



## Making sense of ISSB: Navigating climate regulation, compliance and reporting in Southeast Asia

May 2023



“We support the ISSB’s efforts to consolidate and align multiple international frameworks covering sustainability reporting in a cohesive approach.”

**ACRA and Singapore Exchange Regulation**  
Comments on the Exposure Drafts published by the ISSB



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# Executive summary

The global landscape of climate and sustainability reporting and disclosure requirements is complex, presenting a significant challenge to preparing and communicating disclosures across industries, sectors and time horizons.

There has been pressure from investors and financial institutions on the need for more consistent and comparable data across all sectors and industries to support investment decision making. The International Sustainability Standards Board (ISSB) has been set up by the International Financial Reporting Standards (IFRS) Board of Trustees to develop a consistent global baseline for sustainability-related financial disclosures.

Over time we anticipate that Southeast Asia will continue to align mandatory climate disclosure requirements with major global markets including the United Kingdom and the European Union and that the ISSB standards will become a regulatory requirement.

This will have profound and far-reaching impacts on companies in the region in that it will require organisations to disclose the following as part of general-purpose financial reporting:

- Future financial positions and company strategy around climate and sustainability;
- Scope 3 emissions reporting (along with Scope 1 and 2);
- Specific details relating to the use of carbon offsets in achieving targets; and

- Details of the organisation's approach to climate and sustainability related risks and opportunities, including governance and risk assessment methodologies.

Standardising sustainability and climate disclosures is a critical step to accelerating to a net zero future. For most Southeast Asian organisations, meeting these reporting standards will require a step change in the how they measure, model, assess and report – which in itself can be a catalyst for change.

The standards are about so much more than disclosure – with an emphasis on the future and the most material risks to enterprise value. ISSB is fundamentally about strategy. It will support continued access to capital and improved decision making in assessing the impact of climate and other material sustainability on the business.

It also provides the opportunity to integrate these considerations into existing governance mechanisms and capital allocation decisions. It will require a commensurate investment in systems to support better and more timely access to climate and sustainability data.



# Making sense of ISSB:

## Navigating climate regulation, compliance and reporting

Now more than ever, businesses are committing to greater measurement and reporting on climate and sustainability performance. Indeed, this clarity is expected by all stakeholders: customers, investors, regulators, boards and employees. But the global landscape of climate and sustainability reporting and disclosure requirements is complex and disparate, presenting a significant challenge to preparing and communicating consistent and comparable disclosures across industries, sectors and time horizons.

The IFRS Board of Trustees, which developed the global accounting standards, is now taking the lead. It has established the ISSB to develop a consistent global baseline for sustainability-related financial disclosures. These proposed standards, and what they mean for Southeast Asia business should not be underestimated and are outlined in this guide.

### ACRONYMS

<b>GRI</b>	Global Reporting Initiative
<b>IFRS</b>	International Financial Reporting Standards
<b>IOSCO</b>	International Organisation of Securities Commissions
<b>ISSB</b>	International Sustainability Standards Board
<b>SASB</b>	Sustainability Accounting Standards Board
<b>TCFD</b>	Taskforce on Climate-related Financial Disclosures
<b>TNFD</b>	Taskforce on Nature-related Financial Disclosures

# What is the ISSB?

In November 2021, at the UN Climate Change Conference (COP26), IFRS launched the ISSB – a body tasked with developing a globally consistent approach to sustainability reporting, outlining its role in developing a comprehensive global baseline of sustainability and climate disclosure standards.

Exposure drafts of the standards were released in April 2022 and were open for comment until late July 2022. They are designed to give stakeholders (particularly investors) clear, consistent and comparable information about a company's sustainability and climate-related risks and opportunities. The proposed standards:

- Leverage the existing TCFD framework's four pillars of governance, strategy, risk management, and metrics and targets<sup>1</sup>;
- Require disclosure of the governance structures, strategic choices and risk management approaches the company has invested in, in order to respond to identified sustainability and climate risks and opportunities;

- Specify that ESG and financial metrics and data be disclosed across thematic and industry-specific domains; and importantly
- Propose that this information is disclosed as a part of general-purpose financial reporting.

Upon expected finalisation in June 2023, the ISSB standards will be released for voluntary adoption in Southeast Asia (regulatory change will be required before these standards become mandatory).

Over time we anticipate that jurisdictions in the region will align requirements with major global markets such as the United Kingdom and the European Union, and that the standards will become mandatory. In the near term, adoption will be driven by market practice and rapidly evolving stakeholder expectations that leading organisations comply.



# What are the ISSB standards?

The ISSB standards consist of a base standard IFRS S1 which covers general requirements for disclosure of sustainability-related financial information and a ‘thematic’ standard with IFRS S2 – focused on climate-related disclosure

The key requirements of the current draft of the climate-related disclosures (IFRS S2) is outlined in the appendix (*see Figure 1*). The below summary also highlights how and where the proposed standard *extends beyond* the current TCFD requirements and seeks to incorporate industry specific guidance.

**Governance:** disclosures related to ‘understanding the governance processes, controls and procedures used to monitor and manage climate-related risk and opportunities.’<sup>2</sup>

The standard requires extensive detail about:

- a. Exactly who (or which body) in an organisation will be responsible for managing climate-related risks and opportunities;
- b. How the organisation ensures this individual (or group) has the right skills and is subject to appropriate senior oversight and checks and balances (including in relation to the setting and monitoring of targets); and
- c. How the organisation incorporates the thinking of this individual (or group) into its broader strategic decision making.

**Strategy:** disclosures related to ‘understanding an organisation’s strategy for addressing significant climate-related risks and opportunities.’<sup>3</sup>

Like TCFD, the standards require an organisation to provide a full account of how climate-related risks and opportunities:

- a. Could ‘affect business model, strategy, cash flows and access to capital’ in the short, medium and long-term and in different scenarios;
- b. Have affected its ‘financial position, financial performance and cash flows’ in the reporting period, and the anticipated affects in the short, medium and long-term in different scenarios; and
- c. How an organisation is planning to respond to these risks and opportunities, including business transformation plans, and/or direct actions to improve resilience to physical and transition risks.

The standard requires more detail than TCFD about how plans to respond to highlighted risks:

- a. Will be resourced; and
- b. The organisation’s capacity to evolve and adapt these plans in response to changing events (physical risks) and circumstances (transition risks).

There are also new explicit requirements around disclosure of emission targets, how these will be reviewed and the proposed role of carbon offsets in achieving these targets.

**Risk management:** disclosures related to ‘understanding the process, or processes, by which climate-related risks and opportunities are identified, assessed and managed.’<sup>4</sup>

Unlike TCFD, the standard is explicit about the methodology used for outlining how climate-related opportunities have been prioritised, what inputs are used when thinking about climate-related risk, how this methodology is applied and reviewed and an obligation to disclose if there are any changes to the application of this methodology between reporting periods.

**Metrics and targets:** disclosures related to ‘understanding how an organisation, measures, monitors and manages its significant climate-related risks and opportunities. These disclosures shall enable users to understand how the organisation assesses its performance, including progress, towards the target it has set.’<sup>5</sup>

The proposed standard expects:

1. Most notably, a requirement of separate disclosures of Scope 1 and 2<sup>6</sup> carbon emissions and the addition of Scope 3 carbon emissions (emissions from an organisation’s supply and value chains). Scope 3 is recognised as one of the most challenging areas in this domain and it is likely that additional guidance and phase-in provisions will be incorporated to support organisations to meet this potential Scope 3 disclosure requirement; and
2. That an organisation contextualises its disclosures using appropriate industry-based metrics (drawing from SASB).





# Why are the ISSB standards important?

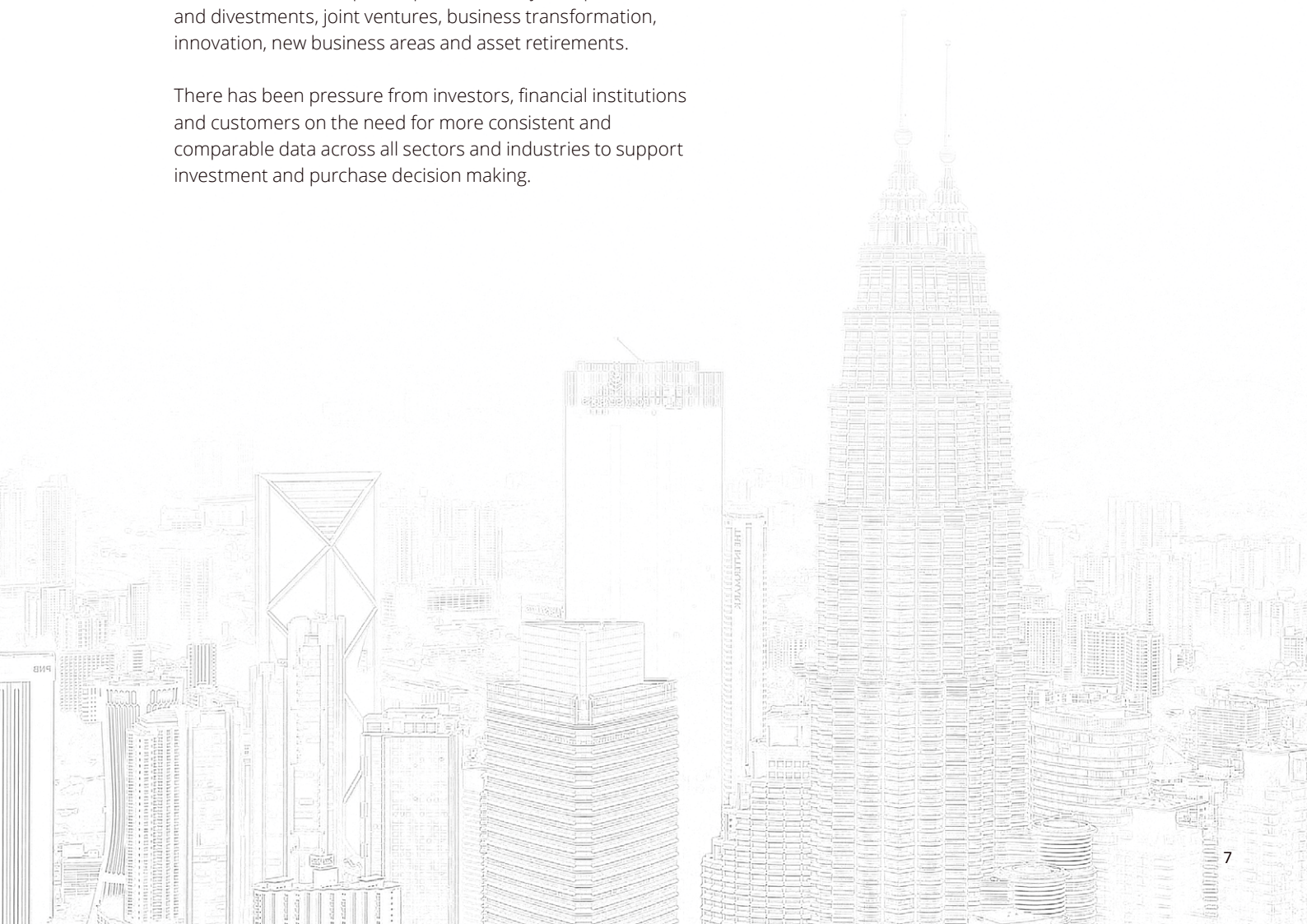
In recent years there have been calls to improve the global consistency and comparability of sustainability reporting, with companies facing increasing pressure to disclose their sustainability and climate risks, and strategies for combatting climate change and responding to ESG demands. ISSB advances this critical cause.

As outlined, the draft standards ask preparers to disclose the effects of climate-related risks and opportunities on their financial position, financial performance and cash flows, along with how they expect their organisation's financial position and financial performance to change over time, given an organisation's decarbonisation strategy. This would include capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements.

There has been pressure from investors, financial institutions and customers on the need for more consistent and comparable data across all sectors and industries to support investment and purchase decision making.

The extent and nature of the financial disclosures outlined above will facilitate this, and provide the verifiable information required to make decisions with greater confidence. This is even more important as regulators around the world are focusing on 'greenwashing' and looking to ensure claims made and ESG data are robust.

From an operational perspective, the integration of ESG data into financial statements poses important considerations about the assurance of such data. It will likely have implications for the internal systems, processes and controls in place for collating ESG data.



# What do the changes mean for companies in Southeast Asia?

A number of regulatory bodies in Southeast Asia have already expressed interest and support for the ISSB. However, currently no plans for mandating disclosure in alignment with the ISSB standards in the region has been made.

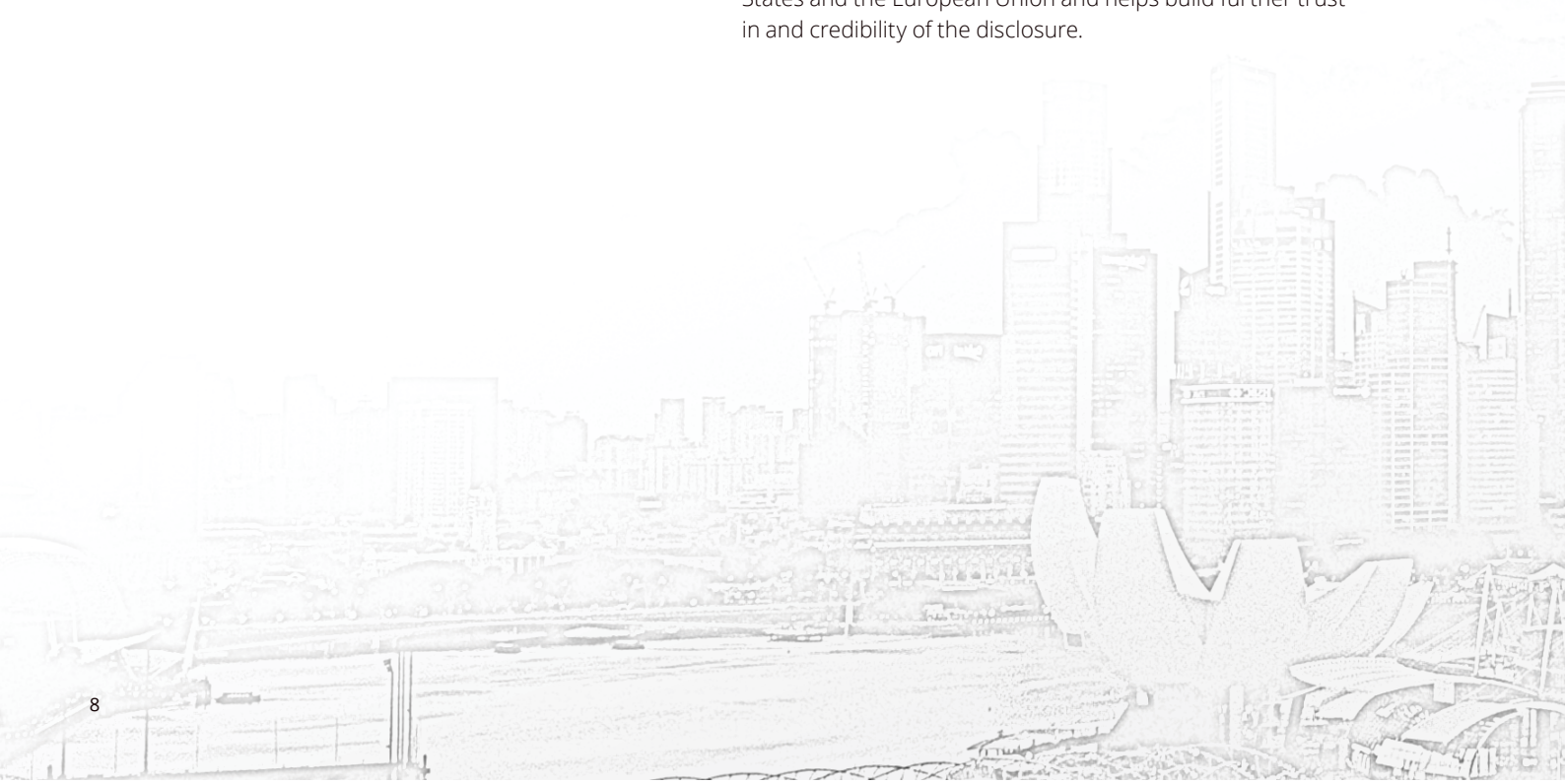
In 2022, the Singapore Stock Exchange (SGX) commenced a three-year phased approach for its listed companies to mandate climate disclosures in alignment with the TCFD recommendations<sup>6</sup>. That same year, the Singapore Exchange Regulation alongside the Accounting and Corporate Regulatory Authority, commented on the ISSB exposure drafts and welcomed the ISSB's initiative to develop a comprehensive global baseline of sustainability disclosure standards<sup>7</sup>.

In Indonesia, the Institute of Indonesia Chartered Accountants (IAI) shared its support for the ISSB and expressed in a comment letter that the "Indonesia Task Force on CCR supports the aspiration for a comprehensive global baseline for the disclosure of sustainability-related financial information and climate related disclosures"<sup>8</sup>.

There is also interest in Malaysia. While delivering opening remarks at a session on the ISSB exposure drafts, the Deputy Chief Executive of the Securities Commission in Malaysia said that "discussions on the proposed standards are already underway between the Securities Commission, Bank Negara Malaysia, Bursa Malaysia and the MASB [Malaysian Accounting Standards Board]"<sup>9</sup>.

With this interest from several key jurisdictions and a strong regional momentum on climate-action, we anticipate that more countries in Southeast Asia will follow suit and consider ISSB in the foreseeable future.

Deloitte also anticipates that assurance over sustainability-related disclosures will become mandatory in time, starting with limited assurance and then moving to reasonable assurance, given that it is proposed that sustainability-related disclosures would form part of general purpose financial reporting, therefore increasing the scope of auditors. Such an approach would be consistent with proposals in the United States and the European Union and helps build further trust in and credibility of the disclosure.

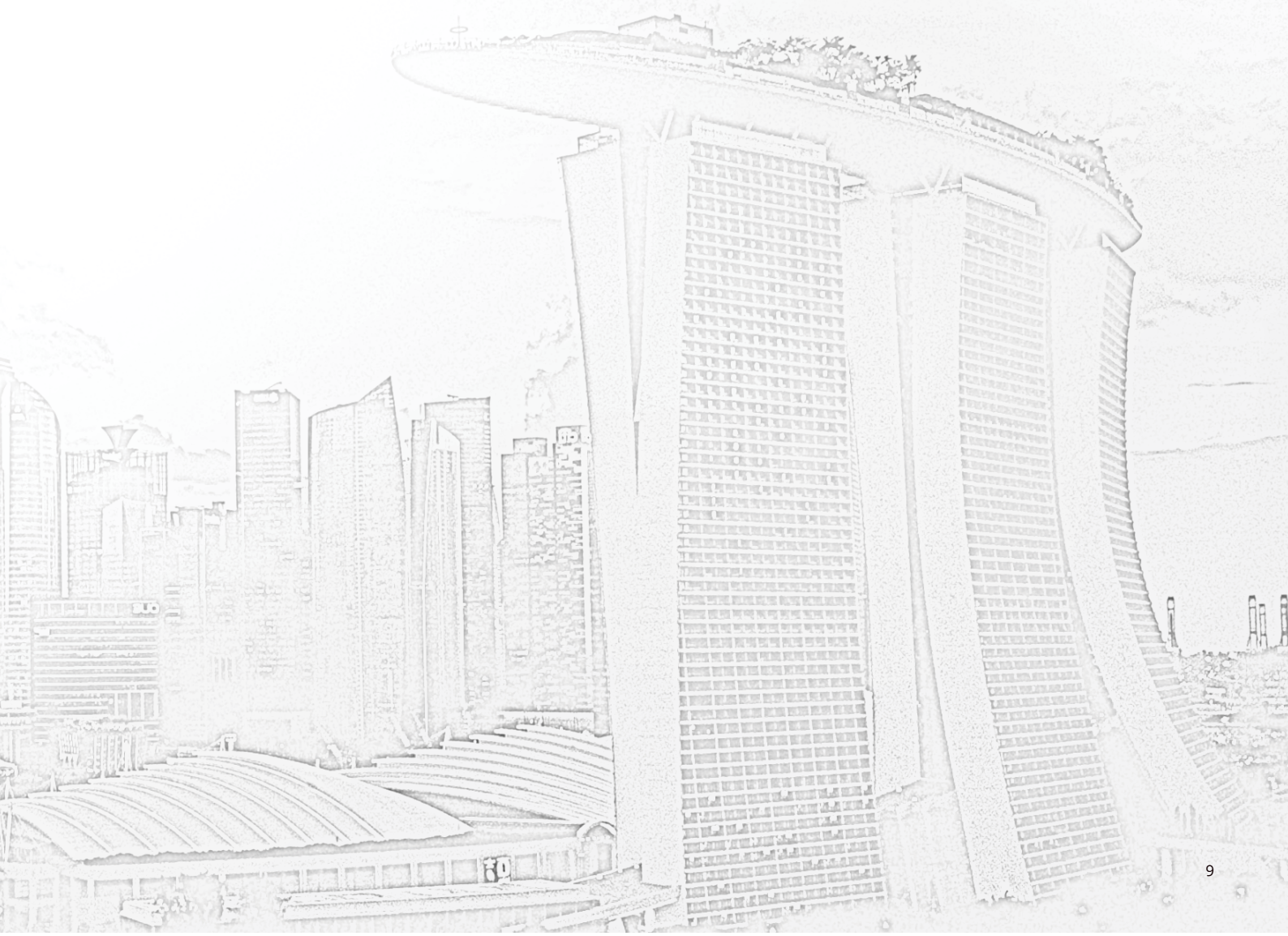




In Southeast Asia currently, voluntary sustainability reporting using TCFD and Global Reporting Initiative (GRI) Standards<sup>10</sup> is increasingly commonplace amongst larger listed entities, but reporting using SASB standards is less so. Larger companies are therefore better positioned to adopt the proposed ISSB standards, but many – particularly smaller listed entities – are less well placed. As such, education, tools and clear guidance will be required to upskill report preparers in the region on the implementation of ISSB Standards and in the use of SASB standards in particular.

Existing voluntary sustainability disclosures continue to evolve as they address a wider range of sustainability issues and stakeholders than ISSB. Over time, however, we expect increased integration and alignment between ISSB and GRI to coordinate work programs and support harmonisation of the sustainability reporting landscape<sup>11</sup>.

The ISSB has announced its intention to develop further topic – specific standards in addition to climate change over time. These are likely to include nature (leveraging the new Taskforce on Nature-related Financial Disclosures (TNFD12)) and human rights, but a detailed work program has yet to be confirmed.





# What is Deloitte's view of the ISSB initiative?

Tangible steps on climate action should be a priority for all organisations. To that end, we propose organisations follow five steps for climate-led transformation:

- 1** **Commit** to a climate change and sustainability aspiration
- 2** **Develop** a climate change and sustainability strategy
- 3** **Align** your organisational model
- 4** **Enhance** organisational capability
- 5** **Regularly** monitor and report

The proposed ISSB standard supports these steps. Its adoption and application will bring greater transparency, organisational maturity and clarity to climate and sustainability disclosures, fundamental to both aspiration and strategy setting (Step 1) and, of course, appropriate and timely monitoring and reporting (Step 5). For most companies in Southeast Asia, meeting these reporting standards will require a significant change in how they measure, model, assess and report – which in itself can be a catalyst for change.

Tackling climate change and material sustainability issues will deliver significant economic benefit, but this cannot be realised without significant re-allocation of capital and new investment. Standardising sustainability and climate disclosures provides more consistent and comparable information to better facilitate this shift and future investment.

And the standards are about so much more than disclosure – with an emphasis on future and most material risks to enterprise value – ISSB is fundamentally about strategy. It will support continued access to capital and improved decision making in assessing the impact of climate and other material sustainability risks on the business. It also provides the opportunity to integrate these considerations into existing governance mechanisms and capital allocation decisions. It will require a commensurate investment in systems to support better and more timely access to climate and sustainability data.

Organisations should invest now to get ISSB ready, which in many cases can begin by leveraging existing sustainability and TCFD reporting processes.



# We believe organisations should focus on investing in four priorities:



## Diagnose

- Review the draft 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 Preparation Diagnostic tool to guide you through the process



## Assess

- Connect key business functions to gather necessary data to draft disclosures
- Consider implications of disclosures and how these can be integrated into future decision making processes
- Review the resources required and make any required changes



## Plan

- Develop a plan to operationalise capture, measurement, review and reporting of disclosures
- Build a roadmap to support implementation of the new reporting approach
- Consider if strategic plans and roadmaps for
- broader climate mitigation and adaption action need to be updated as part of the disclosure process



## Communicate

- Support the C-Suite, Audit Committee and Board to understand the implications of the standards
- Consider how key stakeholders are kept informed of new information and developments from reviewing, preparing and disclosing against the ISSB draft standards and how this can support better strategic decision making and risk review







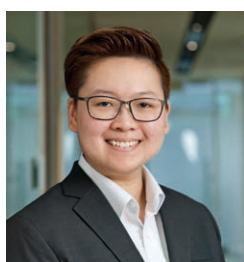
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With extensive experience and expertise across Southeast Asia, Deloitte supports our clients to take practical action to decarbonise, become climate resilient and invest in the economic opportunity of the region's transition to a low-carbon economy. Contact us below to learn more about how we can support your organisation prepare for new reporting standards, stay ahead of the regulatory curve, and align with global best practices.

It's now time to get ISSB ready.

# Appendix

Standards (EDs)		
IFRS		
Guiding requirements	Type	Standards to be jurisdictionally regulated, developed by ISSB
	Scope	Sustainability (S1) and climate-related (S2) disclosures (industry-specific)
	Materiality	Investor-focused: Omitting, misstating, or obscuring information could be reasonably expected to influence decisions that primary users make on an entity's enterprise value
	Assurance	Subject to jurisdictional requirements
Climate-related disclosure	Governance	<ul style="list-style-type: none"> <li>Review risks and opportunities within board mandates and policies</li> <li>Climate-related remuneration policies</li> </ul>
	Strategy (climate risks, opportunities)	<ul style="list-style-type: none"> <li>Direct and indirect responses to climate risk</li> <li>Changes to financial position and resourcing impacts</li> <li>Assets aligned with risks and opportunities</li> <li>Resiliency of strategy informed by scenario analysis</li> </ul>
	Risk management	<ul style="list-style-type: none"> <li>Processes to identify, assess and manage climate-related risks</li> <li>Extent of integration into overall risk management processes</li> </ul>
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
	GHG emissions	Scope 1, Scope 2 and Scope 3 GHG emissions required
	Targets and other metrics	<ul style="list-style-type: none"> <li>Metrics used to assess climate risks and opportunities</li> <li>Targets, performance and approach to target setting</li> <li>Industry-based metrics</li> </ul>

Figure 1 Current draft of climate-related disclosures (IFRS2)









CONSOLIDATES	COMPLEMENTS	INFLUENCED BY	SITS ALONGSIDE
 Climate Disclosure Standards Board  Sustainability Accounting Standards Board  VALUE REPORTING FOUNDATION	 GRI	 TCFD	 SECURITIES AND EXCHANGE COMMISSION  EFRAG European Financial Reporting Advisory Group  OICU-IOSCO

Figure 2 Relationship between ISSB and existing voluntary frameworks

# Footnotes

1. Taskforce of Climate-related Financial Disclosures [www.fsb-tcfd.org](http://www.fsb-tcfd.org)
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