

A photograph of a wind farm at sunset. The sky is a gradient of blue and orange. In the foreground, there is a field of green and yellow wildflowers. Several wind turbines are visible, with the most prominent one in the center. The text is overlaid on a semi-transparent orange band across the middle of the image.

Q2 2022 SUSTAINABILITY REPORTING UPDATE

INTERNATIONAL SUSTAINABILITY REPORTING BULLETIN

2022/04

BACKGROUND

The second quarter of 2022 has included significant progress by standard setters, regulators and some jurisdictions in the development and future application of sustainability reporting standards. The issuance of EFRAG's exposure drafts for European Sustainability Reporting Standards means that proposed sustainability reporting requirements have now been issued by the ISSB, the European Union and US SEC.

The International Sustainability Standards Board (ISSB), and standard setters and regulators in major jurisdictions, are working actively to complete the due process steps necessary in order to issue finalised sustainability reporting standards in the near term. In some cases, final requirements are expected to be issued by the end of 2022.

This publication provides a 'snapshot' of sustainability reporting developments as at 30 June 2022 for select jurisdictions with a focus on standards being developed by the ISSB, and those being developed for use by entities in the European Union and the United States.

Information in this ISR Bulletin is current as of 15 July 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.

EXECUTIVE SUMMARY

The ISSB, EU and the US SEC have all published proposals for sustainability reporting requirements.

While there are similarities in the approach taken, there are also some significant differences in the approach taken by the ISSB, the EU and the US to date.



TIMELINE FOR IMPLEMENTATION OF SUSTAINABILITY REPORTING

Proposals issued by the US SEC, the EU and ISSB have yet to be finalised, meaning that the effective dates for all proposals are subject to change, including the scope of the proposals both in terms of which entities may be required to apply them and the information to be disclosed.

As currently proposed, set out below is a summary of the effective date of the various proposals:

Proposed requirements	Class of Entities	2023	2024	2025	2026	2027	2028
US SEC	Large accelerated filers	All proposed disclosures, but excluding scope 3	Scope 3 disclosure and limited assurance		Reasonable assurance		
	Accelerated filer and non-accelerated filer		All proposed disclosures, but excluding scope 3	Scope 3 disclosure and limited assurance		Reasonable assurance	
	Small reporting companies			All proposed disclosures; exempted from scope 3			
EU CSRD	Companies already subject to the NFRD		ESRS and EU Taxonomy; limited assurance				EU to develop standards for reasonable assurance by October 2028
	Companies not subject to the current NFRD, which meet certain size criteria			ESRS and EU Taxonomy; limited assurance			
	Listed SMEs, small and non-complex credit institutions and captive insurance undertakings				ESRS and EU Taxonomy; limited assurance		
ISSB				**See note			

**The ISSB is expected to issue IFRS Sustainability Disclosure Standards based on the exposure drafts. However, the exposure drafts do not include a proposed effective date. Additionally, local standard setters, regulators and governments will need to decide whether to endorse or otherwise require IFRS Sustainability Disclosure Standards for use in their own jurisdictions. Consequently, IFRS Sustainability Disclosure Standards could become effective in different reporting periods around the world. Given the proposed effective dates for other sustainability standards, it is not expected that jurisdictions will require the use of IFRS Sustainability Disclosure Standards until at least 2025.

IFRS FOUNDATION DEVELOPMENTS

On 31 March 2022, the ISSB issued two exposure drafts:

- IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information
- IFRS S2 Climate-related Disclosures

The deadline for comments on both proposals is 29 July 2022. The ISSB is aiming to finalise the first two IFRS Sustainability Disclosure Standards by the end of 2022.

See [ISR Bulletin 2022/02](#) for a summary of these exposure drafts.

In April 2022, the ISSB established a Jurisdictional Working Group to establish dialogue for enhanced compatibility between the ISSB's exposure drafts and ongoing jurisdictional initiatives on sustainability disclosures. Members of the working group are the Chinese Ministry of Finance, the European Commission, the European Financial Reporting Advisory Group, the Japanese Financial Services Authority, the Sustainability Standards Board of Japan Preparation Committee, the United Kingdom Financial Conduct Authority and the US Securities and Exchange Commission.

As of 24 June 2022, the ISSB was quorate with the appointment of its first 8 board members. Two further appointments were announced on 14 July. The ISSB will hold its first board meeting in Frankfurt from 20-21 July 2022.

JURISDICTIONAL UPDATE - EUROPEAN UNION

The European Financial Reporting Advisory Group (EFRAG) has been tasked with developing European Sustainability Reporting Standards (ESRS), and the first set of exposure drafts was published in April 2022 with public comments due by 8 August 2022. Exposure drafts and supporting documents may be accessed [here](#).

BDO's Insight

The ESRS exposure drafts cover a wide number of sustainability topics, whereas the US proposals address only climate. The ISSB proposals would require an entity 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.

The ESRS's use of 'double materiality' would result in a much broader set of stakeholders being identified than the ISSB and US proposals, which are based around sustainability matters being material if they affect enterprise value of the reporting entity.

The 13 exposure drafts address a wide number of sustainability topics, including climate change, pollution, biodiversity and ecosystems, workers in the value chain, and own workforce. ESRSs also include extensive guidance on 14 sector groups, which are further broken down into 40 sectors. For example, the hospitality sector group is comprised of two sectors being food & beverage services and hotels & lodging. Each sector has specific disclosure requirements.

The ESRSs require disclosures based around the concept of 'double materiality', which comprises:

- **Impact materiality:** a sustainability matter is material if it is connected to actual or potential significant impacts by the undertaking on people or the environment over the short, medium or long-term.
- **Financial materiality:** a sustainability matter is material if it triggers or may trigger significant financial effects on undertakings.

On 22 June 2022, the European Council and European Parliament announced that they had reached a provisional political agreement on the Corporate Sustainability Reporting

Directive (CSRD).

The provisional agreement is subject to approval by the European Council and the European Parliament. Therefore, the requirements could change and the final text of the CSRD may differ from the summary set out below, although we would not expect significant changes at this point.

What is the CSRD?

The CSRD will replace the current Non-Financial Reporting Directive (NFRD). The CSRD will require more detailed public reporting by entities about sustainability matters, which encompass environmental, social and governance (ESG) factors.

The CSRD will require European Sustainability Reporting Standards (ESRSs). As noted above, EFRAG issued exposure drafts of ESRSs in April 2022, with a comment deadline of 8 August 2022, which are likely

to form the basis of these requirements. If finalized as drafted, significant amounts of detailed information will need to be disclosed.

Information likely to be required in public disclosures will cover all environmental, social and governance matter, including greenhouse gas emissions, labour practices and water usage.

The CSRD will also require entities to comply with the EU Taxonomy for sustainable activities, which is a classification system, establishing a list of environmentally sustainable economic activities.

Who will be required to apply the CSRD?

The application of the CSRD will take place in three stages for companies located in the EU:

- 1 January 2024 for companies already subject to the NFRD;
- 1 January 2025 for companies that are not presently subject to the NFRD which meet two out of three criteria;
 - More than 250 employees
 - More than EUR 40m turnover
 - More than EUR 20m total assets
- 1 January 2026 for listed SMEs, small and non-complex credit institutions and captive insurance undertakings.

Current applicability of the NFRD is based on whether a company meets the definition of a Public Interest Entity (PIE) and has more than 500 employees.

Separate, proportionate standards for unlisted SMEs are also expected to be issued for adoption on a voluntary basis.

An opt-out will be possible for SMEs during a transitional period, meaning that they will be exempted from the application of the directive until 2028.

BDO's Insight

Entities with significant operations and/or sales into the European Union will be required to comply with the CSRD in addition to other sustainability reporting requirements in other jurisdictions. For example, a US-domiciled company may be required to comply with the US SEC requirements in addition to CSRD requirements in the EU for EU subsidiaries, including ESRs and the EU taxonomy for sustainable activities.

The practical implication is that some groups may be required to produce multiple sustainability reports in order to comply with differing requirements.

Will non-EU companies need to comply with the CSRD?

For non-EU companies, the requirement to provide a sustainability report applies to all companies generating total net turnover of EUR 150 million in the EU and which have at least one subsidiary or branch in the EU. These companies must provide a report on their environmental, social and governance impacts, as defined in the CSRD.

Will the reports need to be certified?

Reporting must be certified by an accredited independent auditor or certifier. To ensure that companies comply with the reporting rules, an independent auditor or certifier must ensure that the sustainability information complies with the certification standards that have been adopted by the EU. The reporting of non-European companies must also be certified, either by a European auditor or by one established in a third country. Initially limited assurance will be required, with

reasonable assurance (equivalent to that provided on audited financial statements) from a later date.

JURISDICTIONAL UPDATE - UNITED STATES

On 21 March 2022, the US Securities and Exchange Commission (SEC) issued proposed rules that would be applicable to both domestic and foreign registrants and would require significantly enhanced climate-related disclosures in registration statements and annual reports (e.g., on Form 10-K). The proposed financial statement disclosures would be presented in a footnote to the consolidated financial statements, while the other disclosures enumerated below would be presented in a separately captioned section of the filing prior to management's discussion and analysis (MD&A). Registrants would be required to electronically tag both the qualitative and quantitative disclosures in Inline XBRL.

The comment period for the proposals has now closed. BDO's comment letter may be accessed [here](#).

A detailed summary of the proposed rule and significant anticipated impacts may be accessed on BDO USA's SEC page [here](#). See [ISR Bulletin 2022/02](#) for a summary of these proposals.

BDO's Insight

The SEC has observed that certain aspects of its proposed requirements are similar to the disclosure recommendations in the TCFD, which also forms the basis of many of the proposed disclosure requirements in the ISSB's climate exposure draft.

OTHER JURISDICTIONAL UPDATES

JURISDICTION	SUMMARY	MORE INFORMATION
China	The People's Bank of China (PBOC) has announced that PBOC plans to implement mandatory disclosures of climate-related information to be built on the requirements of the TCFD. On 8 February 2022, <i>Measures for Enterprises to Disclose Environmental Information by Law</i> came into effect, which regulates enterprises' disclosure of environmental information. Five types of enterprises must comply with the law: key pollutant-discharging enterprises; enterprises that are subject to mandatory review for clear production; listed companies and their subsidiaries at all levels; enterprises that issue enterprise bonds, corporate bonds, and debt financing instruments for non-financial enterprises; and other enterprises that should disclose environmental information under laws and regulations.	
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?
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. The CSA has expressed its support for the establishment of the ISSB. In May 2022, the Office of the Superintendent of Financial Institutions (OSFI) issued regulations that will apply to federally regulated financial institutions (banks, insurers, etc.). The regulations will require disclosures similar to the TCFD, including scope 1, 2 and 3 emissions, climate scenario analysis, etc. Disclosures will begin to become effective for fiscal periods ending on or after 1 October 2023. In June 2022, the Accounting Standards Oversight Council and Auditing and Assurance Standards Oversight Council mutually approved the formation of the Canadian Sustainability Standards Board.	CSA Request for Comment - Proposed National Instrument 51-107 Disclosure of Climate-related Matters OSFI - Climate Risk Management Disclosures Canadian Sustainability Standards Board Formed

JURISDICTION	SUMMARY	MORE INFORMATION
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

SUSTAINABILITY REPORTING RESOURCES

For further information and guidance on sustainability, please refer to BDO's Global [IFRS Micro-site](#). Please refer to BDO's [Sustainability Country Contacts](#) for local resources.



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