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Technical Line

How the climate-related disclosure proposals from the SEC, EFRAG and ISSB compare

In this issue:

What you need to know

- The SEC and the EFRAG have each issued proposals that would require companies to make certain climate-related disclosures.
- The ISSB has also proposed a climate-disclosure standard that, when finalized, would need to be adopted by authorities in a particular jurisdiction to be mandatory.
- Entities with significant operations in multiple jurisdictions need to understand the key differences between the proposals because they might be subject to more than one set of requirements.
- Entities should also monitor developments since the final rules and standards could differ from the proposals.

Overview

Regulators and standard setters have proposed requiring public companies and certain other entities to make various climate-related disclosures in their annual reports. While many companies already make voluntary disclosures about environmental, social and governance (ESG) matters in separate sustainability reports, the regulators and standard setters are responding to calls from investors for more consistent, comparable information they can use to make investment decisions.

In this publication, we compare some of the key differences between the proposals issued by the Securities and Exchange Commission (SEC),[1] the European Financial Reporting Advisory Group (EFRAG)[2] and the International Sustainability Standards Board (ISSB),[3] which are all, to some extent, based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Building a better working world

US-based entities with significant operations in other jurisdictions need to be aware of the differences because they may ultimately be subject to more than one set of requirements. Entities should consider evaluating each of the proposals in detail to determine how they would be affected. They should also consider evaluating how they would be affected by proposals in other jurisdictions (e.g., Canada).

Entities should also monitor developments since the final rules and standards could differ from the proposals. We note that the SEC received more than 19,000 comment letters on its proposal. Respondents generally supported the proposal's objectives, but many suggested that changes be made when the rules are finalized. The SEC has said it expects to finalize its rules by the end of 2022.

The European Parliament and the Council of the European Union are expected to give final approval for a Corporate Sustainability Reporting Directive (CSRD) that includes a mandate to report sustainability information under a reporting framework established by EFRAG, the technical adviser to the European Commission (EC). Comments on the first set of European Union Sustainability Reporting Standards (ESRS) proposed by EFRAG are due by 8 August 2022, and EFRAG plans to submit these ESRS to the EC by November 2022 for approval by 30 June 2023. Compliance with the final standards will be mandatory after the CSRD is included in the local law of each EU Member State, which is required within 18 months of final approval.

Comments on the first two proposed IFRS Sustainability Standards issued by the ISSB, which was established by the IFRS Foundation to develop a comprehensive set of standards to serve as a global baseline, are due by 29 July 2022. The ISSB also expects to finalize the standards by the end of 2022, but any final standards would require adoption by authorities in local jurisdictions before compliance would be mandatory in any jurisdiction, similar to other International Financial Reporting Standards (IFRS). Several jurisdictions, including the United Kingdom, have indicated they expect to require the adoption of the final ISSB standards.

For more information about the proposals, see our To the Point publication, ***SEC proposes enhancing and standardizing climate-related disclosures***, our EU Sustainability Developments publication, ***ESRS: EFRAG exposure drafts out for public consultation***, and our IFRS Sustainability Developments publication, ***ISSB publishes first two EDs on sustainability disclosure requirements***.

Key differences

Scope

The SEC proposal would apply to all SEC registrants, including foreign registrants and emerging growth companies, and companies entering the US capital markets for the first time by conducting initial public offerings or being acquired by public companies (i.e., for reports on Form S-4). The proposal focuses only on climate-related disclosures, but companies should be aware that the SEC has additional human capital disclosures on its rulemaking agenda.

Under a provisional political agreement between the Council of the European Union and the European Parliament dated 21 June 2022, the ESRS would apply to the following entities:

- All companies listed on EU regulated markets, except for micro companies (i.e., a company with less than 10 employees and annual turnover (i.e., revenue) or balance sheet total below €2 million) and small-to-medium-sized listed enterprises that opt to apply simpler standards
- A "large undertaking" that is an EU company — "large undertaking" means an entity that meets at least two of the following three criteria: (1) more than €40 million in net turnover, (2) more than €20 million in balance sheet total and (3) more than an average of 250 employees during the year
- Insurance undertakings and credit institutions regardless of their legal form

A subsidiary of an EU company would be exempt from issuing a standalone report if the parent company includes the subsidiary in its report that fully complies with the ESRS. However, large listed subsidiaries (i.e., those that meet the criteria in the first two bullet points above) must report on their own and cannot apply the subsidiary exemption.

Each subsidiary located in the EU that does not have an EU parent and that meets the thresholds in the bullets above would have to comply with the ESRS unless the subsidiary is included in the non-EU parent's sustainability report that fully complies with the ESRS or standards the EC deems equivalent to those of the EU. However, large listed subsidiaries must report on their own.

In addition, a non-EU company that generates €150 million in net turnover in the EU and has at least one subsidiary (listed or large as defined in the bullets above) or branch (net turnover of more than €40 million) in the EU would have to apply at the consolidated level either separate EU sustainability reporting standards that EFRAG will develop, the ESRS or standards that are deemed equivalent to those of the EU. The separate EU sustainability reporting standards for non-EU companies must be adopted by the EC by 30 June 2024. They aren't expected to cover all reporting areas that are included in the proposed ESRS.

The proposed ESRS would require disclosures of climate-related matters and other environmental matters (e.g., pollution, water resources), social matters (e.g., workforce, affected communities, consumers) and governance matters.

The type of entity to which the ISSB standards would apply would be left to the discretion of authorities in any jurisdiction that chooses to adopt them. The initial proposals cover general requirements for all sustainability topics and climate-related disclosure requirements, but the ISSB has a broad remit to deliver a comprehensive set of sustainability-related disclosure standards.

The proposals define and apply materiality differently.

Materiality

The proposals define materiality differently and would apply a materiality threshold differently to various disclosures (e.g., not applying a threshold for some disclosures, requiring some disclosures regardless of materiality).

The SEC proposal would primarily apply a disclosure threshold based on its definition of materiality, although the threshold is not applied consistently throughout the proposal. That definition is based on US Supreme Court precedent and states that a matter is material if there is a substantial likelihood that a reasonable investor would consider it important when determining whether to buy or sell securities or how to vote.

However, for disclosures of the financial impacts of severe weather events or other natural conditions and transition activities, the proposal would require disclosure by line item in the notes to the audited financial statements if the sum of the absolute values of positive and negative impacts exceeds 1% of each financial statement line item. Similarly, for disclosures of expenditures related to severe weather events or other natural conditions and transition activities, the proposal would require disclosure if the expenditures capitalized or expensed exceed 1% of the total expenditures capitalized or expensed. Disclosures about a company's climate-related governance and risk management, climate-related targets and goals, scenario analysis (or other analytical tools) and its Scope 1 and Scope 2 greenhouse gas (GHG) emissions[4] would be required regardless of materiality.

The proposed ESRS use the concept of "double materiality," which means a disclosure is material if it is material from what is called an "impact" perspective, a financial perspective or a combination of both. A sustainability matter is material from an impact perspective if it is connected to actual or potential significant impacts by the entity on people or the environment. A sustainability matter is material from a financial perspective if it has or may have significant financial effects on the entity (i.e., affects its future cash flows and, therefore, the enterprise value), even if it is not reflected or not fully reflected in the financial statements at the reporting date.

Unlike the materiality definitions used in the SEC and the ISSB proposals, this materiality definition considers both affected stakeholders (e.g., employees, customers, vendors, the community) and other users of the sustainability reporting information (e.g., investors, creditors). Materiality would be the threshold for all disclosure requirements in the proposed ESRS, except for the disclosures for strategy and business model, governance, and the process and results of an entity's assessment of sustainability impacts, risks and opportunities, which would be required regardless of materiality.

The ISSB's definition of materiality would align with the definition of materiality in IFRS standards for financial statements. It focuses on the primary users of the financial reporting information (e.g., investors, creditors) and how the information could reasonably be expected to affect their assessment of enterprise value. This threshold would be applied to all disclosure requirements in the proposed standards. That is, if a disclosure is not material, no disclosure would be required.

How we see it

The proposed ESRS concept of double materially is broader than the definitions of materiality used by the SEC and the ISSB and would require management to apply additional significant judgment to determine which matters should be disclosed from an impact perspective.

Scope 1 and Scope 2 GHG emissions

All three proposals would require disclosure of Scope 1 and Scope 2 GHG emissions, but the proposed ESRS and ISSB standards would subject these disclosures to the general materiality thresholds described above while the SEC would require them in all cases. The nature of the required disclosures would also differ.

Unlike the proposed ESRS and the ISSB proposal, the SEC proposal would not require registrants to use the GHG Protocol, a widely used framework for measuring and managing GHG emissions. While registrants could use the protocol, the SEC proposal would allow them to use other methodologies as long as those methodologies comply with the general requirements of the proposal.

The SEC proposal would require disclosure of Scope 1 and Scope 2 emissions in metric tons of carbon dioxide equivalents (CO2e), both in the aggregate for each scope and for each of the seven GHGs for each scope. The impact of purchased or generated offsets would be excluded from these calculations and separately disclosed. A registrant would also be required to disclose GHG intensity metrics for each scope in terms of CO2e per unit of total revenue and per unit of production for that entity's industry. The SEC proposal would allow companies to disclose their Scope 2 GHG emissions using a location-based method, a market-based method, both methods separately, a combination, or another method as long as it is identified.

The SEC's proposed GHG emissions disclosures would follow the same organizational boundaries as the financial statements. That means a registrant would be required to include its proportionate share of the Scope 1 and Scope 2 emissions of entities in which it holds equity method investments and entities that it proportionately consolidates.

The proposed ESRS would require an entity to use the GHG Protocol to calculate its GHG emissions and separately disclose aggregate Scope 1 and Scope 2 emissions in metric tons of CO2e, with the impact of purchased or generated offsets excluded and separately disclosed. An entity would be permitted to disaggregate those emissions, including by the seven GHGs or by country, but disaggregation wouldn't be required. The proposed ESRS would require additional disclosures, including the percentage of Scope 1 GHG emissions under regulated emissions trading schemes and Scope 2 emissions using both location- and market-based approaches. For an intensity metric, the proposed ESRS would require an entity to only disclose its total emissions (inclusive of Scope 1, Scope 2 and Scope 3 emissions) per monetary unit of net revenue. The proposed ESRS considers equity method investments and joint ventures to be part of an entity's upstream or downstream value chain, which means that emissions for these entities would be considered Scope 3 emissions (described below).

The ISSB proposal would also require entities to use the GHG Protocol to calculate its GHG emissions and to separately disclose aggregate Scope 1 and Scope 2 emissions in metric tons of CO2e, but entities wouldn't be required to report emissions for each of the seven GHGs. The impact of purchased or generated offsets would be excluded from these calculations and separately disclosed. Disclosure of intensity metrics for each scope would be required per unit of economic output (i.e., revenue) or per unit of physical output (i.e., production), not both. Under the GHG Protocol, a company reports its Scope 2 emissions using a location-based method unless it is required to report emissions using a market-based method, in which case it must report both.

The GHG Protocol provides different approaches (e.g., equity share, financial control, operational control) for calculating GHGs from unconsolidated investments, such as equity method investments. As such, the ISSB proposal would require an entity to separately disclose Scope 1 and Scope 2 emissions for (1) consolidated entities and (2) equity method investments, joint ventures and other unconsolidated subsidiaries. In addition, the entity would be required to disclose the approach used for calculating the emissions for those entities.

How we see it

The SEC proposal would likely result in more disaggregated disclosures for Scope 1 and Scope 2 emissions than the other proposals due to the requirement to present this information separately by each GHG regardless of materiality. The proposed SEC requirement to present this data using the same organizational boundaries as the financial statements differs from how many entities are voluntarily presenting this information in sustainability reports today.

Scope 3 GHG emissions

The SEC proposal would require an entity to disclose its Scope 3 emissions if they are material or if the entity has set an emissions target that includes Scope 3 emissions. Like Scope 1 and Scope 2 emissions, Scope 3 emissions would be disclosed on an aggregate CO2e basis and would be disaggregated by the seven GHGs. A registrant would also have to disclose the categories of upstream or downstream activities that are included in the calculation and disclose Scope 3 emissions data separately for any category that is significant to the registrant. The proposed intensity metrics described above for Scope 1 and Scope 2 emissions would also apply to Scope 3 emissions. Smaller reporting companies (as defined by the SEC) would not be required to disclose Scope 3 emissions. The proposal would also provide a safe harbor that would limit a registrant's liability for inaccurate disclosures of Scope 3 emissions, unless the disclosures were made without a reasonable basis, or in other than good faith.

The proposed ESRS would require entities to disclose Scope 3 emissions, subject to the general materiality threshold in the proposed ESRS, in total in metric tons of CO2e and disaggregated in the following categories: upstream purchasing, downstream sold products, goods transportation, travel, and financial investments. The proposed ESRS also would require an entity to only disclose an intensity metric for its total emissions of all three scopes.

The ISSB proposal would require entities to disclose Scope 3 emissions, subject to the general materiality threshold included in the proposal. An entity would disclose the categories of upstream or downstream activities that are included in the calculation, but it would not have to separately disclose emissions by those categories. The intensity metric described above for Scope 1 and Scope 2 emissions would also apply to Scope 3 emissions.

Scenario analysis

The SEC proposal would not require a registrant to use a scenario analysis to assess its resilience to climate-related risk. However, if a registrant uses a scenario analysis or other analytical tools, it would be required to disclose quantitative and qualitative information about the analysis.

The proposed ESRS would require an entity to use a climate-related scenario analysis, with at least one scenario in line with the Paris Agreement (i.e., limiting global warming to 1.5 degrees Celsius), to assess the resilience of its business strategy. Quantitative and qualitative information about the results of the analysis, how it was conducted and how it was used to inform the identification and assessment of climate-related risks would also be required.

The ISSB proposal would require an entity to use a climate-related scenario analysis or, if it is unable to perform such an analysis, alternative methods or techniques (e.g., quantitative analysis, stress tests), to assess the resilience of its business strategy. An entity would also be required to disclose quantitative and qualitative information about the results of the analysis and how it was conducted (including whether the entity has used, among its scenarios, a scenario aligned with the latest international agreement on climate change[5]).

Climate-related impact on financial statements

All three proposals would require disclosures of climate-related impacts on the financial statements, but the nature and location of the disclosures would differ.

The SEC proposal would require registrants to disclose the following in an audited note to the financial statements:

- The positive and negative financial impacts of severe weather events and other natural conditions and transition activities on each financial statement line item, unless the aggregate impact on an absolute value basis is less than 1% of the total for the line item
- The aggregate amount of climate-related costs incurred that are both expensed and capitalized, unless the aggregate is less than 1% of expenditures or capitalized costs incurred
- Whether and how climate-related events and transition activities impacted the estimates and assumptions they used in preparing the financial statements

The proposed ESRS would require an entity to disclose in its management report how material climate-related risks and opportunities have affected its financial performance, financial position and cash flows and how the entity expects financial performance, financial position and cash flows to change over the short-, medium- and long-term (which is defined as up to five years, more than five years to 10 years and more than 10 years, respectively) under the effects of material climate-related risks and opportunities.

Similarly, the ISSB proposal would require an entity to disclose, as part of its general purpose financial reporting (e.g., management's commentary in an entity's annual report), the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short-, medium- and long-term (which are undefined in the proposal), including quantitative information unless it is unable to do so.

Required disclosure location

The SEC proposal would require disclosures in annual reports and registration statements. Most of the disclosures would be included in a separately captioned section of the SEC filing and would, therefore, be subject to disclosure controls and procedures, while the financial statement impacts would be disclosed in the audited financial statements and would be subject to internal control over financial reporting.

The SEC proposal and the proposed ESRS would both require some third-party assurance over the required disclosures.

The proposed ESRS would require presentation of sustainability matters in the management report.

The ISSB proposal would require that an entity include disclosures as part of its general purpose financial reporting or be cross-referenced as long as the information is available on the same terms and at the same time as the other general purpose financial reporting information. Neither the proposed ESRS nor the ISSB proposal would require information in the audited financial statements.

How we see it

Because each proposal would require entities to include climate-related disclosures in annual reports, many entities would likely have to provide climate-related disclosures sooner than they provide sustainability information in voluntary reports today.

Assurance requirements

Under the SEC proposal, disclosures required in the financial statements would need to be audited for all registrants and controls related to such disclosures would also be in the scope of an audit of internal control over financial reporting.

In addition, disclosures in the annual report about Scope 1 and Scope 2 emissions would initially be subject to limited assurance and later reasonable assurance for both accelerated and large accelerated filers with phased-in effective dates. Assurance providers would need to be independent and would need to have significant experience in measuring, analyzing, reporting or attesting to GHG emissions. In addition, a registrant would be required to disclose certain information about the assurance provider. Non-accelerated filers and smaller reporting companies would not be required to obtain assurance over any emissions disclosures.

The CSRD would require an independent assurance provider to provide limited assurance (with a transition to reasonable assurance after six years) over all the sustainability disclosures included in management's report, not just the disclosures about Scope 1 and Scope 2 emissions. The proposed ESRS would also require an entity to disclose the assurance provider and the level of assurance provided.

The ISSB proposal does not address assurance. Instead, authorities in jurisdictions that choose to adopt the standards would need to decide whether any assurance would be required.

Governance, strategy, risk management and targets and goals

The proposals would require similar disclosures about governance, strategy, risk management and targets and goals but details vary. For example, they would require various disclosures about board (or other governance body) members' climate-related expertise and board oversight of climate matters, including how boards oversee the companies' strategy, targets and goals. The proposals would also require disclosures about how companies identify, assess and manage their climate-related risks.

Sector-specific requirements

The SEC proposal does not preclude the use of industry-specific standards. However, such disclosures would not be required.

The proposed ESRS would eventually include sector-specific requirements. However, these requirements have not yet been proposed for public comment. The ISSB proposal would require that entities comply with sector- and industry-specific requirements. These proposed requirements are generally based on the standards that were previously issued by the Sustainability Accounting Standards Board.

Other reporting requirements

Other differences include:

- The proposed ESRS and the ISSB proposal would require entities to disclose both climate-related risks and opportunities, but the SEC proposal would only require a registrant to disclose climate-related risks and would give a registrant an option to disclose climate-related opportunities.
- The proposed ESRS and the ISSB proposal would require entities to disclose qualitative and quantitative information about executive compensation (and other compensation under the proposed ESRS) that is linked to climate-related considerations. The SEC proposal does not include similar requirements because the SEC believes that its existing rules already provide a framework for disclosure of any connection between executive remuneration and achieving progress in addressing climate-related risks.
- The proposed ESRS would require detailed quantitative information about energy consumption by source (i.e., non-renewable sources and renewable sources disaggregated by type), including intensity metrics for activities in high-climate-impact sectors only. The SEC and the ISSB proposals standards do not have similar requirements.

Proposed effective dates

The compliance dates for the SEC proposal, assuming the rules are adopted by the end of 2022, would be based on the registrant's filing status, as follows:

- Fiscal year 2023 for large accelerated filers
- Fiscal year 2024 for accelerated filers and non-accelerated filers
- Fiscal year 2025 for smaller reporting companies, with a provisional period until fiscal year 2028

Beginning in the year of adoption, disclosures would be required for all periods presented in the financial statements, unless the historical information for the GHG emissions and financial statement disclosures is not reasonably available. All registrants would be required to report their Scope 1 and Scope 2 GHG emissions, and large accelerated, accelerated and non-accelerated filers that would be required to report Scope 3 emissions would have to do so by one year after the dates above. Smaller reporting companies would not be required to report Scope 3 emissions. Limited assurance on Scope 1 and Scope 2 emissions would be required one year after the dates above for large accelerated and accelerated filers, and reasonable assurance would be required three years after the dates above for those filers.

Under the June 2022 provisional agreement between the Council of the European Union and the European Parliament, the final ESRS would be effective for the following periods, based on an entity's size:

- Fiscal year 2024 for entities currently subject to the Non-Financial Reporting Directive (i.e., large public-interest companies with more than an average of 500 employees during the year and either (1) more than €40 million in net turnover or (2) more than €20 million in balance sheet total)
- Fiscal year 2025 for large entities not subject to the Non-Financial Reporting Directive
- Fiscal year 2026 for listed small- and medium-sized entities and small and noncomplex credit institutions and captive insurance undertakings
- Fiscal year 2028 for non-EU companies that are subject to the CSRD (e.g., a non-EU parent with an EU subsidiary or branch that meets the thresholds described in the scope section above)

Disclosures would be required for comparative periods, but an entity would be able to defer the presentation of comparative information by one year (i.e., not provide the comparative information in the year of adoption).

The ISSB did not propose an effective date but plans to include one in the final standard. Jurisdictions that choose to apply any final ISSB standards could also set their own effective dates. The ISSB proposed application on a prospective basis in the fiscal year of adoption.

Next steps

- Entities should monitor developments for changes to the proposals after the SEC, the EFRAG and the ISSB review the feedback they receive and finalize the requirements.
- Entities should consider which climate-related disclosure proposals they would be subject to and identify information they would need to disclose under each proposal. For example, entities should evaluate whether they would be subject to the requirements of the CSRD and monitor whether any jurisdictions in which they operate plan to adopt the ISSB standards. Entities may also want to begin considering how they would gather the information and whether they would need to set up new processes, systems and controls.

Endnotes:

[1] "The Enhancement and Standardization of Climate-Related Disclosures for Investors," Securities and Exchange Commission, March 2022. Available online at: https://www.sec.gov/rules/proposed/2022/33-11042.pdf

[2] Draft ESRS Exposure Drafts & Set of Basis for conclusions available online at: https://www.efrag.org/lab3#subtitle6, and the updated CSRD Proposal issued on 29 June 2022 available online at: https://data.consilium.europa.eu/doc/document/ST-10835-2022-INIT/x/pdf

[3] "Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information," IFRS Foundation, March 2022. Available online at: Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

"Exposure Draft IFRS S2 Climate-related Disclosures," IFRS Foundation, March 2022. Available online at: Exposure Draft IFRS S2 Climate-related Disclosures

[4] The definitions of Scope 1, Scope 2 and Scope 3 emissions are based on the Greenhouse Gas Protocol. Scope 1 emissions result directly from sources that are owned or controlled by an entity, Scope 2 emissions result from the generation of electricity, heat or steam purchased by an entity and Scope 3 emissions result from sources not owned or controlled by an entity but that exist in an entity's value chain.

[5] The "latest international agreement on climate change" is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change. The ISSB proposal acknowledges that the latest such agreement is the Paris Agreement (April 2016); its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels.

Appendix: Key differences between the climate-related disclosure proposals from the SEC, the EFRAG and the ISSB

<table>
<tr><th>SEC</th><th>EFRAG</th><th>ISSB</th></tr>
<tr><td colspan="3">Scope — Entities</td></tr>
<tr><td>Would apply to:
SEC registrants, including foreign registrants and emerging growth companies
Companies entering the US capital markets for the first time by conducting initial public offerings or being acquired by public companies</td><td>Would apply to:
All companies listed on EU-regulated markets, except for micro companies and small-to-medium-sized listed enterprises that opt to apply simpler standards
A "large undertaking" that is an EU company, meaning it meets at least two of the following three criteria: (1) more than €40 million in net turnover, (2) more than €20 million in balance sheet total and (3) more than an average of 250 employees during the year
Insurance undertakings and credit institutions regardless of their legal form
A subsidiary of an EU company would be exempt from issuing a standalone report if the parent company includes the subsidiary in its report that fully complies with the ESRS (large listed subsidiaries (i.e., those that meet the criteria in the first two bullet points) must report on their own and cannot apply the subsidiary exemption)
Each subsidiary located in the EU that does not have an EU parent and that meets the thresholds in the bullets above would have to comply with the ESRS unless the subsidiary is included in the non-EU parent's sustainability report that fully complies with the ESRS or standards the EC deems equivalent to those of the EU (large listed subsidiaries must report on their own)
A non-EU company that generates €150 million in net turnover in the EU and has at least one subsidiary (listed or large as defined in the bullets above) or branch (net turnover of more than €40 million) in the EU would have to apply at the consolidated level either separate EU sustainability reporting standards that EFRAG will develop, the ESRS or standards that are deemed equivalent to those of the EU</td><td>The type of entity to which the ISSB standards would apply would be left to the discretion of authorities in any jurisdiction that chooses to adopt them</td></tr>
<tr><td colspan="3">Scope — Type of disclosures</td></tr>
<tr><td>Includes disclosure only for climate-related matters</td><td>Includes disclosures for climate-related matters, other environmental matters, social matters and governance matters</td><td>One proposal covers climate-related disclosure requirements
One proposal covers general requirements for all sustainability topics
However, the ISSB has a broad remit to deliver a comprehensive set of sustainability-related disclosure standards</td></tr>
</table>

SEC	EFRAG	ISSB
Materiality		

‣ Would primarily apply a disclosure threshold based on its definition of materiality, although the threshold is not applied consistently throughout the proposal
‣ Materiality definition primarily considers users of the financial reporting information (e.g., investors, creditors)
‣ For disclosures of financial impacts, would require disclosure by line item in the notes to the audited financial statements if the sum of the absolute values of positive and negative impacts exceeds 1% of each financial statement line item
‣ For disclosures of expenditures, would require disclosure if the expenditures capitalized or expensed exceed 1% of the total expenditures capitalized or expensed
‣ Certain disclosures would be required regardless of materiality, including disclosure of:
  ‣ Climate-related governance and risk management
  ‣ Climate-related targets and goals
  ‣ Scenario analysis (or other analytical tools)
  ‣ Scope 1 and Scope 2 GHG emissions
	‣ Would use the concept of "double materiality," which means a disclosure is material if it is material from what is called an "impact" perspective, a financial perspective or a combination of both
	‣ Materiality definition would consider both affected stakeholders (e.g., employees, customers, vendors, the community) and other users of the sustainability reporting information (e.g., investors, creditors)
	‣ Materiality would be the threshold for all disclosure requirements, except for disclosures of:
	  ‣ Strategy and business model
	  ‣ Governance
	  ‣ Process and results of an entity's assessment of sustainability impacts, risks, and opportunities
		‣ Would apply a definition of materiality that aligns with that of IFRS standards for financial statements
		‣ Materiality definition primarily considers users of the financial reporting information (e.g., investors, creditors)
		‣ Would be applied to all disclosure requirements in the proposed standards

Scope 1 and Scope 2 GHG emissions — Disclosure threshold		
‣ Would be required regardless of materiality	‣ Would require disclosure if the general materiality threshold described above is met	‣ Would require disclosure if the general materiality threshold described above is met
Scope 1 and Scope 2 GHG emissions — Use of GHG Protocol		
‣ Would not require the use of the GHG Protocol to calculate emissions	‣ Would require the use of the GHG Protocol to calculate emissions	‣ Would require the use of the GHG Protocol to calculate emissions
Scope 1 and Scope 2 GHG emissions — Disaggregation		
‣ Would require disclosure of Scope 1 and Scope 2 emissions in metric tons of CO2e, both in the aggregate for each scope and for each of the seven GHGs for each scope	‣ Would require separate disclosure of aggregate Scope 1 and Scope 2 emissions in metric tons of CO2e ‣ Would permit disaggregation of emissions, including by the seven GHGs or by country, but disaggregation wouldn't be required ‣ Would require disclosure of the percentage of Scope 1 GHG emissions under regulated emissions trading schemes	‣ Would require separate disclosure of aggregate Scope 1 and Scope 2 emissions in metric tons of CO2e ‣ Wouldn't require emissions disclosure for each of the seven GHGs
Scope 1 and Scope 2 GHG emissions — Offsets		
‣ The impact of purchased or generated offsets would be excluded from the calculation and separately disclosed	‣ The impact of purchased or generated offsets would be excluded from the calculation and separately disclosed	‣ The impact of purchased or generated offsets would be excluded from the calculation and separately disclosed
Scope 1 and Scope 2 GHG emissions — Intensity metrics		
‣ Would require disclosure of intensity metrics for each scope in terms of CO2e per unit of total revenue and per unit of production for that entity's industry	‣ Would require disclosure of intensity metrics for total emissions (inclusive of Scope 1, Scope 2 and Scope 3) per monetary unit of net revenue	‣ Would require disclosure of intensity metrics for each scope in terms of CO2e per unit of economic output (i.e., revenue) or per unit of physical output (i.e., production), not both

SEC	EFRAG	ISSB
Scope 1 and Scope 2 GHG emissions — Scope 2 method		
▸ Would allow companies to disclose their Scope 2 GHG emissions using a location-based method, a market-based method, both methods separately, a combination, or another method as long as it is identified	▸ Would require disclosure of Scope 2 emissions using both location- and market-based approaches	▸ Would require disclosure of Scope 2 emissions using a location-based method unless it is required to report emissions using a market-based method, in which case it must report both
Scope 1 and Scope 2 GHG emissions — Organizational boundaries		
▸ Would follow the same organizational boundaries as the financial statements (i.e., include proportionate share of the Scope 1 and Scope 2 emissions of entities in which a registrant holds equity method investments and entities that it proportionately consolidates)	▸ Would consider equity method investments and joint ventures to be part of an entity's upstream or downstream value chain (i.e., emissions for these entities would be considered Scope 3 emissions)	▸ Would require an entity to separately disclose Scope 1 and Scope 2 emissions for (1) consolidated entities and (2) equity method investments, joint ventures and other unconsolidated subsidiaries ▸ Would allow an entity to apply different approaches in GHG Protocol (e.g., equity share, financial control, operational control) for calculating GHG emissions from unconsolidated investments, such as equity method investments, and would require disclosure of approach
Scope 3 GHG emissions — Disclosure threshold		
▸ Would require disclosure of Scope 3 emissions if they are material or if the entity has set an emissions target that includes Scope 3 emissions ▸ Smaller reporting companies (as defined by the SEC) would not be required to disclose Scope 3 emissions	▸ Would require disclosure if the general materiality threshold described above is met	▸ Would require disclosure if the general materiality threshold described above is met
Scope 3 GHG emissions — Disaggregation		
▸ Would require disclosure of Scope 3 emissions both in the aggregate and for each of the seven GHGs ▸ Would require disclosure of the categories of upstream or downstream activities that are included in the calculation and emissions data separately for any category that is significant to the registrant	▸ Would require disclosure of Scope 3 emissions in metric tons of CO2e in total ▸ Would require disaggregation by the following categories: upstream purchasing, downstream sold products, goods transportation, travel, and financial investments	▸ Would require disclosure of Scope 3 emissions in metric tons of CO2e in total ▸ Would require disclosure of categories of upstream or downstream activities that are included in the calculation, but would not require disclosure of separate emissions by those categories
Scope 3 GHG emissions — Intensity metrics		
▸ Would require disclosure of intensity metric in terms of CO2e per unit of total revenue and per unit of production for that entity's industry	▸ Would require an entity to only disclose an intensity metric for its total emissions of all three scopes	▸ Would require disclosure of intensity metric in terms of CO2e per unit of economic output (i.e., revenue) or per unit of physical output (i.e., production), not both
Scope 3 GHG emissions — Liability		
▸ Would provide a safe harbor that would limit a registrant's liability for inaccurate disclosures of Scope 3 emissions, unless the disclosures were made without a reasonable basis, or in other than good faith	▸ Would not provide any safe harbors	▸ Would not provide any safe harbors

SEC	EFRAG	ISSB
Scenario analysis		
▸ Would not require a registrant to use a scenario analysis to assess its resilience to climate-related risk ▸ Would require a registrant that uses a scenario analysis or other analytical tools to disclose quantitative and qualitative information about the analysis	▸ Would require an entity to use a climate-related scenario analysis, with at least one scenario in line with the Paris Agreement, to assess the resilience of its business strategy ▸ Would require disclosure of quantitative and qualitative information about the results of the analysis, how it was conducted and how it was used to inform the identification and assessment of climate-related risks	▸ Would require an entity to use a climate-related scenario analysis or, if it is unable to perform such an analysis, alternative methods or techniques (e.g., quantitative analysis, stress tests) to assess the resilience of its business strategy ▸ Would require disclosure of quantitative and qualitative information about the results of the analysis and how it was conducted (including whether the entity has used, among its scenarios, a scenario aligned with the latest international agreement on climate change)
Climate-related impact on financial statements		
▸ Would require registrants to disclose the following in an audited note to the financial statements: ▸ The positive and negative financial impacts of severe weather events and other natural conditions and transition activities on each financial statement line item, unless the aggregate impact on an absolute value basis is less than 1% of the total for the line item ▸ The aggregate amount of climate-related costs incurred that are both expensed and capitalized, unless the aggregate is less than 1% of expenditures or capitalized costs incurred ▸ Whether and how climate-related events and transition activities impacted the estimates and assumptions they used in preparing the financial statements	▸ Would require an entity to disclose in its management report how material climate-related risks and opportunities affected its financial performance, financial position and cash flows and how the entity expects financial performance, financial position and cash flows to change over the short-, medium- and long-term (which is defined as up to five years, more than five years to 10 years and more than 10 years, respectively) under the effects of material climate-related risks and opportunities	▸ Would require an entity to disclose, as part of its general purpose financial reporting (e.g., management's commentary in an entity's annual report), the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short-, medium- and long-term (which are undefined in the proposal), including quantitative information unless it is unable to do so
Required disclosure location		
▸ Would require disclosures in annual reports and registration statements ▸ Most of the disclosures would be included in a separately captioned section of the SEC filing and would, therefore, be subject to disclosure controls and procedures, while the financial statement impacts would be disclosed in the audited financial statements and would be subject to internal control over financial reporting	▸ Would require presentation of sustainability matters in the management report ▸ Would not require information in the audited financial statements	▸ Would require that an entity include disclosures as part of its general purpose financial reporting or be cross-referenced as long as the information is available on the same terms and at the same time as the other general purpose financial reporting information ▸ Would not require information in the audited financial statements

SEC	EFRAG	ISSB
Assurance requirements		
‣ Would initially require limited assurance and later reasonable assurance for Scope 1 and Scope 2 emissions for both accelerated and large accelerated filers with phased-in effective dates ‣ Would not require assurance over any emissions disclosures for non-accelerated filers and smaller reporting companies ‣ Disclosures in the financial statements would need to be audited for all registrants and controls related to such disclosures would also be in the scope of an audit of internal control over financial reporting ‣ Assurance providers would need to be independent and would need to have significant experience in measuring, analyzing, reporting or attesting to GHG emissions ‣ Would require a registrant to disclose certain information about the assurance provider	‣ Would require limited assurance (with a transition to reasonable assurance after six years) over all the sustainability disclosures included in management's report, not just the disclosures about Scope 1 and Scope 2 emissions ‣ Assurance providers would need to be independent ‣ Would require an entity to disclose the assurance provider and the level of assurance provided	‣ Does not address assurance requirements ‣ Authorities in jurisdictions that choose to adopt the standards would need to decide whether any assurance would be required
Sector-specific requirements		
‣ Does not include industry-specific requirements	‣ Would eventually include sector-specific requirements, but these requirements have not yet been proposed	‣ Would require entities to comply with sector- and industry-specific requirements ‣ Proposed requirements are generally based on the standards that were previously issued by the Sustainability Accounting Standards Board
Other reporting requirements		
‣ Would require registrants to disclose climate-related risks and allow them to disclose climate-related opportunities	‣ Would require entities to disclose both climate-related risks and opportunities	‣ Would require entities to disclose both climate-related risks and opportunities
‣ Would not require entities to disclose qualitative and quantitative information about executive compensation that is linked to climate-related considerations because the SEC believes that its existing rules already provide a framework for disclosure of any connection between executive remuneration and achieving progress in addressing climate-related risks	‣ Would require entities to disclose qualitative and quantitative information about compensation, including executive compensation, that is linked to climate-related considerations	‣ Would require entities to disclose qualitative and quantitative information about executive compensation that is linked to climate-related considerations
‣ Would not require disclosure of energy consumption	‣ Would require detailed quantitative information about energy consumption by source, including intensity metrics for activities in high-climate-impact sectors only	‣ Would not require disclosure of energy consumption

SEC	EFRAG	ISSB
Proposed effective dates		
‣ The compliance dates for the SEC proposal, assuming the rules are adopted by the end of 2022, would be based on the registrant's filing status, as follows: ‣ Fiscal year 2023 for large accelerated filers ‣ Fiscal year 2024 for accelerated filers and non-accelerated filers ‣ Fiscal year 2025 for smaller reporting companies, with a provisional period until fiscal year 2028 ‣ Beginning in the year of adoption, disclosures would be required for all periods presented in the financial statements, unless the historical information for the GHG emissions and financial statement disclosures is not reasonably available ‣ Large accelerated, accelerated and non-accelerated filers that would be required to report Scope 3 emissions would have to do so by one year after the dates above ‣ Limited assurance on Scope 1 and Scope 2 emissions would be required one year after the dates above for large accelerated and accelerated filers, and reasonable assurance would be required three years after the dates above for those filers	‣ Under the June 2022 provisional agreement, the final ESRS would be effective for the following periods, based on an entity's size: ‣ Fiscal year 2024 for entities currently subject to the Non-Financial Reporting Directive (i.e., large public-interest companies with more than an average of 500 employees during the year and either (1) more than €40 million in net turnover or (2) more than €20 million in balance sheet total) ‣ Fiscal year 2025 for large entities not subject to the Non-Financial Reporting Directive ‣ Fiscal year 2026 for listed small- and medium-sized entities and small and noncomplex credit institutions and captive insurance undertakings ‣ Fiscal year 2028 for non-EU companies that are subject to the CSRD (e.g., a non-EU parent with an EU subsidiary or branch that meets the thresholds described in the scope section above) ‣ Disclosures would be required for comparative periods, but an entity would be able to defer the presentation of comparative information by one year (i.e., not provide the comparative information in the year of adoption)	‣ Does not propose an effective date but plans to include one in the final standard ‣ Jurisdictions that choose to apply any final ISSB standards could also set their own effective dates ‣ Disclosures would be required on a prospective basis in the fiscal year of adoption