by the entity in preparing its disclosures, including the sources of guidance it used, must be identified.

IFRS S2 represents a significant step forward in climate-disclosure from TCFD from a granularity of information standpoint (See Table 1 on page 4 for detailed features on IFRS S2). The standard requires disclosure around topics including:

- Climate-related physical and transition risks and opportunities, internal carbon prices, capital deployment, and remuneration.
- Specific metric category disclosures, including Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions.
- When disclosing GHG emissions an entity must disclose the approach used (i.e., equity share or control approach) and the consolidated accounting group to which the emissions pertain.

IFRS S2 is also accompanied by industry-based guidance on implementing climate-related disclosures, derived from the Sustainability Accounting Standards Board (SASB) standards.

What do the ISSB standards entail?

Table 1: Key features of IFRS S2, climate-related disclosure and metrics requirements.

Climate-related disclosure	
Governance	• Review risks and opportunities within board mandates and policies. • Climate-related remuneration policies.
Strategy (climate risks and opportunities)	• Direct and indirect responses to climate risk. • Changes to financial position and resourcing impacts. • Assets aligned with risks and opportunities. • Resiliency of strategy informed by scenario analysis.
Risk management	• Processes to identify, assess and manage climate-related risks. • Extent of integration into overall risk management processes.

Climate-related metrics	
Financial	Impact of climate-related risks and opportunities on financial position, performance and cash flows for reporting period and anticipated impacts over short, medium and long term.
Greenhouse Gas (GHG) emissions	GHG emissions disclosure required, in accordance with the Greenhouse Gas Protocol — A Corporate Accounting and Reporting Standard ("GHGP Standard"). • Scope 1 – direct GHG emissions from sources owned or controlled by an entity. • Scope 2 – indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by an entity. • Scope 3 – indirect GHG emissions that occur in the value chain of an entity.
Targets and other metrics	• Metrics used to assess climate risks and opportunities. • Targets, performance and approach to target setting. • Industry-based metrics.

How will climate-related disclosure be implemented in Australia?

The Australian Treasury has released two Consultation papers seeking views on key considerations for the design and implementation of standardised, internationally aligned requirements for disclosure of climate-related financial risks and opportunities in Australia. The latest Treasury Consultation was released on June 23, 2023, and focuses on the practical implementation of the IFRS Standards (particularly IFRS S2).

The second Treasury Consultation proposes that all entities that meet prescribed size thresholds that are required to lodge financial reports under Chapter 2M of the Corporations Act 2001 (Cth) (Corporations Act) would be required to make climate-related financial disclosures (See Table 2 on page 6 for proposed disclosure timeline).

The consultation paper also includes an assurance roadmap and timeline for climate-related disclosures (See Table 3 for proposed assurance timeline) using a phased approach for limited and reasonable assurance. Parliament is expected to share decisions on the final status of mandatory climate-related financial disclosure in early 2024.

Detailed disclosure standards will be issued by the Australian Accounting Standards Board (AASB). An Action Alert following AASB's August 8, 2023, meeting outlined some key decisions made on the contextualised adoption of IFRS S1 and S2, including the intention to:

- Focus only on climate-related financial disclosure at this stage, closely aligned with IFRS S2 and development of a 'climatised' version of IFRS S1 for Australia.
- Remove references to the SASB Standards from the Australian equivalents of IFRS S1 and IFRS S2.
- Introduce 'not-for profit entity only' requirements.

Treasury will continue to work closely with the AASB on the development of Australia's climate-related disclosure requirements.

How will climate-related disclosure be implemented in Australia?

Table 2: Key features of IFRS S2, Phased disclosure timeline, Treasury 2nd Consultation.

Group	First year of reporting	Entities required to report under Chapter 2M of the Corporations Act and meet two or more of these thresholds:		
		Employees	Consolidated gross assets	Consolidated revenue
1	2024-2025	> 500	$1 billion or more	$500 million or more
2	2026-2027	> 250	$500 million or more	$200 million or more
3	2027-2028	> 100	$25 million or more	$50 million or more

Group	First year of reporting	National Greenhouse and Energy Reporting Act 2007 (NGER) entities reporting under Chapter 2M:
1	2024-2025	A 'controlling corporation' reporting under NGER exceeding publication thresholds used by the Clean Energy Regulator (CER).
3	2027-2028	All controlling corporations.

Table 3: Phased assurance timeline, Treasury 2nd Consultation.

Reporting year

First year
- Limited assurance of scope 1 and 2 emissions
- Reasonable assurance of governance

Second year
- Reasonable assurance of scope 1 and 2 emissions
- Limited assurance of scope 3 (specific)

Third year
- Reasonable assurance of scope 1, 2 emissions and other climate disclosures
- Limited assurance of scope 3 (full)

Beyond year 3
- Reasonable assurance on all climate disclosures

What is Deloitte's view on how entities can prepare for ISSB disclosure?

Diagnose
- Review the ISSB standards.
- Evaluate these against your current approach to ESG reporting.
- Identify key gaps and implications for your systems, personnel, and processes.
- Assess the impact on existing voluntary reporting frameworks.
- Use Deloitte's ISSB Readiness Diagnostic tool to guide you through the process.

Assess
- Evaluate current systems of internal control and data governance.
- Consider implications of disclosures and how these can be integrated into future decision-making processes.
- Review the resources required and make any changes.
- Perform a materiality assessment refresh that includes both sustainability and financial considerations.

Plan and implement
- Develop a plan to operationalise capture, measurement, review, and reporting of disclosures.
- Build a roadmap to support implementation of the new reporting approach.
- Communicate data requirements with relevant internal stakeholders and process owners.

Communicate and report
- Consider how key stakeholders are kept informed of new developments from reviewing, preparing, and disclosing against ISSB standards and Australian Treasury mandate.
- Consider the role of assurance over processes, data, and controls as one of the tools that can improve transparency and accountability to external stakeholders.

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