



31 DECEMBER 2021 YEAR-END SUSTAINABILITY REPORTING UPDATE

INTERNATIONAL SUSTAINABILITY REPORTING BULLETIN

2022/01

BACKGROUND

2021 has been a landmark year in the history of sustainability standards development. The demand for sustainability disclosures to be made by entities in a globally consistent manner has become a top priority for the investor community as well as various levels of government worldwide.

Historically, sustainability reporting standards have gone by many names, including non-financial reporting, ESG (environmental, social and governance) reporting, CSR (corporate and social responsibility) reporting, sustainability reporting, etc. and they encompass different topics, including climate, emissions, pollution, social responsibility, governance and many others.

The various types of sustainability reporting have been addressed by numerous different standard setters; however, the standards have typically been non-mandatory and inconsistent in their requirements. This has resulted in ‘greenwashing’ where an entity may ‘cherry pick’ and disclose only information that casts its activities in a positive light, while ignoring others.

This fragmentation led to calls by many entities worldwide for the formation of a standard setter that can build off of the work done by previous organisations and begin issuing a single set of globally consistent sustainability standards as a ‘global baseline’. Jurisdictions could then use that consistent baseline, and build additional requirements where considered necessary.

This culminated in the announcement of the formation of the International Sustainability Standards Board (ISSB) in November 2021 as a sibling board to the International Accounting Standards Board (IASB), both under the governance structure of the IFRS Foundation.

This publication provides a ‘snapshot’ of sustainability reporting developments as at 31 December 2021, along with a summary of the major events that led up to the formation of the ISSB. It also provides an overview of what to expect in 2022.

Information in this ISR Bulletin is current as of 27 January 2022. BDO will issue quarterly ISR Bulletins as sustainability standards are evolving quickly.

Although it is comprehensive, this summary is not exhaustive and does not include all standard setting activities of the ISSB and other organisations.

THE SUSTAINABILITY REPORTING LANDSCAPE AS AT 31 DECEMBER 2021

Formation of the ISSB

As at 31 December 2021, the ISSB has been formed and the appropriate amendments to the IFRS Foundation’s Constitution have been made. The Chair of the ISSB has been announced as Emmanuel Faber, the former CEO and Chair of Danone, a multi-national food product company based in France.

EXECUTIVE SUMMARY

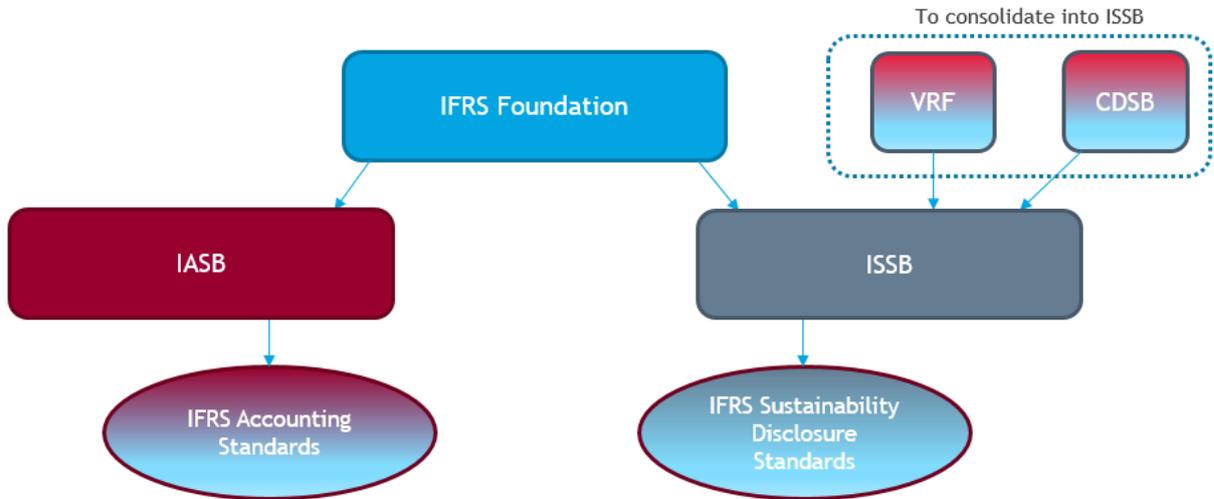
The demand for consistent, internationally accepted sustainability reporting standards has resulted in significant momentum in 2021 into 2022.

This has culminated in the formation of the International Sustainability Standards Board (ISSB), which will issue IFRS Sustainability Disclosure Standards starting in 2022. While certain jurisdictions will develop their own sustainability reporting standards, many will be partially converged with IFRS Sustainability Disclosure Standards.

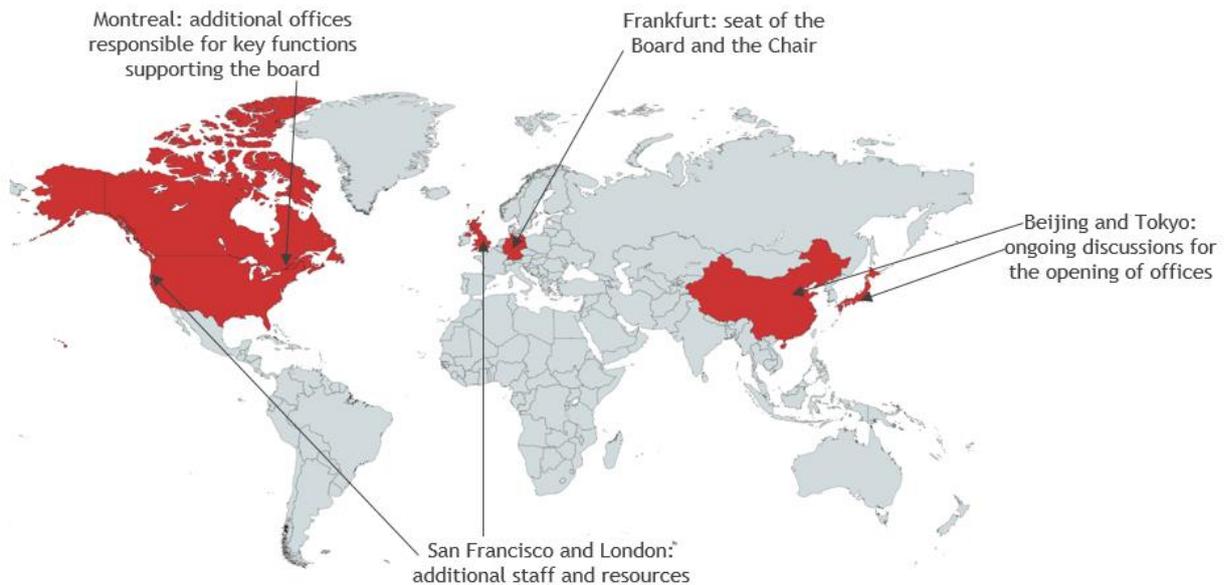
The formation of the ISSB will result in the ‘merging in’ of two standard setters, being the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF - which houses the current Integrated Reporting Framework and SASB standards) into the ISSB by June 2022.

Other organisations have also expressed support for the formation of the ISSB, including the World Economic Forum (WEF) and the Task Force for Climate-related Disclosures (TCFD).

The structure of the IFRS Foundation as at 31 December 2021 may be summarised as follows:



The seat of the ISSB will be in Frankfurt, Germany, with additional offices located around the world as follows:



On 27 January 2022, it was announced that Sue Lloyd has been appointed as the Vice-Chair of the ISSB. Ms. Lloyd currently serves as the Vice-Chair of the IASB. Additionally, Janine Guillot, current CEO of the Value Reporting Foundation was appointed as a Special Advisor to the ISSB Chair. The ISSB is in advanced stages of appointing 11 other board members to work with Mr. Faber and Ms. Lloyd.

The ISSB has not issued any exposure drafts, however, a Technical Readiness Working Group (TRWG) was formed in 2021 to provide a ‘running start’ for the new board by building on the well-established work of other standard setters. This culminated in the release of four documents in 2021:

1. General Requirements for Disclosure of Sustainability-related Financial Information Prototype (General Requirements Prototype)
2. Climate-related Disclosures Prototype (Climate Prototype)
3. Conceptual guidelines for standard setting
4. Architecture of standards

Items 1 and 2 are ‘prototypes’ of standards, which are expected to form the basis for exposure drafts to be published by the ISSB in the first half of 2022.

For further information on the formation of the ISSB, please refer to [ISRB 2021/01](#).

Contents of the Prototypes - General Requirements

The general requirements prototype sets out the overall requirements for disclosing sustainability-related financial information relevant to the sustainability-related risks and opportunities of an entity. The prototype includes:

1. A requirement to disclose a complete, neutral and accurate depiction of an entity’s significant sustainability risks and opportunities;
2. A definition of materiality, aligned with the *Conceptual Framework for Financial Reporting*, focused on the information that serves the needs of users and drives enterprise value;
3. A consistent approach for the disclosure of information about significant sustainability-related risks and opportunities built on a consideration of an entity’s governance, strategy and risk management and supported by metrics and targets; and
4. further requirements and guidance that support the provision of comparable and connected information.

An important point to consider is that an entity would be required to make disclosures about all material sustainability-related risks and opportunities, regardless of whether there is a specific IFRS Sustainability Disclosure Standard for that topic or issue. This is because the prototype includes an equivalent to the hierarchy in IFRS Accounting Standards, which includes requirements which apply in the absence of a specific IFRS Sustainability Disclosure Standard. These include the disclosure of information that is relevant, faithfully represents the entity’s risks and opportunities and is neutral. In making the required judgements and developing those disclosures, there is first a requirement to consider the requirements in the general requirements Standard, and IFRS Sustainability Disclosure Standards that deal with similar related risks and opportunities. Management of an entity may also consider the most recent pronouncements of other standard setting bodies, to the extent that these do not conflict with any issued IFRS Sustainability Disclosure Standards.

Contents of the Prototypes - Climate Requirements

The prototype incorporates recommendations from existing standards and frameworks, including the Task Force on Climate-Related Financial Disclosures (TCFD) along with industry disclosure requirements that have been derived from standards issued by the Sustainability Accounting Standards Board (SASB).

The prototype requires an entity to provide information that enables users of general purpose financial reporting to assess an entity’s governance, strategy, risk management, and metrics and targets related to climate-related risks and opportunities.

The prototype is accompanied by a supplementary technical protocol for disclosure requirements, which sets out extensive disclosure requirements and application guidance to achieve these objectives by industry.

WHAT TO EXPECT IN 2022

The ISSB has selected its Chair, Vice-Chair and Special Advisor to the Chair. Additional board members are expected to be appointed in early 2022. The ISSB will then proceed to continue the work started by the TRWG and carry out the due process steps necessary to finalise a general presentation standard and a climate standard, and begin steps to develop other IFRS Sustainability Disclosure Standards.

This will entail the issuance of exposure drafts for public comment, which are expected to be released by mid-2022. An effective date for the new standards is unknown, however, Ashley Alder, chair of IOSCO (International Organisation of Securities Commissions), noted the following at the COP26 Climate Conference on 3 November 2021:

‘Companies should start looking at the [climate] prototype that has been published today to get ready for reporting by the end of next year and into the following year.’

Therefore, it is expected that entities may need to begin applying the standards in the relative short term.

Similar to IFRS Accounting Standards, while the IFRS Foundation does not have the ability to require any entities to apply IFRS Sustainability Accounting Standards, it is clear that many entities will require their use or develop their own requirements that build upon their requirements as a ‘base line’. In a similar way to how it did 20 years ago when the IASB was formed, IOSCO has supported the efforts of the IFRS Foundation which have resulted in the formation of the ISSB, which serves as an indicator of the actions to be taken by jurisdictions worldwide once the ISSB begins issuing final standards.

JURISDICTIONAL HIGHLIGHTS

Below is a summary of ongoing developments in sustainability reporting in select jurisdictions:

JURISDICTION	SUMMARY	MORE INFORMATION
United States of America	The SEC is developing proposals for climate risk disclosures after issuing a Request for Public Input on Climate Change Disclosures in March 2021. It is expected that those requirements will build on the guidance in other frameworks and standards, including the TCFD, which was also used by the TRWG to develop the prototype climate standard for the ISSB.	SEC Response to Climate and ESG Risks and Opportunities
European Union	On 21 April 2021, the European Commission issued a draft Corporate Sustainability Reporting Directive (CSRD), which aims to move investors towards sustainable investments. The CSRD will require EU Sustainability Reporting Standards to be developed, and is proposed to become effective for larger entities for years ended 31 December 2023, however, the effective date may be delayed following current consultation in the EU. The scope of the CSRD will expand over time, incorporating smaller entities. The CSRD would also require assurance to be provided, along with digital ‘tagging’ of reported information so it is machine readable and feeds into the European single access point.	European Commission - Corporate Sustainability Reporting

JURISDICTION	SUMMARY	MORE INFORMATION
	Working drafts of the EU Sustainability Reporting Standards are expected in early 2022, with some having been published on the EFRAG website in January.	
China	The People's Bank of China (PBOC) has announced that PBOC plans to implement mandatory disclosures of climate-related information to be build on the requirements of the TCFD.	
United Kingdom	Premium listed companies must apply the requirements of the TCFD for years ended 31 December 2021, with the scope widening from 2022 onwards. The UK is expected to endorse ISSB Sustainability Disclosure Standards as a baseline of requirements and to add jurisdictional requirements (the so-called 'building blocks' approach).	How will the UK become a World Leader in Green Finance and what will firms need to do to help achieve this?
Japan	The Japanese Financial Services Agency (JFSA) has stated publicly that both public and private sectors will be required to disclose climate-related information, starting with large companies. The requirements will apply first to 'prime' segments, with expansion to 'standard' and 'growth' segments over time. The initial disclosures will be in accordance with the TCFD, however, the JFSA has indicated that they will actively participate in the initiative to develop a comparable and consistent disclosure framework for sustainability, including climate change, by the ISSB.	
Canada	In October 2021, the Canadian Securities Administrators (CSA) issued a consultation document requesting comments on a proposed National Instrument <i>Disclosure of Climate-related Matters</i> , which would impose mandatory climate-related disclosures on reporting issuers in Canada with limited exceptions. The proposals are largely in compliance with the TCFD requirements.	CSA Request for Comment - Proposed National Instrument 51-107 Disclosure of Climate-related Matters
India	The Securities and Exchange Board of India (SEBI) issued a circular in May 2021 announcing a new Business Responsibility and Sustainability Report (or BRSR). The BRSR will apply to the top 1,000 listed companies by market capitalisation, and will be voluntary for financial years ending 31 March 2022 and mandatory a year later. Although SEBI has developed its own set of requirements, these are intended to be interoperable with leading sustainability disclosure frameworks and there is specific reference to companies that already report in accordance with, for example, SASB, TCFD or Integrated Reporting to be able to cross reference existing disclosures to the requirements in the BRSR.	SEBI Circular - Business Responsibility and Sustainability Reporting by Listed Entities

MAJOR EVENTS IN SUSTAINABILITY REPORTING FROM 2020 TO 31 DECEMBER 2021

The following is a summary of some of the major events and milestones leading up to the formation of the ISSB. Note that this list is not exhaustive.

DATE	SUMMARY	MORE INFORMATION
April 2020	The International Organisation of Securities Commissions (IOSCO) publish a report title 'Sustainable Finance and the Role of Securities Regulators and IOSCO'. The report discusses the desire of investors for improved disclosures, in particular for the effects of climate change. In response, IOSCO establishes a Task Force with the objective of improving sustainability-related disclosures.	Sustainability Finance and the Role of Securities Regulators and IOSCO
September 2020	Five of the most well-established sustainability standard setters (CDP, CDSB, GRI, IIRC and SASB) issue a statement of intent to work together. This is followed by a consultation from the IFRS Foundation about the role that it should play in sustainability standard setting. Both of these initiatives receive public support from IOSCO with encouragement for them to come together to set the foundations for a global reporting system.	Statement of Intent to work Together Towards Comprehensive Corporate Reporting

DATE	SUMMARY	MORE INFORMATION
September 2020	The Trustees of the IFRS Foundation issue a consultation paper to assess the demand for global sustainability standards and to what extent the IFRS Foundation might contribute to the development of such standards.	Consultation Paper on Sustainability Reporting
December 2020	The group of five standard setters publish a prototype climate standard, which combines the requirements of some of the most established frameworks, together with a prototype presentation standard built on IAS 1 and IAS 8 in IFRS Accounting Standards as a base.	Reporting on Enterprise Value - Illustrated with a Prototype Climate-related Financial Disclosure Standard
February 2021	Following the responses received to their consultation paper, the Trustees of the IFRS Foundation announce that they will undertake further analysis on the requirements for success and other conditions that must be met prior to considering whether to establish a new 'sibling' board to the IASB, focusing on sustainability reporting standards.	IFRS Foundation Trustees announce next steps in response to broad demand for global sustainability standards
February 2021	The Board of IOSCO release a public statement announcing its intention to work with the IFRS Foundation in developing a plan to establish a new board for setting sustainability reporting standards that meet the needs of the capital markets.	IOSCO board public statement
March 2021	<p>Encouraged by the IOSCO Board public statement, the Trustees of the IFRS Foundation publish the following views about the strategic direction of the new board:</p> <ul style="list-style-type: none"> • Investor focus for enterprise value • Sustainability scope, prioritising climate • Build on existing frameworks • Building blocks approach <p>The Trustees also announce the formation of a working group to accelerate the convergence in global sustainability reporting standards and to undertake technical preparations for a potential international sustainability reporting standards board. The group is eventually named the Technical Readiness Working Group (TRWG).</p>	IFRS Foundation press release
June-July 2021	The G7 Finance Ministers and Central Bank Governors issue a communique supporting the activities of the IFRS Foundation to form the ISSB.	G7 Communique
	The G20 Finance Ministers and Central Bank Governors publish a Communique in support as well.	G20 Communique
November 2021	The IFRS Foundation finalises amendments to its constitution to accommodate the creation of the ISSB.	IFRS Foundation Constitution
November 2021	The IFRS Foundation formally announces the formation of the ISSB, the consolidation of the CDSB and VRF into the ISSB, and the publication of prototype climate and general presentation and disclosure standards. See earlier in this publication and ISRB 2021/01 for further information.	ISRB 2021/01 - ISSB Formed and Prototype Sustainability Standards Released
December 2021	The Chair of the ISSB is announced as Emmanuel Faber, the former CEO and Chair of Danone, a multi-national food product company based in France.	IFRS Foundation press release

SUSTAINABILITY REPORTING RESOURCES

For further information and guidance on sustainability, please refer to BDO's Global [IFRS Micro-site](#).



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