

ISSB publishes global sustainability and climate change standards – Here's what you need to know

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In an attempt to provide a baseline for sustainability-related disclosures for global capital markets, the International Sustainability Standards Board (ISSB) has published its inaugural IFRS Sustainability Disclosure Standards (the ISSB Standards). The CSA has indicated that it will engage in consultation to adopt modified ISSB Standards applicable to the Canadian market.

Takeaways

- The ISSB Standards are **voluntary disclosure standards** that can be used by capital markets participants to provide investors with sustainability and climate-related information relevant to decision-making and could become the **global reporting baseline**.
- The ISSB Standards are comprised of IFRS S1 related to **sustainability-related risks and opportunities** and IFRS S2 which sets out specific **climate-related disclosures**, both of which are based on the recommendations (the TCFD Recommendations) of the **Task Force on Climate-related Financial Disclosures** (TCFD).
- The CEOs of 11 of Canada's **major pension plan** investment managers (\$2 trillion in assets) **have endorsed** the ISSB Standards.
- The application of the ISSB Standards is at the **discretion of each jurisdiction** and is not linked to any requirement to use IFRS Accounting Standards. Canadian regulators have yet to mandate use of ISSB Standards for any companies in Canada; however, the Canadian Securities Administrators (CSA) have indicated that they will be conducting further consultations to adopt disclosure standards based on the ISSB Standards with modifications for the Canadian market.
- Following the publication of the ISSB Standards, the Financial Stability Board requested that the IFRS begin monitoring progress of companies' disclosure made pursuant to the TCFD Recommendations beginning in 2024.

Who or what is ISSB?

ISSB is an independent, private-sector body developed by the International Financial Reporting Standards (IFRS) Foundation with the objective of (i) developing standards for a global baseline of sustainability disclosures; (ii) meeting the information needs of investors; (iii) enabling companies to provide comprehensive sustainability information to global capital markets; and (iv) facilitating interoperability with disclosures that are jurisdiction-specific and/or aimed at broader stakeholder groups.

As part of its mandate, ISSB developed the ISSB Standards which has received significant support from investors, regulators, governments, including the G20 and G7 leaders, companies and other capital market participants. In Canada, there has been significant support for the development and adoption of the ISSB Standards:

- The Government of Canada, in partnership with the Canadian Champions for Global Sustainability Standards coalition, advocated for the selection of Canada as the location for ISSB and in June 2022 announced the inauguration of the ISSB Montreal office and Budget 2022 included \$8 million over three years to support the Montreal office.
- Financial Reporting & Assurance Standards Canada (FRAS Canada) has created the [Canadian Sustainability Standards Board](#) (CSSB) to work with ISSB to support the update of ISSB Standards in Canada, among other things.
- The CEOs of 11 of the country's largest pension plan investment managers, representing more than \$2 trillion in assets under management, [issued a public letter](#) supporting the ISSB Standards and urging issuers and those seeking capital to leverage the new disclosure framework.

What do the ISSB Standards require?

The ISSB Standards are comprised of two disclosure standards:

- **IFRS S1 - General Requirements for Disclosure of Sustainability-related Financial Information** which requires disclosure about sustainability-related risks and opportunities that could reasonably be expected to affect an issuer's cash flows, access to finance or cost of capital over the short, medium, or long term; and
- **IFRS S2 - Climate-related Disclosures** which fully incorporates the TCFD Recommendations and requires disclosure of material information about an issuer's climate-related risks and opportunities that could reasonably be expected to affect and issuer's cash flows, access to finance or cost of capital over the short, medium or long term. IFRS S2 is used in conjunction with IFRS S1.

Under both standards, issuers will be required to disclose its:

- a. Governance processes, controls and procedures;
- b. Strategy for managing sustainability or climate-related risks and opportunities;
- c. Processes used to identify, assess, prioritize and monitor sustainability or climate-related risks and opportunities; and
- d. Performance in relation to such risks and opportunities, including progress towards any set targets.

Where and when is the disclosure required?

The disclosure required under the ISSB Standards is to be disclosed alongside a **company's financial statements**. The IFRS, which also publishes the global accounting standard for the preparation of financial statements adopted by more than 140 jurisdictions across the globe, drafted the ISSB Standards to work in conjunction with the IFRS accounting standards. However the ISSB Standards can be used with any accounting requirements, including the US GAAP.

Although the ISSB Standards disclosure is independent of financial reporting standards used for preparing financial statements, many of the risks and opportunities that need to be considered in sustainability reporting need to also be considered in the financial statements. As reporting evolves, it is essential there is a consistent narrative between the financial statements and sustainability reporting, as both are to meet the needs of the providers of capital.

Do Canadian issuers need to comply with the ISSB Standards?

Both the IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after January 1, 2024. However, the adoption of the ISSB Standards is left to each individual jurisdiction. To date, Canadian regulators have yet to mandate use of ISSB Standards for any companies in Canada. However, we expect to see movement towards adoption quickly. As announced by the CSA on July 5, 2023, the CSA is generally supportive of the ISSB Standards and intend to conduct consultations to adopt modified ISSB Standards for the Canadian context.

As we have [previously discussed](#), the CSA published for comment proposed climate-related disclosure requirements in National Instrument 51-107 Reporting of Climate Change-related Risks (Proposed NI 51-107) in late 2021. Proposed NI 51-107 was largely based on the TCFD Recommendations but did not require issuers to conduct a scenario analysis and suggested a comply or explain model for GHG emissions disclosure. Following publication of the CSA's proposal, the U.S. Securities and Exchange Commission (SEC) published its draft climate-related disclosure rules - Enhancement and Standardization of Climate-Related Disclosures for Investors - that were also closely aligned with the TCFD Recommendations but more prescriptive than Proposed NI 51-107. In addition, ISSB released exposure drafts of the ISSB Standards in March 2022 which, like the SEC proposal, were modelled after the TCFD Recommendations, were prescriptive and incorporated industry-based disclosure requirements derived from standards published by the Sustainability Accounting Standards Board (SASB).

In light of the SEC's proposal and the ISSB exposure drafts, the CSA announced in October 2022 that it was analyzing the key differences between Proposed NI 51-107 and other proposals and was monitoring the evolution of global disclosure standards. The new ISSB Standards and the recent operationalization of the CSSB are key developments under the CSA's consideration.

Next steps

We expect both the CSA and the SEC to either propose new climate-related risk disclosure requirements or publish final disclosure rules before the end of the year.

These will likely be heavily influenced by the ISSB Standards, particularly given the level of industry and government support. Canadian issuers may be well served to familiarize themselves with the ISSB Standards in the event that Canadian regulators adopt them wholesale with a short transition period.

For further information about institutional expectations for climate-related disclosure, please see [Climate-related disclosures: The Big Three's proxy voting guidance and expectations](#) (April 19, 2023).

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