

ISSB sets out global standards for sustainability disclosures

AT A GLANCE

April 2022

What's new?

- On 31 March 2022, the International Sustainability Standards Board (ISSB), published [a consultation](#) on two exposure drafts of proposed standards, focusing on [general sustainability-related disclosure requirements](#) and [climate-related disclosure requirements](#).
- The proposed standards are the first two from ISSB and build on the [recommendations](#) of the Task Force on Climate-Related Financial Disclosures (TCFD) and other economy-wide industry sustainability reporting initiatives, such as the Sustainability Accounting Standards Board (SASB).
- The intention is to create a comprehensive and granular corporate reporting standards framework for internationally consistent disclosures. These were developed in response to growing international demand.

What does this mean?

- ISSB sets out detailed proposals of what companies in all sectors should disclose regarding (i) sustainability-related risks and opportunities and (ii) climate-related risks and opportunities.
- The proposals are based on, and structured around, the TCFD recommendations on governance, strategy, risk management, metrics and targets. They also incorporate the SASB Standards, a set of 77 industry-specific sustainability accounting standards designed to help companies disclose material, decision-useful information to investors.
- ISSB proposes that a company discloses material information about all significant sustainability-related or climate-related risks and opportunities to which it is exposed. Relevant information for these disclosures may extend beyond information reported in financial statements. Companies need to identify all relevant information to disclose against the specific disclosure requirements.
- Disclosures should be decision-useful for users of financial reporting regarding a company's enterprise value or total value and should provide an understanding of how a company measures, monitors, and manages significant sustainability-related risks and opportunities and climate-related risks and opportunities.
- For the general sustainability-related disclosures proposal, companies that apply the standard would be required to disclose the information that gives insight into the sustainability-related risks and opportunities that affect enterprise value as part of their general purpose financial reporting, to be published at the same time as the financial statements. The standards set out specific disclosure requirements under each TCFD category.
- The proposal for climate-related disclosures follows the same approach as the sustainability-related disclosures. Physical and transition risks and opportunities are in scope.

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What do firms need to do?

- In its [Greening Finance: Roadmap to Sustainable Investing](#), the UK Government said it will create a mechanism to adopt and endorse these standards in the UK (the framework will be subject to consultation) in a way that is consistent with both existing and upcoming disclosure requirements, such as the upcoming Sustainability Disclosure Requirements (SDR).
- Companies will need to familiarise themselves with the types of disclosures they will need to make. They should begin work to identify the underlying processes and governance to capture the necessary information to make the disclosures envisaged under the ISSB disclosures, and the extent to which they may be able to leverage any existing sustainability-related Disclosures, such as TCFD-aligned climate-related disclosures.
- Companies should note where the ISSB proposals, such as the climate change risk management proposals, go beyond the TCFD recommendations.
- To comply with the proposed standards, companies will need to evaluate and disclose the effects of material sustainability-related and climate-related risks and opportunities on their business model and value chain, as well as consider the anticipated effects over the short, medium and long-term.
- Given the overlaps between the ISSB proposals and other ESG reporting regulatory and voluntary initiatives, companies should start planning on how the ISSB proposals can be implemented strategically across their organisations. This should involve creating an operating model that is as future-proofed as possible, is flexible enough to meet the requirements of multiple pieces of regulation as they develop, and is based on a forward-looking assessment of requirements and needs.

Next steps

The consultation closes on 29 July 2022. The ISSB will review the draft standards and feedback the second half of 2022, aiming to issue the final IFRS Sustainability Disclosure Standard by the end of 2022.



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