Are markets ready for ISSB?*

*Bridging the gap between current sustainability reporting practices and ISSB requirements.

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The launch of the first set of ISSB Standards on 26th June 2023 marked one of the first endeavors towards establishing a global baseline in sustainability reporting. Utilizing a financial materiality approach (whereby entities are required to report on topics that are likely to impact their financial performance and enterprise value), the ISSB standards aim to support entities in providing investor-useful information, aligned to their general-purpose financial disclosures. The creation of the International Sustainability Standards Board (ISSB) was announced on November 3, 2021, at COP 26 in Glasgow. The ISSB put forth exposure drafts for its S1 (general sustainability) and S2 (climate) related disclosure requirements for a public consultation period lasting from March 31 – July 29, 2022.

The ISSB Timeline

3rd November 2021
The IFRS announces the launch of the ISSB at COP 26 in Glasgow.

31st January 2022
The Climate Disclosure Standards Board (CDSB) is consolidated into IFRS

24th March 2022
GRI and ISSB put forth an MoU announcing their intention to collaborate and ensure interoperability between standards.

31st March 2022
The ISSB publishes S1 (General Sustainability) and S2 (Climate) Exposure Drafts for a public comment period, ending on July 29, 2022.

31st August 2022
The Value Reporting Foundation (VRF) is consolidated into IFRS. SASB industry-based standards will be incorporated into the ISSB standards.

21st October 2022
ISSB votes unanimously to require the disclosure of Scope 3 emissions within the S2 standards

8th November 2022
ISSB announces its new partnership framework for capacity building to "support preparers, investors, and other capital market stakeholders" in using the standards.

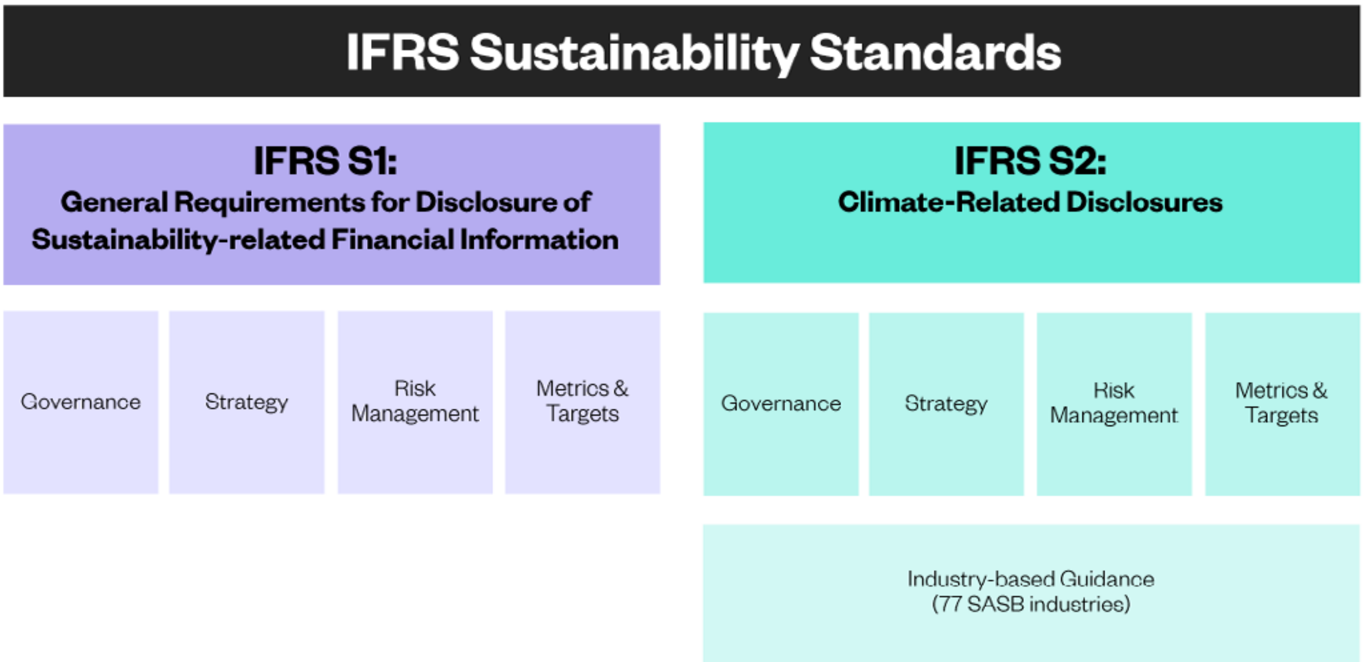
11th May 2023
ISSB releases an exposure draft for the internationalization of the SASB standards for a public comment period, ending on August 9, 2023.

26th June 2023
S1 and S2 standards are released

1st January 2024
S1 and S2 standards come into effect

Incorporating TCFD-aligned disclosure requirements, as well as industry-based guidance leveraging the SASB standards, the ISSB S1 (general sustainability) and S2 (climate) standards are designed to be used in conjunction with each other, and a firm's general purpose financial reporting documents[1], and are built on the foundation of the IFRS Accounting Standards, used in more than 140 jurisdictions[2]. The S1 standards are intended for the reporting of sustainability related risks and opportunities, over the short- medium- and long-term, to investors, while S2 sets out disclosure requirements on climate-related risks and opportunities[3]. The ISSB standards will be effective for reporting periods beginning January 1, 2024.

Figure 1: ISSB Standards – Structure



While ISSB standards are voluntary the possibility of jurisdictional adoption in specific regions may require firms to report in line with the new standards. For example, the UK government has stated its intention to develop a mechanism for endorsement and adoption of the standards[4]. Similarly, the standards have received support from international regulatory bodies including the International Organisation of Securities Commissions (IOSCO), the Financial Stability Board (FSB), the G7, and the G20[5]. To encourage adoption of the S1 and S2 standards, the ISSB will create a Transition Implementation Group, and develop capacity-building initiatives to support entities in adopting and implementing the standards[6].

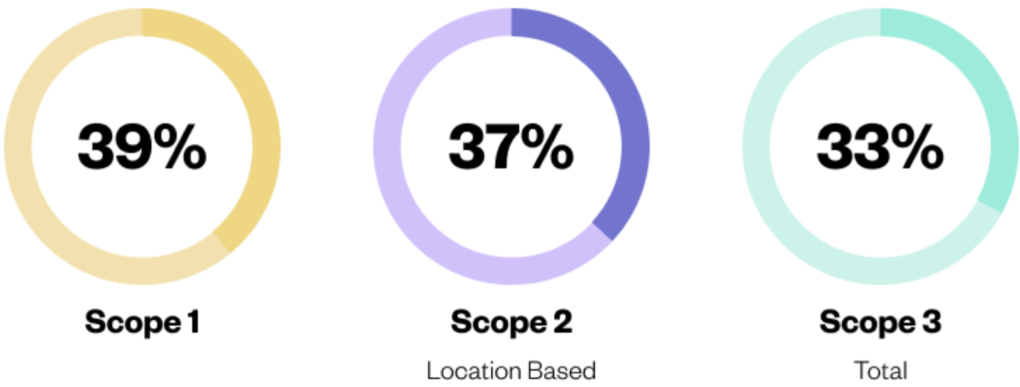
Similarly, the ISSB will also work with jurisdictions to support adoption of the standards, and support those that are looking to require incremental disclosures above and beyond the standards[7]. The ISSB intends to provide an exemption for at least one year after the S2 effective date to give firms sufficient time to establish their reporting practices[8].

The lack of consistent and comparable sustainability data accessible to investors and stakeholders is an on-going problem in the ESG reporting arena. The launch of the ISSB standards has the potential to reduce this gap by establishing a common baseline of sustainability disclosure recommendations for adoption across financial sectors and jurisdictions.

In this article, we aim to leverage ESG Book's proprietary data to assess the gap between current public disclosure rates that could be bridged following the establishment of a comprehensive global baseline of sustainability disclosure requirements. We focus on scope emissions, as these reporting requirements are present in the ISSB S2 standards, in addition to most other dominant sustainability frameworks and standards.

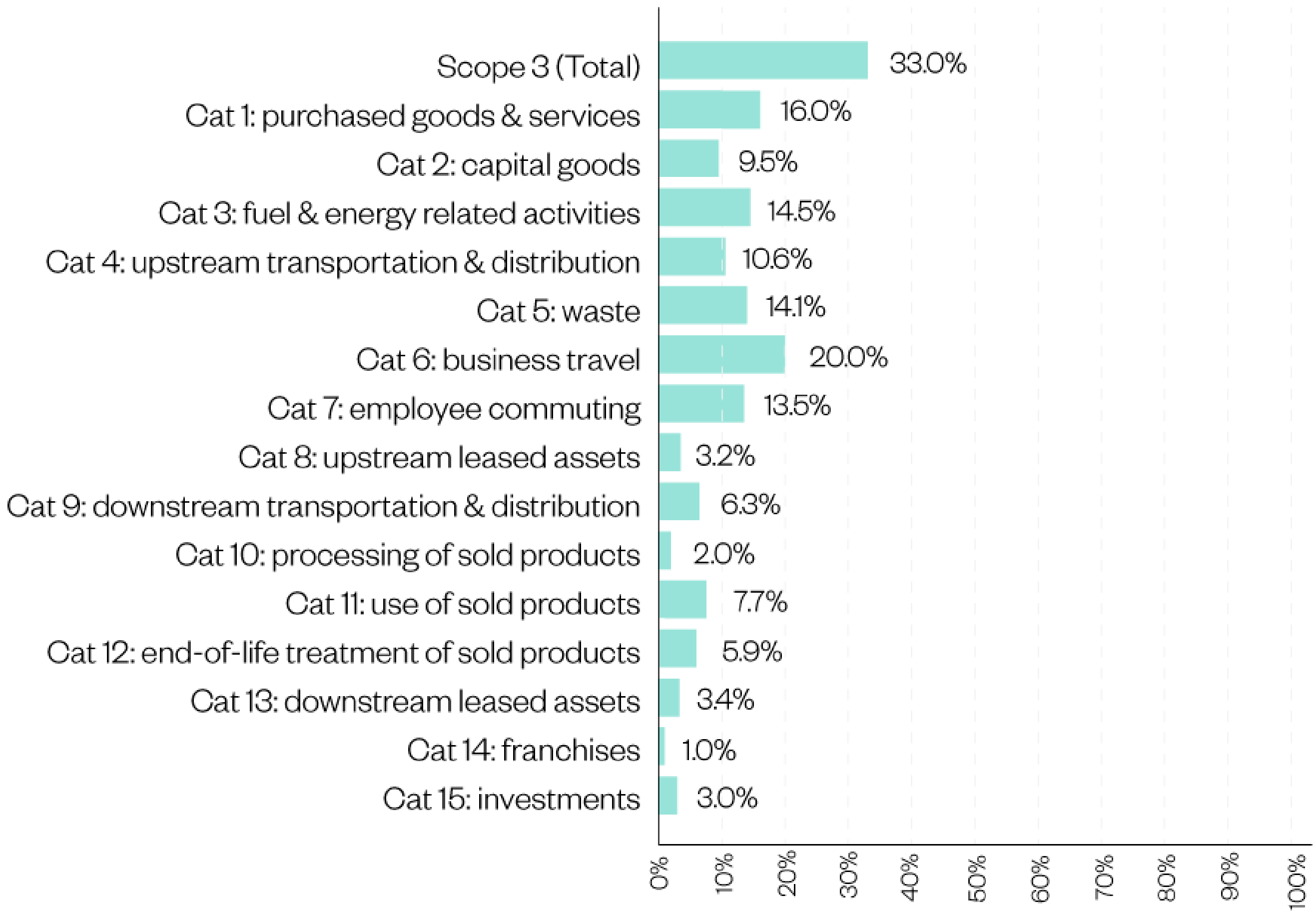
The ISSB S2 Climate-Related Disclosure standards require mandatory emissions reporting, including the disclosure of Scope 2 (location-based), and Scope 3 emissions[9,10], including Category 15 (financed emissions)[11]. Utilizing data collected for 8853 companies, in the year 2001, we have extracted disclosure rates against the above metrics, to assess how entities' current public reporting practices align to these requirements in the ISSB S2 Climate standard.

Figure 2: Disclosure Rates for Scope 3 emissions



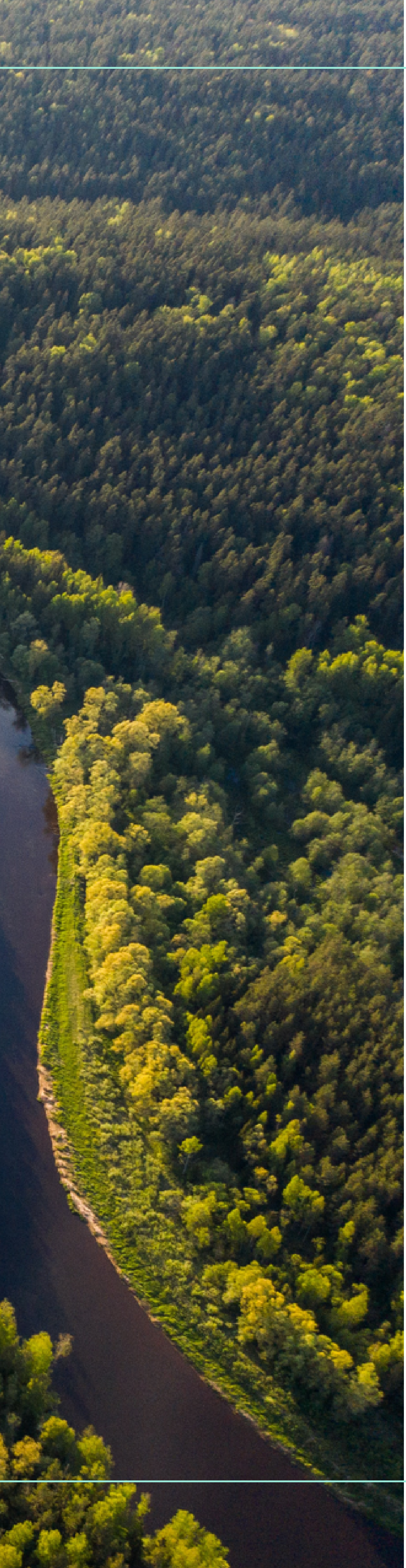
% of entities who have disclosed their scope emissions

Scope 3 emissions disclosure by category



The charts above indicate that fewer than 50% of entities in our universe disclose any scope emissions, with ~39% of companies reporting scope 1 emissions and ~37% reporting on scope 2 using the location-based methodology. Reporting of scope 3 emissions (total) is lower, at 33%, with only 3% of organizations in the full universe reporting on category 15.

While the above data suggests that proportionately fewer companies are currently reporting on scope emissions, the launch and formal adoption of the ISSB standards has the potential to faciliate greater disclosure rates, as reporting norms are standardized across jurisdictions. The simplification of sustainability reporting requirements, and interoperability of standards has the potential to provide the foundation for comparable and quality sustainability and climate data.



Next Steps

Following on from the release of the general sustainability, and climate standards, we can expect to see development in biodiversity, natural ecosystems and just transition. During its October 2022 meeting, the ISSB decided to investigate enhancements related to natural ecosystems, human capital and just transition to the standards to complement the S2 disclosure requirements[12].

ESG Book aims to simplify the sustainability reporting landscape and reduce the corporate reporting burden. Our Reporting Exchange database is primed to help users navigate and distill reporting standards and indicators, while our disclosure utility provides reporting guidance to ensure users are best empowered to align with reporting requirements and best practices.

For more information on how we can help you navigate the ISSB standards, please contact: info@esgbook.com.

References

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