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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 EFRAG submitted its first set of draft standards to the European Commission that would require companies to make certain climate-related disclosures.
- The SEC and the ISSB have also proposed climate disclosure rules and standards. When finalized, the ISSB guidance 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 among the proposals and draft standards because they might be subject to more than one set of requirements.
- Entities should also monitor developments since the final guidance from the SEC and ISSB could differ from the proposals.

Overview

Certain regulators and standard setters have either proposed rules or issued draft standards 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.

Building a better working world

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

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 and draft standards 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 final rules and standards could differ from proposals. We note that the SEC received thousands of 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 is currently expected to issue final rules in the first half of 2023.

The European Parliament and the Council of the European Union gave final approval in November 2022 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). EFRAG submitted the first set of draft European Sustainability Reporting Standards (ESRS) to the EC in November 2022. The EC could make changes to this first set of draft standards (draft ESRS) but must adopt them by a delegated act no later than 30 June 2023, at which point they will become final.

Compliance with the final standards will be mandatory after the CSRD is included in the local law of each European Union (EU) Member State, which is required by July 2024.

How we see it

Any EU directive, including the CSRD, is binding on EU Member States, but EU Member States have some authority to choose the form and methods to achieve the required result as they incorporate the directive into local law. The CSRD also contains options that EU Member States can choose. Therefore, companies should monitor the local laws of the relevant EU jurisdictions.

The ISSB, which was established by the IFRS Foundation to develop a comprehensive set of standards to serve as a global baseline, has redeliberated several topics[4] from its two proposed IFRS Sustainability Standards after receiving comments and aims to finalize the standards toward the end of Q2 2023. 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 SEC and ISSB proposals and the draft ESRS, see our To the Point publication, ***SEC proposes enhancing and standardizing climate-related disclosures***, our IFRS Sustainability Developments publication, ***ISSB publishes first two EDs on sustainability disclosure requirements***, and our EU Sustainability Developments publication, ***European Sustainability Reporting Standards (ESRS)***.

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 the final CSRD, the ESRS, when finalized, will 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 (i.e., total assets) below €2 million) and small and medium-sized listed entities that opt to apply simpler standards that are currently being developed by EFRAG
- A "large undertaking" that is an EU company, meaning 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 is exempt from issuing a standalone report if the EU parent company includes the subsidiary in its consolidated report that fully complies with the ESRS.

A subsidiary located in the EU that does not have an EU parent and that meets the thresholds in the bullets above is required to comply with the ESRS, unless it 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. The EC has not yet determined the equivalence criteria and what standards are equivalent.

Also, until 2030, a non-EU parent can select for sustainability reporting purposes an EU subsidiary to consolidate all its EU subsidiaries, including those that are not consolidated by the subsidiary for accounting purposes. The EU subsidiary selected must be one of the EU subsidiaries that generated the greatest turnover in the EU in at least one of the preceding five financial years, on a consolidated basis where applicable.

Any 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 exemptions.

In addition, a non-EU company that generates €150 million in net turnover in the EU and has at least one subsidiary in the scope of the CSRD (as defined in the bullets above) or, if the non-EU company has no EU subsidiary, a branch (net turnover of more than €40 million) in the EU is required (at a later effective date) 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 haven't been developed, but they aren't expected to cover all reporting areas that are included in the ESRS.

The draft ESRS requires disclosures of climate-related and other ESG matters, including other environmental matters (e.g., pollution, water and marine resources), social matters (e.g., own workforce, affected communities, consumers and end users) and governance matters (e.g., business conduct).

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.

Materiality

The proposals would 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[5] would be required regardless of materiality.

The proposals would define and apply materiality differently.

The draft ESRS uses 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 pertains to the entity's material actual or potential, positive or negative impacts on people or the environment. A sustainability matter is material from a financial perspective if it triggers or may trigger material financial effects on the entity, including its cash flows, development, performance, position and cost of capital or access to finance.

Unlike the materiality definitions used in the SEC and the ISSB proposals, the materiality definition in the draft ESRS considers both affected stakeholders (e.g., employees, customers, vendors, the community) and other users of the sustainability reporting information (e.g., investors, creditors). However, materiality does not apply (i.e., all disclosures are required, including their datapoints) to certain standards (or requirements within those standards) within the draft ESRS, including draft ESRS 2, which addresses disclosures on governance, strategy, impact, risk and opportunity management and monitoring of the effectiveness of actions and progress toward targets; draft ESRS E1, which addresses climate change disclosures; and for companies with more than 250 employees, disclosure requirements S1-1 to S1-9 in draft ESRS S1, which addresses disclosures about the company's workforce. In addition, certain datapoints in the draft ESRS that are required by other EU law are also required.

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). 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 concept of double materially in the draft ESRS is broader than the definitions of materiality used by the SEC and the ISSB and will 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

The SEC and ISSB proposals, as well as the draft ESRS, would require disclosure of Scope 1 and Scope 2 GHG emissions. However, the ISSB proposal would subject these disclosures to the general materiality threshold described above, while the SEC proposal, as well as the draft ESRS, would require them in all cases. The nature of the required disclosures would also differ.

The SEC proposal would not require registrants to use the GHG Protocol,[6] 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 (CO_2e), 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 CO_2e 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 draft ESRS includes specific guidance for calculating GHG emissions but also requires an entity to consider the principles, requirements and guidance provided by the GHG Protocol and Global Reporting Initiative (GRI) 305, which is directly based on the requirements of the GHG Protocol, when preparing the information for reporting GHG emissions. It allows an entity to also consider the requirements in International Organization for Standardization (ISO) 14064-1:2018.

The draft ESRS also requires an entity to separately disclose aggregate Scope 1 and Scope 2 emissions in metric tons of CO_2e, with the impact of purchased or generated offsets excluded and separately disclosed. An entity is permitted to disaggregate those emissions, including by the seven GHGs or by country, but disaggregation is not required.

The draft ESRS requires 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 methods. For an intensity metric, the draft ESRS requires an entity to only disclose its total emissions (inclusive of Scope 1, Scope 2 and Scope 3 emissions) using both a location-based and market-based method per monetary unit of net revenue.

In addition, the draft ESRS requires a nonfinancial entity to include Scope 1 and Scope 2 emissions of equity method investments and joint ventures that it has operational control over in its reported Scope 1 and Scope 2 emissions. The draft ESRS also requires an entity to disaggregate Scope 1 and Scope 2 emissions for (1) consolidated entities and (2) equity method investments, joint ventures and other unconsolidated subsidiaries for which it has operational control.

As part of redeliberations (following the end of the comment period) the ISSB tentatively decided to 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 CO_2e, 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. The ISSB also tentatively decided to allow, under certain conditions, entities to measure its Scope 1 and Scope 2 emissions using information from entities in its value chain with reporting cycles that are not aligned with the entity's reporting period. Disclosure of intensity metrics would not be required. The ISSB tentatively decided to require a company to reports its Scope 2 emissions using a location-based method and provide relevant information about contractual instruments related to managing the energy it has purchased.

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 tentatively decided during redeliberations of its proposal to 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 CO_2e 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 draft ESRS requires entities to disclose Scope 3 emissions from each significant Scope 3 category and only disclose an intensity metric for its total emissions of all three scopes.

In its redeliberations, the ISSB tentatively decided to require entities to disclose Scope 3 emissions, subject to the general materiality threshold included in the proposal. Entities in the asset management, commercial banking and insurance industries would be required to report on financed emissions as part of their Scope 3 emission reporting.

The ISSB also tentatively decided to provide certain relief to address practical challenges of disclosing Scope 3 emissions. This would include allowing, under certain conditions, entities to measure its Scope 3 emissions using information from entities in its value chain with reporting cycles that are not aligned with the entity's reporting period and providing a temporary exemption for disclosing Scope 3 emissions for one year after the effective date. In addition, an entity could use only reasonable and supportable information that is available at the reporting date without undue cost or effort in measuring its Scope 3 emissions. An entity would be required to disclose the categories of upstream or downstream activities that are included in the Scope 3 emissions calculation.

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 draft ESRS requires 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 also are required.

During its rediberations, the ISSB tentatively decided to require an entity to use a climate-related scenario analysis commensurate with its circumstances to assess the resilience of its business strategy. An entity would be required to use all reasonable and supportable information that is available at the reporting date without undue cost or effort in developing the analysis. 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[7]).

Climate-related impact on financial statements

The SEC and ISSB proposals, as well as the draft ESRS, 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 draft ESRS requires 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 terms (which are defined as up to one year, more than one year to five years, and more than five 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 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 terms, including quantitative information, unless it is unable to do so. An entity could use only reasonable and supportable information that is available at the reporting date without undue cost or effort in determining these effects. The proposal would not define short, medium and long terms, but an entity would have to disclose how it defines them and how the definitions would be linked to the entity's strategic planning horizons and capital allocation plans.

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 CSRD and draft ESRS require presentation of sustainability matters in the management report.

The ISSB proposal would require that disclosures be included as part of an entity's general purpose financial reporting or be cross-referenced, as long as the information is available on the same terms and at the same time (subject to short-term transitional relief) as the other general purpose financial reporting information. Neither the CSRD/draft ESRS nor the ISSB proposal would require information in the audited financial statements.

The SEC proposal, as well as the draft ESRS, would require some third-party assurance over the required disclosures.

How we see it

Because the SEC and ISSB proposals, as well as the draft ESRS, would require entities to include climate-related disclosures at the same time as the financial statements, many entities would likely have to provide climate-related disclosures earlier in the year 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 requires the financial statement auditor or, if an EU Member State chooses when incorporating the CSRD into its local law, another independent assurance provider accredited by an EU Member State, to provide limited assurance (with a planned transition to reasonable assurance after the EC conducts a feasibility analysis) over all the sustainability disclosures included in management's report, not just the disclosures about Scope 1 and Scope 2 emissions.

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 SEC and ISSB proposals, as well as the draft ESRS, 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 SEC and ISSB proposals, as well the draft ESRS, would also require disclosures about how companies identify, assess and manage their climate-related risks.

Sector-specific requirements

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

A subsequent set of ESRS will include sector-specific requirements. However, these requirements have not yet been proposed for public comment. The ISSB tentatively decided that it should not currently include sector- and industry-specific requirements. However, it would include sector- and industry-specific illustrative guidance that is based on the standards previously issued by the Sustainability Accounting Standards Board.

Other reporting requirements

Other differences include:

- The draft ESRS and the ISSB proposal would require entities to disclose both climate-related risks and opportunities (unless the information about opportunities meets the criteria to be considered "commercially sensitive," as tentatively decided by the ISSB), 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 draft ESRS and the ISSB proposal would require entities to disclose qualitative and quantitative information about executive compensation 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 draft ESRS requires 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 do not have similar requirements.

Proposed effective dates

The compliance dates for the SEC proposal would be based on the registrant's filing status. The compliance dates included in the proposal, which assumed the rules would be adopted by the end of 2022, would be:

- 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

How we see it

The timing of the release of any final SEC rules may result in a change in compliance dates. In addition, the SEC received a significant number of comments encouraging it to defer the proposed compliance dates.

Beginning in the year of adoption of the SEC rules, 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 final CSRD, the ESRS, when finalized, is 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, unless they opt out for two additional years and disclose why they haven't provided the sustainability information, 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 are required for comparative periods, but an entity can 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 and the ISSB review the feedback they receive and finalize the requirements.
- Entities should consider which of the SEC and ISSB proposals and draft ESRS they would be subject to and identify information they would need to disclose under each. For example, entities should evaluate whether they are 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] "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

[3] Draft ESRS & Set of Basis for conclusions available online at: https://www.efrag.org/lab6 , and the final CSRD available online at: https://data.consilium.europa.eu/doc/document/PE-35-2022-INIT/en/pdf

[4] This publication includes tentative decisions made by the ISSB during its redeliberations through January 2023.

[5] 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.

[6] The GHG Protocol has started a process to collect stakeholder input through surveys to understand the need, scope and potential approaches to inform updates or additional guidance related to the GHG Protocol's *Corporate Accounting and Reporting Standard*, *Scope 2 Guidance*, *Corporate Value Chain (Scope 3) Standard*, *Scope 3 Calculation Guidance* and supporting documents. Survey responses are due by 14 March 2023.

[7] 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.

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

<table>
<tr><th>SEC</th><th>EFRAG</th><th>ISSB</th></tr>
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Applies 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 that are currently being developed by EFRAG
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

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A subsidiary located in the EU that does not have an EU parent and that meets the thresholds in the bullets above is required to comply with the ESRS, unless it 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 (until 2030, a non-EU parent can select an EU subsidiary to consolidate all its EU subsidiaries, including those that are not consolidated by the subsidiary for accounting purposes, for sustainability reporting purposes, but the subsidiary selected must be one of the EU subsidiaries that generated the greatest turnover in the EU in at least one of the preceding five financial years, on a consolidated basis where applicable)
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A non-EU company that generates €150 million in net turnover in the EU and has at least one subsidiary in the scope of the CSRD (as defined in the bullets above) or, if the non-EU company has no EU subsidiary, a branch (net turnover of more than €40 million) in the EU is required (at a later effective date) 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

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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</td><td>Uses 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 considers both affected stakeholders (e.g., employees, customers, vendors, the community) and other users of the sustainability reporting information (e.g., investors, creditors)
Materiality is the threshold for all disclosure requirements, except for disclosure requirements and datapoints in:
Draft ESRS 2
Draft ESRS E1
Draft ESRS S1-1 to S1-9 for companies with more than 250 employees
In addition, certain datapoints in the draft ESRS that are required by other EU law are also required</td><td>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</td></tr>
<tr><td colspan="3">Scope 1 and Scope 2 GHG emissions — Disclosure threshold</td></tr>
<tr><td>Would be required regardless of materiality</td><td>Requires disclosure regardless of materiality</td><td>Would require disclosure if the general materiality threshold described above is met</td></tr>
<tr><td colspan="3">Scope 1 and Scope 2 GHG emissions — Use of GHG Protocol</td></tr>
<tr><td>Would not require the use of the GHG Protocol to calculate emissions</td><td>Includes specific guidance for calculating GHG emissions but also requires an entity to consider the principles, requirements and guidance provided by the GHG Protocol and GRI 305, which is directly based on the requirements of the GHG Protocol, when preparing the information for reporting GHG emissions
Allows an entity to also consider the requirements in ISO 14064-1:2018</td><td>Would require the use of the GHG Protocol to calculate emissions</td></tr>
</table>

SEC	EFRAG	ISSB
Scope 1 and Scope 2 GHG emissions — Disaggregation		
▸ Would require disclosure of Scope 1 and Scope 2 emissions in metric tons of CO_2e, both in the aggregate for each scope and for each of the seven GHGs for each scope	▸ Requires separate disclosure of aggregate Scope 1 and Scope 2 emissions in metric tons of CO_2e ▸ Permits disaggregation of emissions, including by the seven GHGs or by country, but disaggregation is not required ▸ Requires 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 CO_2e ▸ Wouldn't require emissions disclosure for each of the seven GHGs ▸ Would allow, under certain conditions, entities to measure its Scope 1 and Scope 2 emissions using information from entities in its value chain with reporting cycles that are not aligned with the entity's reporting period
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 is 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 CO_2e per unit of total revenue and per unit of production for that entity's industry	▸ Requires disclosure of intensity metrics for total emissions (inclusive of Scope 1, Scope 2 and Scope 3) using both a location-based and market-based method per monetary unit of net revenue	▸ Would not require disclosure of intensity metrics
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	▸ Requires disclosure of Scope 2 emissions using both location- and market-based methods	▸ Would require disclosure of Scope 2 emissions using a location-based method and relevant information about contractual instruments related to managing the energy an entity has purchased
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)	▸ Requires Scope 1 and Scope 2 emissions of equity method investments and joint ventures that an entity has operational control over to be reported in its Scope 1 and Scope 2 emissions ▸ Requires separate disclosure of Scope 1 and Scope 2 emissions for (1) consolidated entities and (2) equity method investments, joint ventures and other unconsolidated subsidiaries for which it has operational control	▸ 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

SEC	EFRAG	ISSB
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	▸ Requires disclosure of Scope 3 emissions from each significant Scope 3 category	▸ Would require disclosure if the general materiality threshold described above is met ▸ Would require entities in the asset management, commercial banking and insurance industries to report on financed emissions as part of their Scope 3 emission reporting, regardless of materiality ▸ Would provide certain relief to address practical challenges in disclosing Scope 3 emissions, including allowing, under certain conditions, entities to measure its Scope 3 GHG emissions using information from entities in its value chain with reporting cycles that are not aligned with the entity's reporting period, and providing a temporary exemption for disclosing Scope 3 emissions for one year after the effective date ▸ Would also allow an entity to use only reasonable and supportable information that is available at the reporting date without undue cost or effort in measuring its Scope 3 emissions
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	▸ Requires disclosure of Scope 3 emissions in metric tons of CO_2e in total	▸ Would require disclosure of Scope 3 emissions in metric tons of CO_2e in total ▸ Would require disclosure of categories of upstream or downstream activities that are included in the calculation
Scope 3 GHG emissions — Intensity metrics		
▸ Would require disclosure of intensity metric in terms of CO_2e per unit of total revenue and per unit of production for that entity's industry	▸ Requires an entity to only disclose an intensity metric for its total emissions of all three scopes	▸ Would not require disclosure of intensity metrics
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	▸ Does 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	‣ Requires 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 ‣ Requires 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 commensurate with the entity's circumstances to assess the resilience of its business strategy ‣ Would require an entity to use all reasonable and supportable information that is available at the reporting date without undue cost or effort in developing the analysis ‣ 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	‣ Requires 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 terms (which are defined as up to one year, more than one year to five years and more than five 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 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 terms (which are undefined in the proposal), including quantitative information, unless it is unable to do so ‣ Would allow an entity to use only reasonable and supportable information that is available at the reporting date without undue cost or effort in determining these effects
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	‣ Requires presentation of sustainability matters in the management report ‣ Does not require information in the audited financial statements	‣ Would require that disclosures be included as part of an entity's general purpose financial reporting or be cross-referenced as long as the information is available on the same terms and at the same time (subject to short-term transitional relief) 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	▸ Requires limited assurance (with a planned transition to reasonable assurance in the future after the EC conducts a feasibility analysis) over all the sustainability disclosures included in management's report, not just the disclosures about Scope 1 and Scope 2 emissions ▸ Assurance providers need to be the financial statement auditor, or if an EU Member State chooses when incorporating the CSRD into its local law, another independent assurance provider accredited by an EU Member State	▸ 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	▸ A second set of ESRS will eventually include sector-specific requirements, but these requirements have not yet been proposed	▸ Would not require entities to comply with sector- and industry-specific requirements, but would include sector- and industry-specific illustrative guidance 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	▸ Requires entities to disclose both climate-related risks and opportunities	▸ Would require entities to disclose both climate-related risks and opportunities (unless the information about opportunities meets the criteria to be considered "commercially sensitive," as tentatively decided by the ISSB)
▸ 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	▸ Requires entities to disclose qualitative and quantitative information about 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	▸ Requires 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

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<tr><th>SEC</th><th>EFRAG</th><th>ISSB</th></tr>
<tr><td colspan="3">Proposed effective dates</td></tr>
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<td>
The compliance dates for the SEC proposal would be based on the registrant’s filing status
The compliance dates included in the proposal, which assumed the rules would be adopted by the end of 2022, would be:

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
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<td>
Under the final CSRD, the ESRS, when finalized, is 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, unless they opt out for two additional years and disclose why they haven’t provided the sustainability information, 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 are required for comparative periods, but an entity can defer the presentation of comparative information by one year (i.e., not provide the comparative information in the year of adoption)
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<td>
Does not propose an effective date, but the ISSB 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
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