OSLER

International Sustainability Standards Board releases draft sustainability and climate change disclosure proposals for public comment

MAY 24, 2022 8 MIN READ

Related Expertise

- Banking and Financial Services
- Capital Markets
- Climate Change, Carbon Markets and Environmental Finance
- Corporate Governance
- Environmental
- Environmental, Social and Governance (ESG)
- Financial Services Regulatory
- Regulatory
- Risk Management and Crisis Response

Authors: Jennifer Fairfax, Andrew MacDougall, Neal Ross, Justin Sherman, John M. Valley, Sam Muise

The first two proposed sustainability standards of the International Sustainability Standards Board (ISSB) have been issued for a public comment period, with a deadline for input on July 29, 2022. Due to the ISSB's growing global influence, its standards are likely to influence disclosure standards under Canadian securities laws. The proposed ISSB climate-related disclosure standard would require significantly more disclosure than is required under current proposals from Canada's securities administrators (the CSA).

The ISSB proposed standards and recent proposed rules on climate-related disclosure

On March 31, 2022, the ISSB issued two proposed global standards for financial reporting on environmental, social and governance, or ESG, related matters. The first standard sets out proposed general requirements for disclosure of sustainability-related financial information. The second standard sets out proposed requirements for climate-related disclosure. The proposals, referred to as "Exposure Drafts," are open for public comment until July 29, 2022.

The Exposure Draft on climate-related disclosure follows on the heels of

- Proposed National Instrument 51-107 *Disclosure of Climate-related Matters* (Proposed NI 51-107) released by the CSA in late 2021, which would introduce climate-related disclosure requirements for Canadian reporting issuers
- draft rules [PDF] published by the United States Securities and Exchange Commission on March 21, 2022, which would require domestic U.S. issuers and foreign private issuers to include extensive climate-related information within SEC filings and which seek comment on whether to apply such requirements to Canadian issuers using the multi-jurisdictional disclosure system

Each proposed standard was developed independently. But while they are all based upon the well-recognized recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), they diverge significantly in the level of detail expected to be included in the disclosure. The ISSB Exposure Drafts would require significantly more detailed disclosure than proposed National Instrument 51-107, but are not as onerous as the SEC proposal.

OSLER

What is the ISSB?

The creation of the ISSB was announced on November 3, 2021, by the International Financial Reporting Standards (IFRS) Foundation. The IFRS Foundation is a not-for-profit, public-interest organization established to develop a single set of globally accepted accounting and sustainability disclosure standards. By way of example, the Canadian Accounting Standards Board requires publicly accountable enterprises to use IFRS in the preparation of all interim and annual financial statements.

Feedback received by the IFRS Foundation in response to a consultation paper on sustainability reporting issued in September 2020 highlighted the growing and urgent demand for global sustainability reporting standards. In response to that feedback, the IFRS Foundation Trustees created the ISSB with the mandate to create a comprehensive global baseline of sustainability and climate-related disclosure standards to provide investors and other capital market participants with information regarding the sustainability- and climate-related risks and opportunities faced by companies. The ISSB has offices in Frankfurt (Germany) and Montréal (Canada), with additional regional offices proposed for San Francisco (U.S.A.), London (U.K.), Beijing (China) and Tokyo (Japan).

The ISSB has been endorsed and supported by the International Organization of Securities Commissions, whose members include the Alberta, British Columbia, Ontario and Québec Securities Commissions. The IFRS has announced that it will work to consolidate the ISSB with the Value Reporting Foundation, an international organization made up of the former International Integrated Reporting Council and the Sustainability Accounting Standards Board. As such, the ISSB has been recognized as the new global leader in sustainability- and climate-related reporting.

What is the purpose of the ISSB Exposure Draft on General Requirements for Disclosure of Sustainability-related Financial Information?

The first Exposure Draft sets out requirements for the disclosure of sustainability-related financial information (the General Requirements ED). Proposals in the General Requirements ED would require an entity to disclose material information regarding all significant sustainability-related risks and opportunities to which it is exposed. Such disclosure is aimed at assisting users of an entity's general purpose financial reporting in assessing enterprise value. Materiality is assessed on the basis of whether the information would be required for an accurate enterprise value assessment.

Under the General Requirements ED, an entity's sustainability-related financial disclosures would need to utilize the same consolidated entity approach used for the entity's financial reporting under accounting standards. For example, if the reporting entity is a group, the consolidated financial statements will be for a parent and each of its subsidiaries. The purpose of this approach is to ensure that an entity's sustainability-related financial disclosures enable investors and other stakeholders to accurately assess the enterprise value and risk across the entire value chain and operational structure of an organization. Moreover, sustainability-related financial reporting would be published as part of an entity's general purpose financial reporting, and consequently would be disclosed at the same time as its general financial statements.

The General Requirements ED sets out broad principles for disclosure of sustainability-related financial information. It can be viewed as a launchpad for more specific requirements in the future, like the more detailed requirements relating to disclosure of climate-related information that are set out in the second Exposure Draft (the Climate ED).

What does the ISSB Exposure Draft on Climate-related Disclosure require?

The Chair of the ISSB has noted that climate-related disclosure requirements are a response to the most recent report of the Intergovernmental Panel on Climate Change (which has called for “immediate and deep emissions reductions across all sectors” in order to limit global warming to 1.5°C) and are an urgent priority of the ISSB. The Climate ED is aimed at ensuring market participants have access to material information relating to the financial consequences of climate change. The framework for disclosure is generally consistent with the TCFD recommendations, with disclosure requirements focused on Governance, Strategy, Risk Management and Metrics and Targets.

- *Governance* – The issuer would be required to outline the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. Issuers are required to disclose how responsibility for climate-related issues are allocated amongst the board of directors, board committees and management. In addition, issuers would be required to disclose how the board of directors ensures that the necessary skills and competencies are available to oversee climate-related risks and opportunities.
- *Strategy* – The issuer would need to disclose its strategy for addressing significant climate-related risks and opportunities and that strategy’s resilience to climate-related scenarios. Issuers would also be required to disclose how they are directly responding to those risks and opportunities, including changes to their business models, strategies and resource allocation, as well as the deployment of emissions reduction targets and use of carbon offsets. Significantly, the Climate ED would require issuers to engage in “scenario analysis”, describing the resilience of the organization’s strategy, taking into consideration a different climate-related scenarios, including a scenario in which 2°C of warming is reached.
- *Risk Management* – The Climate ED would require a summary of the processes by which climate-related risks and opportunities are identified, assessed and managed by the issuer. Issuers would be required to describe significant climate-related risks and opportunities to their business models and value chains over short-, medium- and long-term time horizons. Issuers also would be required to describe their processes for identifying, assessing and prioritizing climate-related risks, and how this process is integrated into the organization’s overall risk-management process.
- *Metrics and Targets* – The Climate ED would require disclosure of the metrics used by the organization to assess climate-related risks and opportunities, as well as disclosure of specific metrics relevant to the issuer’s industry that are derived from SASB standards. Consistent with TCFD guidance, the Climate ED requires use of the GHG Protocol to disclose Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions. Unlike Proposed NI 51-107, issuers would be required to provide Scope 3 emissions (which cover upstream

and downstream GHG emissions), although the entity may exclude some GHG emissions if it explains the reason for doing so. Issuers would also have to describe the targets used to manage climate-related risks and opportunities, how the target compares with targets created in the latest international agreement on climate change, and whether it has been validated by a third party, along with progress towards each target.

How do the ISSB Exposure Drafts differ from other proposals when it comes to climate-related disclosure?

There are two principal differences:

1. Unlike Proposed NI 51-107, the ISSB Exposure Drafts would require issuers to engage in "scenario analysis", describing the resilience of their business strategy against a variety of climate-related scenarios, including a scenario in which 2°C of warming is reached.
2. The ISSB Exposure Drafts would also require the disclosure of Scope 1 and Scope 2 GhG emissions information, whereas National Instrument 51-107 would allow issuers to choose between providing disclosure or explaining why the GhG emissions data was omitted. The ISSB standard would only allow the exclusion of Scope 3 emissions if the reason for the omission is explained.

Although the ISSB Exposure Drafts would require disclosure beyond Proposed NI 51-107, they are less prescriptive than the SEC draft rules in several respects. In particular, the proposed SEC rules require additional details in the reporting of GHG emissions, including the completion of a "GHG Attestation Report" for Scope 1 and Scope 2 emissions, requiring an outline of the methodologies used to track emissions and an attestation to the accuracy of the emissions disclosed.

Next steps for issuers

The ISSB has received broad-based support for its creation and mandate. It is possible that the Exposure Drafts may prompt the CSA to consider further revisions to Proposed NI 51-107. Moreover, if enough jurisdictions support final versions of the ISSB standards, the CSA may consider adopting the ISSB disclosure standards as the applicable disclosure standards for Canadian issuers.

Issuers and investors are encouraged to comment on the ISSB Exposure Drafts. The public comment period remains open until July 29, 2022. The ISSB included specific questions for respondents in each Exposure Draft and have invited respondents to comment on some or all of the questions. Responses may be provided by way of a comment letter to the ISSB or by way of surveys published by the ISSB for the General Requirements ED and the Climate ED.