# Sustainability Reporting – 2023

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*"There is an urgent need to work towards improving the completeness, consistency, comparability, reliability and auditability of sustainability reporting." –* **(IOSCO Report on Sustainability-related Issuer Disclosures)**

Corporate sustainability reporting can be defined as the disclosure and communication of environmental, social, and governance (ESG) goals—as well as a company's progress towards them. The era of corporate sustainability reporting has now arrived. Significant regulations are coming into force in 2023 in response to stakeholders' demands for information on corporate sustainability practices. These demands are global, and the response of regulators has also been global. Since COP26 (Glasgow November 2021), three regulatory bodies have emerged as the leaders in sustainability reporting. All three are currently drafting guidance on how sustainability issues should be reported to stakeholders. All three bodies envisage that sustainability reports will be issued at the same time as the financial statements. Although there is some overlap in the proposed regulation of these three global bodies' there are still significant divergence in the reporting approaches. Let's have a look at these bodies:

1. **International Sustainability Standards Board (ISSB)**
   On 3 November 2021 (at COP26 in Glasgow) the IFRS Foundation Trustees announced the creation of a new standard-setting board—the International Sustainability Standards Board (ISSB)—to help meet sustainability reporting demands. The stated intention of ISSB is to 'deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions. The ISSB is now fully operational and committed to issuing its first two standards for adoption in 2023. On 31 March 2022, the ISSB released exposure drafts for two Standards, *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* and *IFRS S2 Climate-related Disclosures.* The ISSB aims to issue the new Standards by the end of 2023, subject to the feedback. A brief overview of these exposure drafts are included in Appendix 1 below.

2. **European Financial Reporting Advisory Group (EFRAG)**
   Prior to the acceleration of sustainability reporting, the EU's Non-Financial Reporting Directive (Directive 2014/95/EU) had already required large companies and financial corporations with more than 500 employees operating in Europe to disclose information on environmental, social, human rights and anti-corruption matters, in their annual reports. However, the implementation of this Directive has been patchy. In response to the growing global crisis, the EU Commission, in April 2021, adopted a legislative proposal for a Corporate Sustainability Reporting Directive (CSRD) that requires companies within its scope to report, using a double materiality perspective, in

compliance with European Sustainability Reporting Standards (ESRS) adopted by the European Commission as delegated acts. ('double materiality' means a focus not only on investors but also on the wider stakeholders' interests). The Commission tasked the European Financial Reporting Group (EFRAG) with leading this work. EFRAG's focus is wider than ISSB in that they seek to report to a wide range of stakeholders whereas ISSB is principally investor focused. EFRAG plan to issue 41industry specific sustainability reporting standards between 2023 and 2025. On 23rd November 2022, EFRAG submitted the first set of draft European Sustainable Reporting Standards (ESRS) to the European Commission. The draft standards will first apply for years beginning on or after January 2024. There will be a phased introduction with large entities reporting in accordance with the standards from 1st January 2024. SMEs reporting will be required for reporting period commencing 1st January 2026 (with an option to delay for 2 years). The first 12 draft standards can be viewed at https://efrag.org/lab6

**3. Securities Exchange Commission (SEC)**

Up until recently, there has been no stand-alone mandatory sustainability reporting structure in the US. The United States Securities and Exchange Commission (SEC) required companies only to report on information that may be material to investors, which includes ESG- (Economic Social and Governance) related risks. However, in March 2022, the SEC proposed rule changes that would require entities to include certain climate-related disclosures in their registration statements and periodic reports, including information about climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements. The required information about climate-related risks also would include disclosure of a registrant's greenhouse gas emissions, which have become a commonly used metric to assess a registrant's exposure to such risks. The SEC is planning a phased implementation. Larger organisations would have to comply with the regulation by 2023, while smaller ones would have time until 2024 to follow.

**So, in summary the current position is as follows:**

| **International GAAP** | **European Commission** | **US GAAP** |
|---|---|---|
| New Board: ISSB | Technical Group: EFRAG | Regulatory: SEC |
| EDs first two standards issued 31st March 2022 | Draft suite of standards (first 12 of 41, submitted to EU Commission Nov 2022. | SEC proposal March 2022 re climate disclosures. |
| Proposed implementation date of IFRS S1 and S2 – end 2023 (subject to ED feedback) | Implementation date phased. For PLCs : accounting periods commencing 1st January 2024 | Implementation date SEC regulation phased from 2023. |

**What does all this mean for Irish Publicly Quoted Companies?**

Irish Companies, who have a public listing, are required under EU Directive (1606/2002) to prepare financial statements in accordance with International Financial Reporting Standards. These Standards will, for periods commencing 1st January 2024 (subject to feedback on EDs), include the effects of the two new Sustainability Standards, *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* and *IFRS S2 Climate-related Disclosures.* In addition, as Ireland is a member of the EU, Irish PLCs will be subject to EFRAG regulations as and from accounting periods commencing 1st January 2024. These disclosures extend beyond the investor interests to include a wider stakeholder focus. Finally, if an Irish entity has interests in the US, the SEC climate disclosures will also be coming into force. How will this work? Will an Irish PLC with global interests have to prepare three separate sets of sustainability reports? Is this feasible? Will this be cost prohibitive?

For sustainability reporting to be useful it must be comparable. To be comparable, the approach taken by the three reporting bodies must be consistent. There must be some commonality and over-lap in the language, in calculation methodologies and in disclosure requirements between ISSB, EFRAG and SEC for this to work. There are still significant differences between the three bodies. In one area however, there is a common approach, and this is in relation to climate related disclosures. All three regulatory bodies have relied on the pre-existing regulations of the Task Force on Climate-related Financial Disclosures (TCFD)**.** The TCFD was established in 2015 by the Financial Stability Board (FSB), an international body formed in response to the global financial crisis.

Implementing a set of additional disclosure standards in an already overloaded financial reporting regime is a time consuming and costly exercise for companies, but unavoidable in these times of unprecedented change. However, the drive to issue consistent, comparable and interchangeable disclosure requirements will, according to the IOSCO, bring potentially important benefits for corporate issuers. Common standards would potentially reduce the burden on corporate issuers having to comply with diverging frameworks and this could help to clarify for issuers what they should disclose and where and when to make their disclosures. Furthermore, the SEC has suggested that 'more consistent, comparable and reliable disclosures could lead to capital markets benefiting in the form of improved liquidity, lower costs of capital and higher asset prices. These benefits are likely to be further magnified by improved data and information alignment brought on by disclosure requirements such as those seen in the SEC, ESRS and ISSB proposals'.

We will await the next steps.

**Appendix 1:**

To finish, let us look briefly at what will be required under ISSB: IFRS S1 and IFRS2 S2:

**IFRS S1** ***General Requirements for Disclosure of Sustainability-related Financial Information***

- Disclose material information about all significant sustainability-related risks and opportunities to which it is exposed.
- Information that could be relevant to the assessment includes information about a company's impacts and dependencies on people, the planet and the economy when relevant to the assessment of the company's enterprise value.
- The information would be centred on a company's consideration of its governance, strategy and risk management and the metrics and targets it uses to measure, monitor and manage significant sustainability-related risks and opportunities.

**IFRS S2** ***Climate-related Disclosures***

- Provide material information about significant climate-related risks and opportunities. The proposed Standard includes a requirement for companies to disclose information about climate-related physical (risks resulting from climatic events, such as wildfires, storms, and floods) and transition risks and opportunities (action taken to transition the economy off of fossil fuels).

- The information would be centred on a company's consideration of its governance, strategy and risk management and the metrics and targets it uses to measure, monitor and manage significant sustainability-related risks and opportunities.

- The proposed Standard would require a company to disclose its absolute gross Scope 1, Scope 2 and Scope 3 GHG emissions, in metric tonnes of $CO_2$ equivalent, and the intensity of those emissions. The company would be required to calculate these emissions using the GHG (Green House Gas) Protocol.