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Global Sustainability Disclosure Standards Converge: ISSB Finalizes IFRS S1 and IFRS S2

Overview

The global sustainability landscape is rapidly taking shape. On June 26, 2023, the International Sustainability Standards Board (ISSB) issued its first two standards, [IFRS S1](#)¹ and [IFRS S2](#),² with modifications from the exposure drafts (EDs) in response to stakeholder feedback. These standards address disclosure requirements related to an entity’s governance, strategy, risk management, and sustainability-related metrics and targets and mark an important milestone in the standardization of global corporate sustainability reporting. IFRS S1 and IFRS S2 are intended to improve the alignment and interoperability of global sustainability standards, reducing the reporting burden for preparers and enhancing the usefulness of sustainability disclosures for investors in making decisions. The interoperability between IFRS S1 and IFRS S2 and other emerging global standards means that companies can now take action to apply the ISSB standards to accelerate preparedness for regulatory requirements around the world. It is expected that IFRS S1 and IFRS S2 will inform many local jurisdictions that codify the global standards or supplement them with additional jurisdictional requirements.

Background

At the 26th United Nations Conference of the Parties in November 2021, in light of strong market demand for convergence and rationalization of the various sustainability standards, the IFRS Foundation trustees announced the formation of the ISSB to act as the authoritative standard setter in the market and to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors’ information needs. The trustees also

¹ IFRS S1, *General Requirements for Disclosure of Sustainability-Related Financial Information*.

² IFRS S2, *Climate-Related Disclosures*.

announced their intended consolidation of the Value Reporting Foundation (formerly the Sustainability Accounting Standards Board [SASB]) and the Climate Disclosure Standards Board into the IFRS Foundation, which was made official in August 2022.

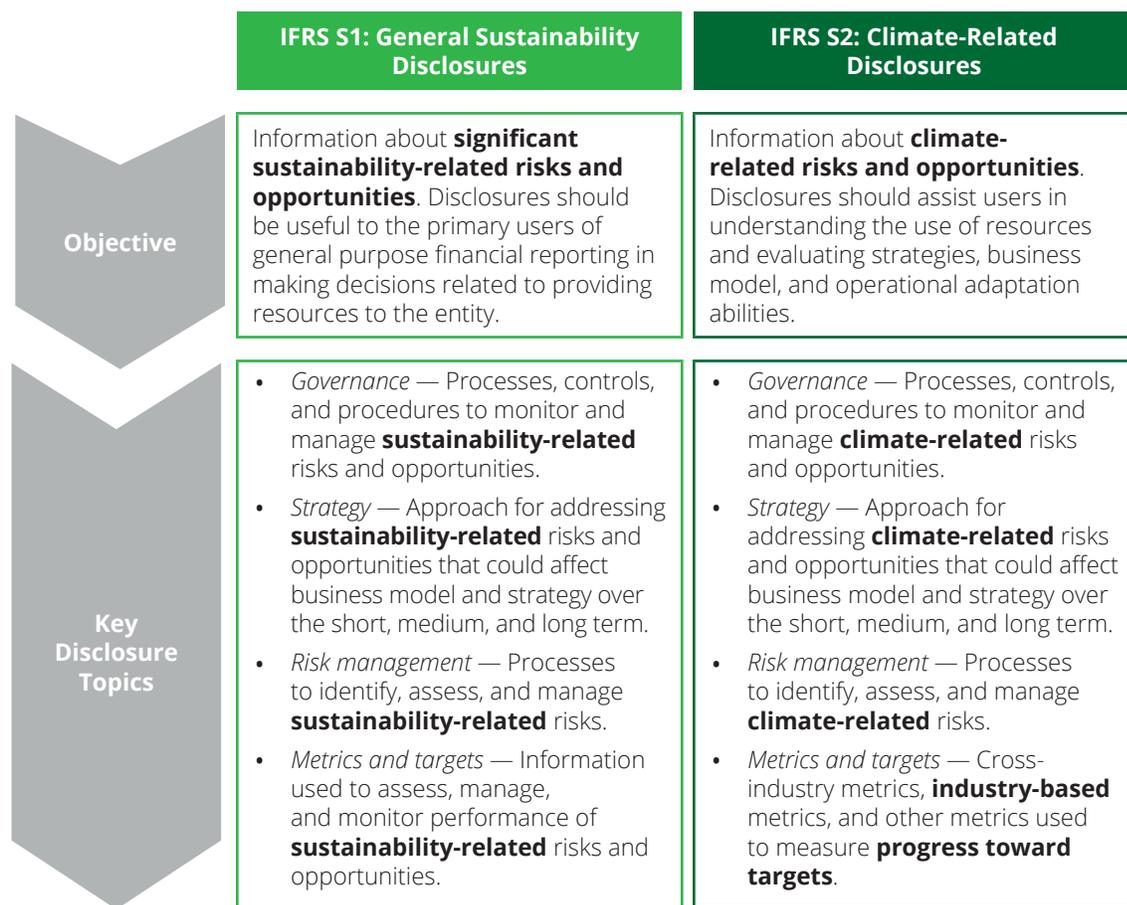
In March 2022, the ISSB released EDs on general requirements for sustainability disclosures (IFRS S1) and climate-related disclosures (IFRS S2). After a consultation period of 120 days, the ISSB redeliberated and finalized the proposals, which were published on June 26, 2023.

IFRS S1 and IFRS S2 — Selected Provisions

IFRS S1 and IFRS S2 create a global baseline for sustainability disclosures. Beyond the general sustainability reporting requirements in IFRS S1, the standards' first thematic area of focus is climate-related disclosures through IFRS S2. 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 objective of the standards is to require an entity to disclose decision-useful information about its climate- and sustainability-related risks and opportunities to primary users of general purpose financial reports, including those that may be providing resources to the entity.

IFRS S1 and IFRS S2 require an entity to disclose information about all **material** sustainability-related and climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to financing, or cost of capital over the short, medium, or long term. However, in a June 2023 [feedback statement](#), the ISSB provides an exemption that allows an entity "to omit commercially sensitive information about a sustainability-related opportunity from its sustainability-related financial disclosures under specific conditions." An entity applying the exemption must disclose that fact. The ISSB also notes that an entity "would not be permitted to use commercial sensitivity as a broad justification for non-disclosure nor to omit information about sustainability-related risks."

In the context of sustainability-related financial disclosures, IFRS S1 defines material information in alignment with the International Accounting Standards Board's (IASB®) definition, which states that 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. As summarized in the graphic below, the core content of the disclosures should include information on an entity's **governance** processes and controls, **strategy, risk management** practices, and **metrics and targets** used to monitor, manage, and report performance in relation to the identified risks and opportunities.



IFRS S1 sets out general requirements for the content and presentation of an entity's sustainability-related financial disclosures. Such disclosures must pertain to the same reporting entity as the related financial statements, and the entity is required to identify the financial statements to which the sustainability-related financial disclosures are related. In addition, the financial data and assumptions included in the disclosures must be consistent with the corresponding financial data and assumptions applied in the preparation of the entity's financial statements, to the extent possible, including consideration of the requirements of IFRS® Accounting Standards or other applicable generally accepted accounting principles (GAAP) or practices. Any judgments made by the entity in preparing its disclosures, including the sources of guidance it used, must be identified.

IFRS S2 requires specific metric category disclosures, including Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions generated during the reporting period. When disclosing GHG emissions in accordance with the *Greenhouse Gas Protocol — A Corporate Accounting and Reporting Standard* ("GHGP Standard") under IFRS S2, an entity must disclose the approach used (i.e., the equity share or control approach) and the consolidated accounting group to which the emissions pertain (e.g., for an entity applying IFRS Accounting Standards, this group would comprise the parent and its consolidated subsidiaries).

The ISSB introduced several relief measures aimed at reducing the burden of reporting GHG emissions,³ which include:

- Temporary relief from using the GHGP Standard in the first annual reporting period an entity applies IFRS S2 if it has previously used another GHG measurement method.
- Relief that allows an entity to use an alternative GHG measurement method if it is required, in its jurisdiction, to do so.

³ [Feedback Statement: IFRS Sustainability Disclosure Standards](#).

- Temporary relief from disclosing Scope 3 emissions in the first annual reporting period an entity applies IFRS S2.

In addition to GHGs, IFRS S2 requires an entity to provide disclosures related to its climate-related physical and transition risks and opportunities, internal carbon prices, capital deployment (including the amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities), and remuneration (including whether and how climate-related considerations are factored into executive remuneration). The standard is also accompanied by industry-based guidance on implementation,⁴ which suggests ways to identify, measure, and disclose this information associated with particular business models, activities, or other common features that characterize participation in an industry. This industry-based guidance was derived from SASB standards, which are maintained by the ISSB. While IFRS S1 requires an entity to consider the applicability of SASB disclosure topics, the entity is not required to apply them if it determines that such topics do not result in disclosures that meet the requirements of IFRS S1. Similarly, under IFRS S2, entities are required to consider the applicability of the industry-based guidance but are not required to apply the particular metrics included in the guidance.

Note that assurance requirements applied to IFRS S1 and IFRS S2 are subject to jurisdictional regulation. By contrast, other [proposed global sustainability reporting standards](#) such as the European Sustainability Reporting Standards (ESRS) and the U.S. Securities and Exchange Commission's (SEC's) [proposed rule](#) on climate-related disclosures would both require limited assurance followed by reasonable assurance on certain mandated disclosures. See Deloitte's [January 9, 2023](#), and [March 29, 2022](#), *Heads Up* newsletters.

Application Timeline

An entity is required to apply both IFRS S1 and IFRS S2 for annual reporting periods beginning on or after January 1, 2024, but the specific application date for the standards will vary as jurisdictions move to adopt them. Early application of the standards is permitted. In such a case, the entity is required to disclose that it is applying the standards early and to apply both standards at the same time. Alternatively, an entity may elect to apply the transition relief described below for sustainability-related disclosures (IFRS S1). If transition relief is applied, the “date of initial application is the beginning of the annual reporting period in which an entity first applies [the standards].”

The ISSB provides entities with transition relief to give them more time to prepare as they align their reporting of sustainability-related financial disclosures with their financial statements. As a part of that relief, an entity is not required to provide the disclosures specified in IFRS S1 or IFRS S2 for any period before the date of initial application. Accordingly, comparative information is not required to be disclosed in the first annual reporting period in which an entity applies the standards.

In addition, in the first annual reporting period in which an entity applies IFRS S1, it is permitted to report its sustainability-related financial disclosures *after* it publishes its related general purpose financial statement. In accordance with IFRS S1, an entity applying this relief should report its sustainability-related financial disclosures at one of the following times:

- Concurrently with “its next second-quarter or half-year interim general purpose financial report, if the entity is required to provide such an interim report.”
- Concurrently with “its next second-quarter or half-year interim general purpose financial report, but within nine months of the end of the annual reporting period in which the entity first applies this Standard, if the entity voluntarily provides such an interim report.”

⁴ IFRS 2, [Part B](#), “Industry-Based Guidance for IFRS S2.”

- “[W]ithin nine months of the end of the annual reporting period in which the entity first applies this Standard, if the entity is not required to and does not voluntarily provide an interim general purpose financial report.”

Moreover, in the first annual reporting period in which an entity applies IFRS S1 and IFRS S2, the entity is permitted to disclose information on only climate-related risks and opportunities (in accordance with IFRS S2) and to apply the requirements in IFRS S1 (on sustainability-related information) only to the extent that they are related to the disclosure of information on climate-related risks and opportunities. In accordance with IFRS S1, if an entity uses this transition relief, it must disclose that fact, and it is **“not required”** to disclose comparative information about its climate-related risks and opportunities” (emphasis added) in the first annual reporting period in which it applies the standard. In the second annual reporting period, the entity is **“not required”** to disclose comparative information about its sustainability-related risks and opportunities, other than its climate-related risks and opportunities” (emphasis added). IFRS S2 includes additional transition-relief provisions regarding GHG emissions. For additional details, see Deloitte’s June 2023 *iGAAP in Focus*.



Connecting the Dots

With the effective date for application set for annual reporting periods beginning on or after January 1, 2024, the time to act is now. The transition relief is not an extension of the effective date; while preparers are not required to disclose comparative information for the first annual reporting period, they will still be required to report information on climate-related risks and opportunities.

If an entity applies the transition relief, it should not delay taking the next steps to prepare. This may include performing or refreshing a materiality analysis to identify sustainability-related risks and opportunities, establishing or enhancing governance and controls related to sustainability data and disclosures, performing an assessment to understand risks and impacts across the value chain, and establishing a plan to integrate assurance into the reporting process.

Endorsements by Local Jurisdictions and Industry Associations

IFRS S1 and IFRS S2, the first final international sustainability disclosure standards, are issued at a time of significant policy and regulatory action. The ISSB’s standards are intended to create a global baseline that can be supplemented by (and therefore interoperable with) jurisdictional requirements.

A recent *Wall Street Journal* [article](#) on the launch of the ISSB standards notes that “[s]o far, major countries that have indicated they are setting up mechanisms to consider using the ISSB standards are Australia, Canada, Japan, Hong Kong, Malaysia, New Zealand, Nigeria, Singapore and the U.K.” In addition, the ISSB is awaiting some form of endorsement from the International Organization of Securities Commissions (IOSCO), of which the SEC is a member. Certain jurisdictional members of IOSCO have already expressed support for the mandate of ISSB standards. Japan, for example, announced that it will issue final disclosures based on the ISSB standards by March 31, 2025. The European Union, through its Corporate Sustainability Reporting Directive (CSRD), has also demonstrated a commitment to consider, to “the greatest extent possible,” global standard-setting initiatives, like the ISSB, in its own standards.⁵ Beyond local jurisdictions, the business community has demonstrated its support for the ISSB standards through the Memorandum of Understanding, released on June 6, 2023, between the World Economic Forum and the ISSB.⁶ The collaboration is designed to help build capacity among entities to issue high-quality disclosures that align with the ISSB standards.

⁵ See “Corporate Sustainability Reporting” on the European Commission’s [Web page](#).

⁶ World Economic Forum June 6, 2023, press release, “World Economic Forum and ISSB Partner to Compile Learnings on Early Sustainability Reporting Efforts” ([weforum.org](#)).

These endorsements could further solidify the ISSB's standards as a common baseline for sustainability reporting standards, which will help drive convergence with other reporting requirements and promote efficiency for companies in navigating the overall sustainability reporting landscape.



Connecting the Dots

The finalization of the ISSB's standards has been the culmination of a global effort accompanied by growing regulatory engagement and jurisdictional support for a common baseline for sustainability reporting standards. Regardless of where the SEC lands on its proposed climate disclosure rule, the ISSB's standards can act as a natural and efficient extension of current sustainability reporting and help establish the roadmap for regulatory compliance. This extension is supported by the ISSB's convergence of a number of leading sustainability standards already applied by U.S. companies, as well as its stated commitments to ensuring compatibility with and producing technical mappings between other standards such as the Global Reporting Initiative (GRI).^{7,8}

Interoperability With the ESRS and SEC's Proposed Climate-Related Disclosure Rule

On June 9, 2023, the European Commission published revised draft ESRS for public consultation. A primary objective of the revision is "to achieve higher interoperability/integration/alignment to the contents of the IFRS EDs"⁹ and to avoid creating a double reporting burden for entities that apply ESRS at the same time as IFRS S1 and IFRS S2.¹⁰ The E.U. CSRD also would allow companies to provide their reports in accordance with the ESRS, or standards deemed to be equivalent (see Deloitte's January 9, 2023, *Heads Up*). However, the European Commission has not yet defined these equivalent standards.

Broadly speaking, IFRS S2 is highly aligned to the SEC's proposed climate-related disclosure rule, in part because of the shared starting point, namely the recommendations for disclosure requirements from the Task Force on Climate-Related Financial Disclosures (TCFD). The ISSB has also stated its commitment to work closely with the GRI to ensure greater compatibility between the standards. The two entities are collaborating to provide a technical mapping between the two sets of standards to provide reporting entities with examples of how to use the standards together and streamline reporting.¹¹

In addition, U.S.-based entities reporting under SASB standards should be aware that the ISSB has mapped its industry-based guidance to relevant SASB metric codes to assist previous SASB standards preparers in interpreting the new standards.¹² The ISSB guidance is consistent with the SASB standards in terms of:

- Industry classifications.
- Disclosure topics.
- Metrics and technical protocols.
- Activity metrics.

⁷ "IFRS Foundation and GRI to Align Capital Market and Multi-Stakeholder Standards to Create an Interconnected Approach for Sustainability Disclosures" ([ifrs.org](https://www.ifrs.org)).

⁸ "Progress Towards a Strengthened Sustainability Reporting System" ([globalreporting.org](https://www.globalreporting.org)).

⁹ EFRAG Agenda Paper 02.01, *Interoperability Between IFRS Standards and ESRS* ([efrag.org](https://www.efrag.org)).

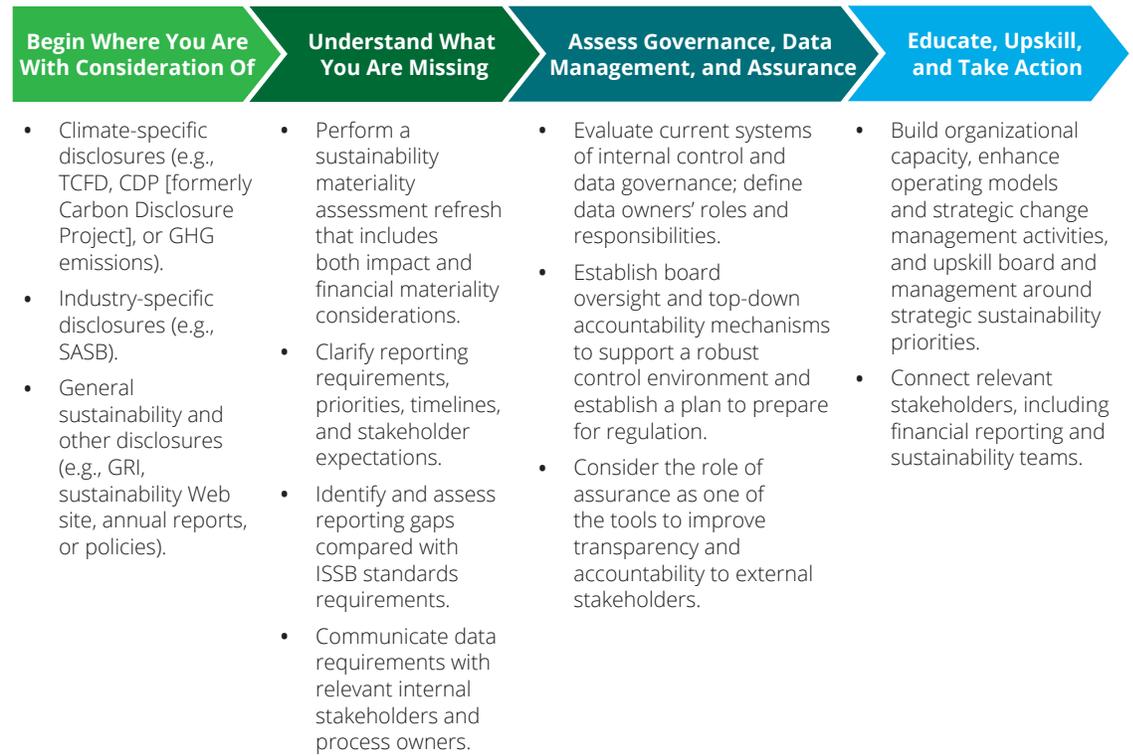
¹⁰ "European Sustainability Reporting Standards — Unpacking the Commission's First Draft Delegated Act." Adithya Subramoni, Magda Puzniak-Holford, Simon Brennan, et al ([deloitte.com](https://www.deloitte.com)).

¹¹ IFRS Foundation, *Accompanying Guidance on Climate-Related Disclosures* ([ifrs.org](https://www.ifrs.org)).

¹² See footnote 11.

Considerations for Companies Navigating the Global Sustainability Regulatory Landscape

With the sustainability regulatory landscape taking shape, companies should devote attention to rapidly accelerating their preparedness for sustainability-related financial reporting, including enhancing governance and data management practices. As local jurisdictions begin to adopt the ISSB standards, it is becoming imperative from both a regulatory compliance and value creation perspective to integrate financial metrics with nonfinancial disclosure across governance, risk management, and strategy. Outlined below are a few considerations for companies as they take action to align their disclosures with global sustainability standards.



Additional Deloitte Resources

- [iGAAP in Focus — Sustainability Reporting: ISSB Publishes First IFRS Sustainability Disclosure Standards](#)
- [Heads Up — Using the COSO Framework to Establish Internal Controls Over Sustainability Reporting \(ICSR\)](#)
- [Heads Up — Global Reach of the E.U. Corporate Sustainability Reporting Directive and the Impact on U.S. Companies](#)
- [Heads Up — Setting the Standard: When Sustainability and Climate Reporting Meet Financial Reporting](#)
- [Heads Up — The Disclosure Heat Is On: The Move Toward International Standardization of Sustainability and Climate Reporting](#)
- [Heads Up — Comprehensive Analysis of the SEC's Proposed Rule on Climate Disclosure Requirements](#)
- [Center for Board Effectiveness — On the Audit Committee's Agenda: Navigating the ESG Journey in 2022 and Beyond](#)

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