

Technical Line

How the climate-related disclosures under the SEC proposal, the ESRS and the ISSB standards compare

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What you need to know

- ▶ The European Commission issued its first set of European Sustainability Reporting Standards that require entities to make sustainability disclosures, including certain climate-related disclosures.
- ▶ The ISSB issued its general and climate-related sustainability disclosure standards, which need to be adopted by authorities in a particular jurisdiction to be mandatory.
- ▶ The SEC is reviewing comment letters on its climate disclosure proposal and is expected to issue a final rule in 2023.
- ▶ Entities with significant operations in multiple jurisdictions need to understand the key differences among the SEC proposal, the ESRS and the ISSB standards because they might be subject to more than one set of requirements.

Overview

Certain regulators and standard setters have either issued standards or are expected to issue final rules requiring public entities and certain other entities to make various climate-related disclosures in their annual reports. While many entities 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 proposal issued by the Securities and Exchange Commission (SEC),¹ the first set of European Sustainability Reporting Standards (ESRS) issued by the European Commission (EC)² and the climate-related disclosure requirements in the standards issued by 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).

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 set of requirements in detail to determine how they are affected. They should also consider evaluating how they would be affected by proposals in other national and local jurisdictions (e.g., Canada, Australia, California).

Entities should also monitor developments related to the SEC's proposal since the final rule could differ from the proposal. We note that the SEC received thousands of comment letters. While respondents generally supported the proposal's objectives, many suggested that changes be made when the rules are finalized. The SEC is currently expected to issue a final rule by the end of 2023.

The Corporate Sustainability Reporting Directive (CSRD), a European Union (EU) legislative act that was finalized in January 2023, includes a mandate to report sustainability information under a reporting framework provided by the ESRS that were initially developed by the European Financial Reporting Advisory Group (EFRAG). The first set of ESRS were issued through a regulation (referred to as a delegated act) in July 2023 by the EC, the executive arm of the EU. Future delegated acts will be required for the other sets of ESRS (e.g., sector-specific standards, standards for listed small and medium-sized entities, standards for non-EU entity reporting), which will be developed by the EFRAG.

EU Member States must include the CSRD's requirements into their local law by July 2024.

How we see it

While EU Member States are bound by any EU directive, including the CSRD, they have some authority to choose the form and methods to achieve the required result as they incorporate the directive into their local laws. Individual EU Member States are permitted to broaden the scope and reporting requirements (often referred to as "gold plating").

The CSRD also contains options individual EU Member States can apply (e.g., allowing an independent assurance provider other than the entity's statutory auditor to provide assurance). Therefore, entities should monitor the local laws of the relevant EU jurisdictions to determine how they will be affected.

The ISSB, which was established by the IFRS Foundation to develop a comprehensive set of standards to serve as a global baseline, issued its first two IFRS Sustainability Disclosure Standards in June 2023. These standards require adoption by authorities in local jurisdictions before compliance would be mandatory in any jurisdiction, similar to other International Financial Reporting Standards (IFRS). In July 2023, the International Organization of Securities Commissions endorsed the ISSB standards and called on its members to consider how they might adopt, apply or otherwise be informed by the ISSB Standards.⁴ Several jurisdictions, including the United Kingdom, Canada and Australia, have indicated they expect to require the adoption of the ISSB standards.

For more information about the SEC proposal, the ESRS and the ISSB standards, see our To the Point publication, [**SEC proposes enhancing and standardizing climate-related disclosures**](#); our EU Sustainability Developments publication, [**European Sustainability Reporting Standards \(ESRS\)**](#); and our IFRS Sustainability Developments publication, [**ISSB issues inaugural IFRS Sustainability Disclosure Standards**](#).

Key differences

Scope

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

The CSRD and ESRS apply to the following entities:

- ▶ All entities with securities (equity or certain debt) 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)
- ▶ A “large undertaking” that is an EU entity, 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 entities and credit institutions regardless of their legal form, except for micro companies

These criteria need to be applied on both a legal entity basis (i.e., an individual EU subsidiary basis) and a consolidated basis for the EU entity, including any non-EU subsidiaries of the EU entity (i.e., the EU entity needs to evaluate whether it, together with its EU and non-EU subsidiaries, meet the thresholds above on a consolidated basis), regardless of whether the EU entity has financial reporting requirements at that level.

A subsidiary of an EU entity is exempt from issuing a standalone report if the EU parent entity 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 either the ESRS or standards the EC deems equivalent to those of the EU. While the EC has not yet determined the equivalence criteria and what standards are equivalent, the CSRD requires that any equivalent standards cover ESG topics (e.g., not just climate topics) and require the use of the double materiality concepts discussed below.

As a transitional provision until 2030, a non-EU parent can select for purposes of its CSRD report an EU subsidiary to consolidate all of the non-EU parent’s EU subsidiaries in the scope of the CSRD (including those subsidiaries’ EU and non-EU subsidiaries). The selected entity would include EU subsidiaries that are not consolidated for financial reporting purposes. That is, the entities consolidated by the selected EU subsidiary for the CSRD report would not be the same as the entities consolidated by it for financial reporting purposes. However, the EU subsidiary selected must be one of the EU subsidiaries that generated the greatest turnover in the EU during at least one of the preceding five financial years, on a consolidated basis where applicable.

The various sets of guidance define materiality differently and apply a materiality threshold differently.

Any large and 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.

Separately, 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 with net turnover of more than €40 million in the EU is required (starting in 2028) 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. While separate EU sustainability reporting standards for non-EU companies haven't been developed, they aren't expected to cover all reporting areas that are included in the ESRS.

The ESRS require 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 is left to the discretion of authorities in any jurisdiction that chooses to adopt them. The application of ISSB standards is not linked to the application of IFRS accounting standards. Therefore, an entity applying IFRS accounting standards for financial reporting purposes is currently not required to also apply the ISSB standards, and vice versa. The initial two standards cover general requirements for all sustainability topics (IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information*) and climate-related disclosure requirements (IFRS S2, *Climate-related Disclosures*), but the ISSB has a broad remit to deliver a comprehensive set of sustainability-related disclosure standards. The ISSB is currently consulting on which other topics should be included in its standard-setting agenda.

Materiality

The various sets of guidance define materiality differently and 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 an entity'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) emissions⁵ would be required regardless of materiality.

The 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 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 financing.

Unlike the materiality definitions used in the disclosure requirements of the ISSB standards and the SEC proposal, the materiality definition in the 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 ESRS 2, which addresses disclosures on governance, strategy, impact, risk and opportunity management, and monitoring of the effectiveness of actions and progress toward targets. In addition, if an entity concludes that climate change is not material, it must disclose a detailed explanation of its conclusion. Certain datapoints in the ESRS that are required by other EU law are also required.

The ISSB's definition of materiality aligns with the definition of materiality in IFRS accounting standards. It focuses on what is material to the primary users of the general purpose financial report (i.e., existing and potential investors, lenders and other creditors). This definition applies to all disclosure requirements in the ISSB standards. That is, if a disclosure is not material, no disclosure would be required.

How we see it

The concept of double materiality in the ESRS is broader than the definitions of materiality used by the SEC and the ISSB and will require management to apply additional judgment to determine which matters should be disclosed from an impact perspective. Because double materiality is a new concept for entities, the EC has instructed EFRAG to issue interpretive guidance on how to evaluate double materiality.

Scope 1 and Scope 2 GHG emissions

The SEC proposal would require and the ISSB standards and the ESRS require disclosure of Scope 1 and Scope 2 GHG emissions. However, the ISSB standards and the ESRS subject these disclosures to the general materiality thresholds described above, while the SEC proposal would require these disclosures in all cases. The nature of the required disclosures 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 (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 entities 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 ESRS include specific guidance for calculating GHG emissions but also require an entity to consider the principles, requirements and guidance provided by 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 ESRS also require an entity to 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 is permitted to disaggregate those emissions, including by the seven GHGs or by country, but disaggregation is not required.

The ESRS 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 methods. For an intensity metric, the ESRS require 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 ESRS require an 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 ESRS also require 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.

The ISSB standards require an entity to use the GHG Protocol to calculate its GHG emissions, unless a jurisdictional authority or an exchange on which the entity is listed requires the use of a different method for measuring GHG emissions. The ISSB standards require entities to separately disclose aggregate Scope 1 and Scope 2 emissions in metric tons of CO₂e, but entities aren't required to report emissions for each of the seven GHGs. The impact of purchased or generated offsets must be excluded from these calculations and separately disclosed.

The ISSB standards also allow, under certain conditions, an entity 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 are not required. The ISSB standards require an entity to report its Scope 2 emissions using a location-based method and provide relevant information about contractual instruments related to the source of those emissions.

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 standards require an entity to separately disclose Scope 1 and Scope 2 emissions for (1) consolidated entities and (2) other investees, such as 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 ESRS and the ISSB standards 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 would differ from the practice of many entities that voluntarily present 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 ESRS require entities to disclose Scope 3 emissions from each significant Scope 3 category, subject to the general materiality thresholds described above, and only disclose an intensity metric for their total emissions of all three scopes.

The ISSB standards require entities to disclose Scope 3 emissions, subject to the general materiality assessment based on the definition included in the standards. An entity is required to disclose the categories of upstream or downstream activities from the GHG Protocol that are included in the Scope 3 emissions calculation. Entities participating in financial activities, including commercial and investment banks, asset managers and insurance entities are required to report on financed emissions as part of their Scope 3 emission reporting.

The ISSB standards provide certain relief to address practical challenges of disclosing Scope 3 emissions. This includes allowing, under certain conditions, an entity 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 in the first annual reporting period in which an entity applies IFRS S2. In addition, an entity may use only reasonable and supportable information that is available at the reporting date without undue cost or effort in measuring its 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 ESRS 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 also are required.

The ISSB standards require an entity to use climate-related scenario analysis to assess its climate resilience, using an approach that is commensurate with its circumstances. The assessment should consider the entity's exposure to climate-related risks and opportunities and the skills, resources and capabilities available to it. An entity is required to use all reasonable and supportable information available at the reporting date without undue cost or effort in developing the analysis. An entity is also 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 change⁷).

Climate-related impact on financial statements

The SEC proposal would require and the ESRS and the ISSB standards require disclosures of climate-related impacts on the financial statements, but the nature and location of those disclosures 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 ESRS require an entity to disclose in its management report how material climate-related risks and opportunities have affected its current financial performance, financial position and cash flows and the material risks and opportunities for which there is a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next annual reporting period.

Under the ESRS, an entity is also required to disclose how it anticipates financial performance, financial position and cash flows will change over the short term (i.e., the period adopted by the entity as the reporting period, which is generally one year), medium term (i.e., from the end of the short-term reporting period to five years) and long term (i.e., more than five years) under the effects of material climate-related risks and opportunities.

Similarly, the ISSB standards require an entity to disclose, as part of its sustainability-related disclosures, 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 ISSB standards do not define short, medium and long terms, but instead require an entity to explain how the entity defines these time horizons, as well as how these definitions are linked to the entity's strategic planning horizons and capital allocation plans. The standards also require an entity to disclose the amount of capital expenditure, financing or investment deployed toward sustainability-related risks and opportunities.

Location of disclosures

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 the ESRS require presentation of the required sustainability information in the management report for an EU entity. However, if an EU subsidiary in the scope of the CSRD fulfills its reporting requirement by being included in a sustainability report of a non-EU parent, the EU subsidiary may include the required disclosures in a consolidated sustainability

report (rather than a consolidated management report) of the non-EU parent (e.g., an entity registered with the SEC would not be required to include that information in Form 10-K), with a link to that report in the management report of the EU subsidiary.

The CSRD also requires an entity to mark up its sustainability report using an electronic reporting format. This will allow interested parties to access the reports in the European Single Access Point, which is currently under development.

The ISSB standards require that disclosures be included as part of an entity's general purpose financial report or that an entity cross-reference to disclosures that meet the requirements in another report it publishes. The cross-referenced information needs to be available on the same terms and at the same time (subject to short-term transitional relief in the year of adoption), and the complete set of sustainability-related financial disclosures cannot be less understandable by including information by cross-reference.

Neither the CSRD/ESRS nor the ISSB standards require information in the audited financial statements. However, the ISSB standards require an entity to draw connections between disclosures about sustainability-related risks and opportunities (including climate-related risks and opportunities) included in the sustainability report and other general purpose financial reports published by the entity, such as information in the related financial statements.

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

How we see it

Because the SEC proposal would require and the ISSB standards and the ESRS require entities to include climate-related disclosures at the same time as the financial statements, many entities in the US will 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, an other professional service firm or independent assurance service 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 the following:

- Compliance with the CSRD, including the ESRS
- The process carried out by the entity to identify the information reported in accordance with the ESRS
- Compliance with the requirement to mark up the sustainability report using an electronic reporting format

- Compliance with the reporting requirements of Article 8 of the EU Taxonomy Regulation, which applies to all entities in the scope of the CSRD (excluding non-EU entities that are required to report at the consolidated level in fiscal year 2028)

This limited assurance is required on the initial year of reporting. There is a planned transition to reasonable assurance after the EC conducts a feasibility analysis. Entities should continue to monitor for developments in this area.

Auditors and other assurance service providers, if applicable, will be required to apply assurance standards for sustainability reporting that will be issued by the EC through a delegated act before 1 October 2026.

The ISSB standards do 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 proposal would require and the ESRS and the ISSB standards require similar disclosures about governance, strategy, risk management, and targets and goals but details vary. For example, they include various disclosures about board (or other governance body) members' climate-related expertise and board oversight of climate matters, including how boards oversee the entities' strategy, targets and goals. In addition, the SEC proposal would require and the ESRS and the ISSB standards require disclosures about how entities identify, assess and manage their climate-related risks, including disclosures about any internal carbon price used.

Industry-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. While the ISSB standards do not currently require industry-specific disclosures, they do require an entity to refer to and consider the applicability of the industry-based disclosure topics in the standards previously issued by the Sustainability Accounting Standards Board.

Other reporting requirements

Other differences include:

- The ESRS and the ISSB standards require entities to disclose both climate-related risks and opportunities (unless, under the ISSB standards, disclosure of the information about opportunities is prohibited by law or meets the criteria to be considered "commercially sensitive"), 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 ESRS and the ISSB standards 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 SEC proposal would require an entity to disclose the percentage (e.g., based on square meters, acres) and location of assets in flood hazard areas, as well as the amount (e.g., book value and as a percentage of total assets) and location of assets located in regions of high or extremely high water stress. The ESRS and ISSB standards have similar but more expansive requirements under which an entity must disclose the amount and

percentage of assets or business activities that are (1) vulnerable to climate-related transition risks and (2) vulnerable to climate-related physical risks. The ISSB standards also require an entity to disclose the amount and percentage of assets or business activities aligned with climate-related opportunities.

- ▶ The ESRS require detailed quantitative information about energy consumption by source (i.e., fossil fuel sources, nuclear sources and types of renewable sources), including further disaggregation for entities with operations in high-climate-impact sectors and intensity metrics for activities in high-climate-impact sectors. The SEC proposal and the ISSB standards do not have similar requirements.

Effective dates

The compliance dates for the SEC proposal would be based on the registrant's filing status (i.e., large accelerated, accelerated, non-accelerated and smaller reporting company).

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 in the year of adoption, 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.

The CSRD and ESRS are effective for the following periods, with reporting in the following year, based on an entity's size:

- ▶ Fiscal year 2024 for entities currently subject to the Non-Financial Reporting Directive (NFRD) (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) and, based on our current understanding, other listed entities such as non-EU entities that have equity or certain debt securities listed on an EU-regulated market that meet the NFRD thresholds
- ▶ Fiscal year 2025 for large entities that are not subject to reporting in fiscal year 2024
- ▶ 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 entities
- ▶ 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). To ease transition to reporting under the CSRD, certain disclosure requirements in the ESRS (e.g., Scope 3 emissions, certain value chain metrics, quantitative and anticipated financial effects) are phased in, with some phase-ins dependent on an entity's size.

The ISSB standards are effective for annual reporting periods beginning on or after 1 January 2024 and are required to be adopted by authorities in local jurisdictions before compliance is mandatory in any jurisdiction, similar to IFRS accounting standards. Jurisdictions that choose to apply the ISSB standards could also set their own effective dates. Earlier application is permitted, including voluntary adoption, provided that an entity applies both standards at the same time and discloses that it has applied the standards early. Entities may apply the standards prospectively in the fiscal year of adoption and also apply the following transitional relief:

- ▶ An entity has the option to not disclose comparative sustainability-related financial information in the first annual reporting period in which the entity applies the standards.
- ▶ An entity can elect to report on only climate-related risks and opportunities in the first year it applies the standards under the “climate first” transition relief. If the entity elects this relief, it must disclose that fact and the transition relief for comparative periods described above will also apply, meaning the entity would not have to disclose comparative information for climate-related (or other sustainability-related) financial information in the first year it applies the standards. In the second year of application, comparative information would be required only for climate-related disclosures.
- ▶ An entity has the option to report its sustainability-related financial disclosures in the first annual reporting period in which it applies the standards after it has published its related general purpose financial statements.
- ▶ An entity has the option to continue using a measurement method other than the GHG Protocol to measure its Scope 1, Scope 2 and Scope 3 GHG emissions in the first annual reporting period in which it applies the standards, if it has been using that other measurement method to measure its GHG emissions in the annual reporting period immediately preceding the date of initial application of the standards.
- ▶ An entity has the option to not disclose its Scope 3 GHG emissions, including financed emissions if it participates in asset management, commercial banking or insurance activities, in the first annual reporting period in which it applies the standards.

Next steps

- ▶ Entities should monitor developments for changes to the SEC proposal after the SEC reviews the feedback it received and finalizes the requirements.
- ▶ Entities should consider which of the various sets of requirements they are subject to and identify information they need to disclose. 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 require the ISSB standards.
- ▶ Entities may also want to begin considering how they will gather the information and whether they will 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 ESRS available online at: [European sustainability reporting standards - first set \(europa.eu\)](https://data.consilium.europa.eu/doc/document/PE-35-2022-INIT/en/pdf), and the final CSRD available online at: <https://data.consilium.europa.eu/doc/document/PE-35-2022-INIT/en/pdf>
- ³ "IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information," IFRS Foundation, June 2023. Available online at: <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs1/>
"IFRS S2 Climate-related Disclosures," IFRS Foundation, June 2023. Available online at: <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs2/>
<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD741-Endorsement-Decision.pdf>
- 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 GHG Protocol requested feedback (due March 2023) to understand whether there is a need to update 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, as well as the scope of potential updates and potential approaches to any updates. Stakeholders should monitor developments for potential changes to the GHG Protocol's standards.
- ⁶ 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 Basis for Conclusions of IFRS S2 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 disclosures under the SEC proposal, the ESRS and the ISSB standards

SEC	EC	ISSB
Scope – Entities		
<ul style="list-style-type: none"> Would apply to: <ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Applies to: <ul style="list-style-type: none"> All entities with securities (equity or certain debt) listed on EU-regulated markets, except for micro companies A “large undertaking” that is an EU entity, 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 entities and credit institutions regardless of their legal form, except for micro companies These criteria need to be applied on both a legal entity basis (i.e., an individual EU subsidiary basis) and a consolidated basis for the EU entity, including any non-EU subsidiaries of the EU entity (i.e., the EU entity needs to evaluate whether it, together with its EU and non-EU subsidiaries, meet the thresholds above on a consolidated basis), regardless of whether the EU entity has financial reporting requirements at that level A subsidiary of an EU entity is exempt from issuing a standalone report if the EU parent entity 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 either 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 of 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) Any large and 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 	<ul style="list-style-type: none"> The type of entity to which the ISSB standards would apply is left to the discretion of authorities in any jurisdiction that chooses to adopt them

SEC	EC	ISSB
	<ul style="list-style-type: none"> Separately, 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 with net turnover of more than €40 million in the EU is required (starting in 2028) 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 	
Scope – Type of disclosures		
<ul style="list-style-type: none"> Includes disclosure only for climate-related matters 	<ul style="list-style-type: none"> Includes disclosures for climate-related and other ESG matters, including other environmental matters, social matters and governance matters 	<ul style="list-style-type: none"> One standard covers general requirements for all sustainability topics One standard covers climate-related disclosure requirements However, the ISSB has a broad remit to deliver a comprehensive set of sustainability-related disclosure standards
Materiality		
<ul style="list-style-type: none"> Would primarily apply a disclosure threshold based on the SEC's 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: <ul style="list-style-type: none"> Climate-related governance and risk management Climate-related targets and goals Scenario analysis (or other analytical tools) Scope 1 and Scope 2 GHG emissions 	<ul style="list-style-type: none"> 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 ESRS 2 If an entity concludes that climate change is not material, it must disclose a detailed explanation of its conclusion Certain datapoints in the ESRS that are required by other EU law are also required 	<ul style="list-style-type: none"> Applies a definition of materiality that aligns with that of IFRS accounting standards Materiality definition considers primary users of the general purpose financial report (e.g., investors, creditors) Applies to all disclosure requirements in the standards
Scope 1 and Scope 2 GHG emissions – Disclosure threshold		
<ul style="list-style-type: none"> Would be required regardless of materiality 	<ul style="list-style-type: none"> Requires disclosure if the general materiality threshold described above is met 	<ul style="list-style-type: none"> Requires disclosure if the information is material to primary users of general purpose financial reports as described above

SEC	EC	ISSB
Scope 1 and Scope 2 GHG emissions – Use of GHG Protocol		
<ul style="list-style-type: none"> Would not require the use of the GHG Protocol to calculate emissions 	<ul style="list-style-type: none"> Includes specific guidance for calculating GHG emissions but also requires an entity to consider the principles, requirements and guidance provided by the GHG Protocol when preparing the information for reporting GHG emissions Allows an entity to also consider the requirements in ISO 14064-1:2018 	<ul style="list-style-type: none"> Requires the use of the GHG Protocol to calculate emissions unless a jurisdictional authority or an exchange on which an entity is listed requires the use of a different method for measuring GHG emissions Allows, 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 – Disaggregation		
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Requires separate disclosure of aggregate Scope 1 and Scope 2 emissions in metric tons of CO₂e 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 	<ul style="list-style-type: none"> Requires separate disclosure of aggregate Scope 1 and Scope 2 emissions in metric tons of CO₂e Does not require emissions disclosure for each of the seven GHGs
Scope 1 and Scope 2 GHG emissions – Offsets		
<ul style="list-style-type: none"> The impact of purchased or generated offsets would be excluded from the calculation and separately disclosed 	<ul style="list-style-type: none"> The impact of purchased or generated offsets is excluded from the calculation and separately disclosed 	<ul style="list-style-type: none"> The impact of purchased or generated offsets is excluded from the calculation and separately disclosed
Scope 1 and Scope 2 GHG emissions – Intensity metrics		
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Does not require disclosure of intensity metrics
Scope 1 and Scope 2 GHG emissions – Scope 2 method		
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Requires disclosure of Scope 2 emissions using both location- and market-based methods 	<ul style="list-style-type: none"> Requires disclosure of Scope 2 emissions using a location-based method and relevant information about contractual instruments related to the source of those emissions
Scope 1 and Scope 2 GHG emissions – Organizational boundaries		
<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Requires an entity to separately disclose Scope 1 and Scope 2 emissions for (1) consolidated entities and (2) other investees, such as equity method investments, joint ventures and other unconsolidated subsidiaries Allows an entity to apply different approaches in the GHG Protocol (e.g., equity share, financial control, operational control) for calculating GHG emissions from unconsolidated investments, such as equity method investments, and requires disclosure of approach

SEC	EC	ISSB
Scope 3 GHG emissions – Disclosure threshold		
<ul style="list-style-type: none"> ▶ 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 	<ul style="list-style-type: none"> ▶ Requires disclosure of Scope 3 emissions from each significant Scope 3 category if the general materiality threshold described above is met 	<ul style="list-style-type: none"> ▶ Requires disclosure if the information is material to primary users of general purpose financial reports as described above ▶ Requires entities with activities in asset management, commercial banking and insurance to report on financed emissions as part of their Scope 3 emission reporting, regardless of materiality ▶ Provides certain relief to address practical challenges in disclosing Scope 3 emissions, including allowing, under certain conditions, an entity 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 in the first annual reporting period in which an entity applies IFRS S2 ▶ Allows 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		
<ul style="list-style-type: none"> ▶ 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 	<ul style="list-style-type: none"> ▶ Requires disclosure of Scope 3 emissions in metric tons of CO₂e in total ▶ Requires disaggregation by each significant Scope 3 category 	<ul style="list-style-type: none"> ▶ Requires disclosure of Scope 3 emissions in metric tons of CO₂e in total ▶ Requires disclosure of categories of upstream or downstream activities that are included in the calculation
Scope 3 GHG emissions – Intensity metrics		
<ul style="list-style-type: none"> ▶ 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 	<ul style="list-style-type: none"> ▶ Requires an entity to only disclose an intensity metric for its total emissions of all three scopes 	<ul style="list-style-type: none"> ▶ Does not require disclosure of intensity metrics
Scope 3 GHG emissions – Liability		
<ul style="list-style-type: none"> ▶ 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 	<ul style="list-style-type: none"> ▶ Does not provide any safe harbors 	<ul style="list-style-type: none"> ▶ Does not provide any safe harbors

SEC	EC	ISSB
Scenario analysis		
<ul style="list-style-type: none"> ▶ 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 	<ul style="list-style-type: none"> ▶ 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 	<ul style="list-style-type: none"> ▶ Requires an entity to use a climate-related scenario analysis to assess its climate resilience, using an approach that is commensurate with its circumstances, considering the entity's exposure to climate-related risks and opportunities and the skills, resources and capabilities available to the entity ▶ Requires 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 ▶ Requires 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		
<ul style="list-style-type: none"> ▶ Would require registrants to disclose the following in an audited note to the financial statements: <ul style="list-style-type: none"> ▶ 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 	<ul style="list-style-type: none"> ▶ Requires an entity to disclose in its management report how material climate-related risks and opportunities affected its current financial performance, financial position and cash flows and the material risks and opportunities for which there is a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next annual reporting period ▶ Requires an entity to disclose how it anticipates financial performance, financial position and cash flows will change over the short, medium and long terms (which are defined as the period adopted as the reporting period (generally one year), from the end of the period adopted as the reporting period to five years and more than five years, respectively) under the effects of material climate-related risks and opportunities 	<ul style="list-style-type: none"> ▶ Requires an entity to disclose, as part of its sustainability-related disclosures, 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 ▶ Allows 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 ▶ Requires an entity to disclose the amount of capital expenditure, financing or investment deployed toward climate-related risks and opportunities

SEC	EC	ISSB
Location of disclosures		
<ul style="list-style-type: none"> ▶ 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 	<ul style="list-style-type: none"> ▶ Requires presentation of the required sustainability information in the management report for an EU entity ▶ However, if an EU subsidiary in the scope of the CSRD fulfills its reporting requirement by being included in a sustainability report of a non-EU parent, the EU subsidiary may include the required disclosures in a consolidated sustainability report (rather than a consolidate management report) of the non-EU parent (e.g., an entity registered with the SEC would not be required to include that information in Form 10-K), with a link to that report in the management report of the EU subsidiary ▶ Requires an entity to mark up its sustainability report using an electronic reporting format ▶ Does not require information in the audited financial statements 	<ul style="list-style-type: none"> ▶ Requires that disclosures be included as part of an entity's general purpose financial report or that an entity cross-reference to disclosures that meet the requirements in another report it publishes (cross-referenced information needs to be available on the same terms and at the same time, and the complete set of sustainability-related financial disclosures cannot be less understandable by including information by cross-reference) ▶ Would not require information in the audited financial statements ▶ Requires an entity to draw connections between disclosures about climate-related risks and opportunities included in the sustainability report and other general purpose financial reports published by an entity, such as information in the related financial statements
Assurance requirements		
<ul style="list-style-type: none"> ▶ 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 	<ul style="list-style-type: none"> ▶ Requires limited assurance, with a planned transition to reasonable assurance in the future after the EC conducts a feasibility analysis, over the following: <ul style="list-style-type: none"> ▶ Compliance with the CSRD, including the ESRS ▶ The process carried out by the entity to identify the information reported in accordance with the ESRS ▶ Compliance with the requirement to mark up the sustainability report using an electronic reporting format ▶ Compliance with the reporting requirements of Article 8 of the EU Taxonomy Regulation, which applies to all entities in the scope of the CSRD (excluding non-EU entities that are required to report at the consolidated level in fiscal year 2028) ▶ Assurance providers need to be the financial statement auditor, or if an EU Member State chooses when incorporating the CSRD into its local law, an other professional service firm or independent assurance service provider accredited by an EU Member State ▶ Auditors and other assurance service providers, if applicable, will be required to apply assurance standards for sustainability reporting that will be issued by the EC through a delegated act before 1 October 2026 	<ul style="list-style-type: none"> ▶ Does not address assurance requirements ▶ Authorities in jurisdictions that choose to adopt the standards would need to decide whether any assurance would be required

SEC	EC	ISSB
Industry-specific requirements		
<ul style="list-style-type: none"> Would not include industry-specific requirements 	<ul style="list-style-type: none"> A second set of ESRS will eventually include sector-specific requirements, but these requirements have not yet been proposed 	<ul style="list-style-type: none"> Does not currently require industry-specific disclosures but requires an entity to refer to and consider the applicability of the industry-based disclosure topics in the standards that were previously issued by the Sustainability Accounting Standards Board
Other reporting requirements		
<ul style="list-style-type: none"> Would require registrants to disclose climate-related risks and allow them to disclose climate-related opportunities 	<ul style="list-style-type: none"> Requires entities to disclose both climate-related risks and opportunities 	<ul style="list-style-type: none"> Requires entities to disclose both climate-related risks and opportunities (unless disclosure of the information about opportunities is prohibited by law or meets the criteria to be considered "commercially sensitive")
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Requires entities to disclose qualitative and quantitative information about executive compensation that is linked to climate-related considerations 	<ul style="list-style-type: none"> Requires entities to disclose qualitative and quantitative information about executive compensation that is linked to climate-related considerations
<ul style="list-style-type: none"> Would require disclosure of the percentage (e.g., based on square meters, acres) and location of assets in flood hazard areas, as well as the amount (e.g., book value and as a percentage of total assets) and location of assets in regions of high or extremely high water stress 	<ul style="list-style-type: none"> Requires disclosure of the amount and percentage of assets or business activities that are (1) vulnerable to climate-related transition risks and (2) vulnerable to climate-related physical risks 	<ul style="list-style-type: none"> Requires disclosure of the amount and percentage of assets or business activities that are (1) vulnerable to climate-related transition risks, (2) vulnerable to climate-related physical risks and (3) aligned with climate-related opportunities
<ul style="list-style-type: none"> Would not require disclosure of energy consumption 	<ul style="list-style-type: none"> Requires detailed quantitative information about energy consumption by source, including further disaggregation for entities with operations in high-climate-impact sectors and intensity metrics for activities in high-climate-impact sectors 	<ul style="list-style-type: none"> Does not require disclosure of energy consumption

SEC	EC	ISSB
Effective dates		
<ul style="list-style-type: none"> ▶ The compliance dates for the SEC proposal would be based on the registrant's filing status (i.e., large accelerated, accelerated, non-accelerated and smaller reporting company) ▶ 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 	<ul style="list-style-type: none"> ▶ The CSRD and the ESRS are effective for the following periods, with reporting in the following year, based on an entity's size: <ul style="list-style-type: none"> ▶ Fiscal year 2024 for entities currently subject to the NFRD (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) and, based on our current understanding, other listed entities (e.g., a non-EU entity that has equity or certain debt securities listed on an EU-regulated market) that meet the NFRD thresholds ▶ Fiscal year 2025 for large entities that are not subject to reporting in fiscal year 2024 ▶ 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 companies ▶ 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) ▶ To ease transition to reporting under the CSRD, certain disclosure requirements in the ESRSs (e.g., Scope 3 emissions, certain value chain metrics, quantitative and anticipated financial effects) are phased in, with some phase-ins dependent on an entity's size 	<ul style="list-style-type: none"> ▶ The standards are effective for annual reporting periods beginning on or after 1 January 2024 ▶ Jurisdictions that choose to apply the standards could also set their own effective dates ▶ Earlier application is permitted, including voluntary adoption, provided an entity applies both IFRS S1 and IFRS S2 standards at the same time and discloses that it has applied them early ▶ Disclosures may be required prospectively in the fiscal year of adoption ▶ An entity may also apply the following transitional relief: <ul style="list-style-type: none"> ▶ An option to not disclose comparative sustainability-related financial information in the first annual reporting period in which the entity applies the standards ▶ A "climate first" transition relief that allows an entity to report on only climate-related risks and opportunities in the first year it applies the standards ▶ In the first annual reporting period in which the entity applies the standards, an option to report its sustainability-related financial disclosures after it has published its related general purpose financial statements ▶ In the first annual reporting period in which an entity applies the standards, an option to continue to use a measurement method other than the GHG Protocol to measure its Scope 1, Scope 2 and Scope 3 GHG emissions if it has been using that other measurement method to measure its GHG emissions in the annual reporting period immediately preceding the date of initial application of the standards ▶ In the first annual reporting period in which an entity applies the standards, an option to not disclose its Scope 3 GHG emissions, including financed emissions if an entity participates in activities in asset management, commercial banking or insurance