

LAUNCH OF IFRS S1 AND S2 USHERS IN A NEW ERA OF SUSTAINABILITY GOVERNANCE

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On June 26th, GRI had the privilege of participating in the launch event at the NYSE — the watershed launch of the groundbreaking standards: IFRS S1 and IFRS S2 — hosted by the ISSB. This launch included three panels that underscored the event's significance:

Celebrate the New Global Baseline: This panel emphasized the paramount importance of global consistency and alignment, setting a new standard for sustainability reporting worldwide.

Corporate Investor Dialogue: During this panel, investor organizations were engaged in discussions that highlighted the critical role of sustainability in corporate decision-making and investor considerations.

The Theory of Change: In this panel, the focus was on the transformative power of change and the necessity of building upon past frameworks, acknowledging the evolution of sustainability practices.

The launch of IFRS S1 and IFRS S2 represented a pivotal moment, as it delivered on the ISSB's mission to establish a universal foundation for corporate sustainability standards. By harnessing the expertise and authority of the IFRS Foundation, this initiative aims to shape the future of sustainability reporting worldwide, driving organizations towards a more sustainable and responsible future.

UNDERSTANDING THE BACKGROUND AND PURPOSE OF THE STANDARDS: AN OVERVIEW

The ISSB published its inaugural two standards - International Financial Reporting Standards (IFRS) S1 – General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 – Climate-related Disclosures, marking a new era of sustainability-related disclosures in global capital markets. These standards, which were founded upon extensive stakeholder consultation with more than 1400 submission responses are expected to heavily influence global climate and sustainability reporting, including in the Canadian financial sector. As an investor focused initiative, the standards serve to create a common language that investors can use around the world, from jurisdiction to jurisdiction. The standards clearly articulate how better information can be cultivated within organizations and disclosed to investors to support better decision making. Not only is this of tremendous value to investors, but it provides management and boards with decision useful information in a common language across jurisdictions. The IFRS S1 (S1) and IFRS S2 (S2) standards are important steps in harmonizing corporate sustainability and climate disclosures between jurisdictions, and ensuring what has come to be commonly referred to in the industry as “interoperability”. S1 establishes a long-awaited lexicon for the investment universe, providing a set of disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium and long term. S2 can

be thought of as a “standards design” baseline, setting out specific climate-related disclosures, and is designed to be used with S1.

Both S1 and S2 build on existing frameworks and standards, including that of the Task Force on Climate-related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB.) These standards include reporting across the four TCFD pillars—governance, strategy, risk management, and metrics and targets. TCFD standards are widely used all over the world and are often the basis for climate reporting in Canada, including the Office of the Superintendent of Financial Institutions (OSFI) Guideline B-15 – Climate Risk Management, for federally regulated financial institutions. The newly released ISSB standards are aligned with global consensus and are not anticipated to surprise stakeholders, particularly given the broad consultation which took place last year, along with the extensive work that organizations have undertaken over the past number of years to incorporate precursor standards TCFD and SASB. In addition, both S1 and S2 have been developed for use in conjunction with accounting requirements; they are built on the concepts that underpin the IFRS Accounting Standards, which are required by more than 140 jurisdictions, increasing their attractiveness for adoption on a global scale. Recognizing these synergistic elements available to organizations as they begin to adopt the ISSB standards, the standards themselves do represent a significant step up for Canadian organizations in terms of climate reporting and disclosure.

INTERNATIONAL SUPPORT: EMBRACING AN INTERNATIONAL MOVEMENT WITH HIGH EXPECTATIONS AND FAST RESULTS

The two ISSB standards have widespread global and Canadian support. The standards have received statements of support from G7, G20 and the International Organization of Securities Commissions (IOSCO), along with organizations such as CPA Canada. They are designed to improve the comparability and reliability of

sustainability and climate-related reporting by creating a global baseline. These standards will reduce fragmentation and help provide high-quality, consistent, comparable information, which will in turn, be leveraged by industry to inform investment decisions. This capability is of particular value to board members, as it facilitates a depth of understanding of the organizations suite of sustainability and climate risks and opportunities, metrics and comparable benchmarks, which have not historically been available.

The S1 and S2 standards are designed to be implemented together and will come into effect on January 1, 2024, applying to annual reporting beginning as of this date. This is a reasonably expedient turn-around period considering the amount of work required by organizations that elect to meet the standard. The standards require a level of detail about the organization that, in many cases, does not yet exist; in particular, many processes, policies, procedures, performance metrics, targets, committees, terms of reference, and the integration of these elements across various internal functions have not yet been implemented, developed, or in some cases even considered. However, the guideline in and of itself is a material stepping-stone as organizations continue their journey, as it provides the necessary guidance along with a sufficiently vivid picture of the elements required to establish the baseline ISSB standards for the organization. And as mentioned, the standards represent an evolution of predecessor standards from TCFD and SASB, which means that many organizations have foundational levels of groundwork in place with which to build on, albeit with varying levels of detail and maturity. Organizations that have progressively developed their internal functions as prior standards were released are well positioned to leverage existing foundations and launch forward with ISSB. These foundations along with the ISSB’s international industry-wide support represent some of the primary driving factors behind the ISSB’s ability to move at the rapid pace it has demonstrated.

Recognizing the immense workload ahead for many organizations, the ISSB has made a considerable effort to ease adoption of the standards by establishing a number of carve-outs or “reliefs” for year one, which serve to make the standards more digestible for organizations by reducing the burden, as companies need not:

- provide disclosures about sustainability-related risks and opportunities beyond climate-related information;
- provide annual sustainability-related disclosures at the same time as the related financial statements;
- provide comparative information;
- disclose Scope 3 greenhouse gas emissions; and
- use the Green House Gas Protocol to measure emissions if they are currently using a different approach.

Furthermore, the ISSB decided that companies that only report on climate-related risks and opportunities in the first year be provided with additional relief from providing comparative information. This means that these companies need not provide comparative information about their sustainability-related risks and opportunities beyond climate in their second year of reporting.

UPCOMING ADOPTION OF VOLUNTARY STANDARDS IN LOCAL JURISDICTIONS: A PROMISING DEVELOPMENT

As alluded to, the ISSB standards are not mandatory and rely on individual jurisdictional adoption, which will take some time. Within Canada, the Canadian Sustainability Standards Board (CSSB) will work to support the uptake of these ISSB standards and provide guidance on adapting the standards for the Canadian context. The CSSB reached quorum on Monday, June 26,

with the appointment of five additional members, notably including representation from senior executives within carbon-intense industries in Canada, such as agriculture, power and mining. The CSSB’s composition could signal the intentions of the board in its approach to adopting the ISSB standards; however, this will take some time to be revealed as jurisdiction-level standards will take time to be developed and released. Depending on the CSSB’s ultimate recommendations, the ISSB standards may result in an incremental reporting burden. However, this effort is anticipated to be outweighed by the increase in comparability and consistency of the climate and sustainability disclosures and information that will be available to inform investment decision-making.

What is clear, however, is that the collaborative approach between the international and domestic standard-setting bodies is a model endorsed by the ISSB and celebrated industry-wide on an international level, with the organization’s Chair Emmanuel Faber stating the “ISSB standards are designed to create a global baseline of sustainability-related financial language, on top of which jurisdictions might add specific building blocks.”ⁱ As such, investors will benefit from the establishment of a common foundation.

It is important to note that individual Canadian (or international) firms can self-select to report in alignment with the ISSB standards. In fact, it is more than likely that some firms will self-select to report in advance of local standards being released within their specific jurisdiction, given the amount of time it takes to develop and create local standards. Adopting the ISSB standards in advance of local standards can help companies stay ahead of future standard implementation as well as regulatory developments, establish themselves as industry leaders, and potentially find additional strategic and risk management benefits to advanced voluntary adoption. Furthermore, voluntary adoption of the ISSB standards will facilitate board level decisioning based on a depth of analysis and understanding

ⁱ <https://www.greenbiz.com/article/first-issb-reporting-standards-are-here-what-means-investors>

of the sustainability and climate risk issues that wasn't previously available, reducing uncertainty and grey areas, and providing advantageous foresight opportunities for boards. Increasingly, organizations are recognizing that standards are evolving so quickly that what was once considered "best practice" or "current standard" is quickly becoming obsolete or insufficient. As such, it is increasingly recognized that building up the internal capacity and capability using a reasonably forward-looking outlook is critical to positioning an organization well to meet current standards in a timely manner.

ELEVATING EXPECTATIONS: INTRODUCING FINANCIAL REPORT INCLUSION FOR GREATER TRANSPARENCY

While information disclosures required under the ISSB standards are generally aligned with Canadian reporting norms, IFRS S2 requires that entities, for the first time, disclose climate-related risks and opportunities directly within their annual financial reports. This is uncommon in Canada and represents a practice that does not yet exist within any current or proposed regulation, arguably making it precedent setting for the Canadian market. With inclusion of material sustainability and climate disclosures in the financial reports and given that the standards have been developed to be used in conjunction with accounting standards, a higher level of scrutiny will be applied, and a clear line of sight becomes visible for the potential implications for capital markets, potentially impacting market prices and valuations.

CONCLUDING THOUGHTS

The S1 and S2 Standards release marks the start of a journey for Canadian and international companies in general. It will be an iterative process, one that will include further and ongoing consultation with industry. Encouragingly, the ISSB has swiftly reached back out to stakeholders to engage in a new consultation on its 2-year agenda priorities (including new research on biodiversity, human capital, and human rights), for which responses are due September 1, 2023. These responses will continue to inform the ongoing development of standard setting by the ISSB as it continues to pursue its mandate of achieving consistent sustainability and climate disclosures worldwide, fostering the development of transparent markets, facilitating a smooth transition to a low-carbon future, and contributing to a resilient and sustainable global economy.



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