ISSB—ESRS Interoperability Guidance webcast

Sue Lloyd, ISSB Vice-Chair

Sam Prestidge, ISSB Technical Staff Strategy Lead

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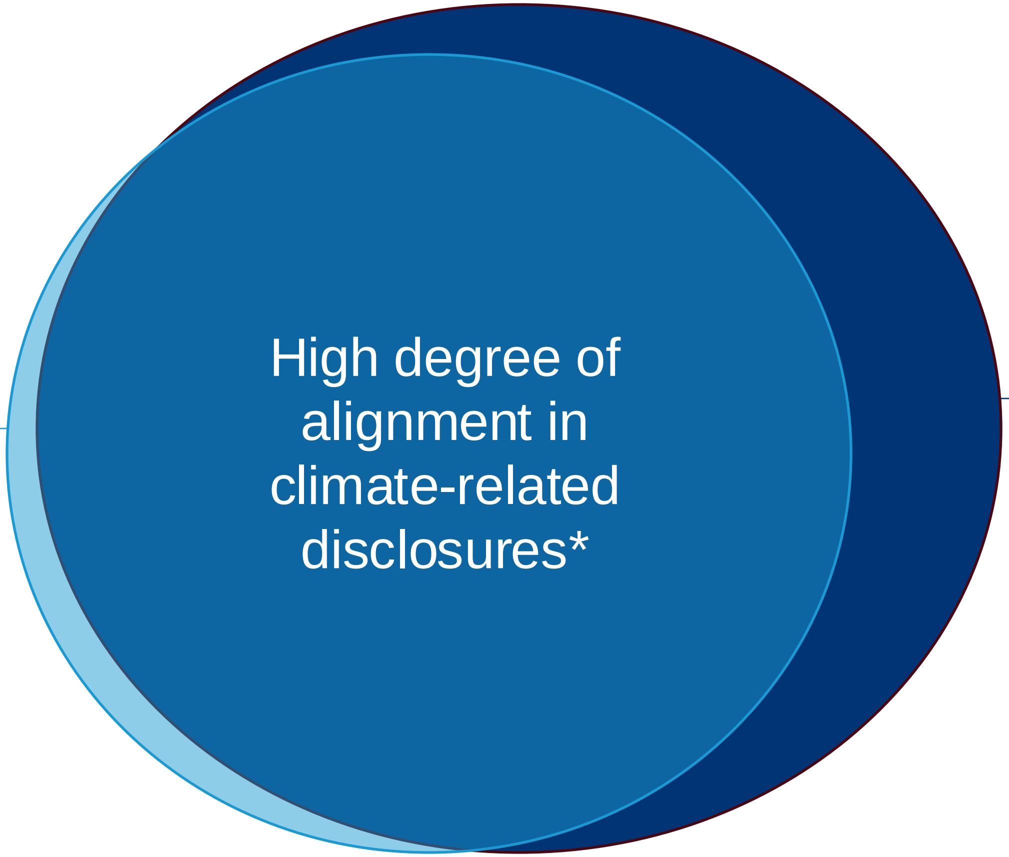
ISSB Standards:

Additional requirements (eg financed emissions)



ESRS:

Additional requirements for stakeholders interested in impacts (that do not create risks or opportunities for a company's prospects) and information that if missing or obscured is not reasonably expected to affect investor decisions

High degree of alignment in disclosures to provide decision-useful information for investors on risk management and how dependencies and impacts create risks and opportunities for a company's financial position and prospects

* IFRS Foundation and EFRAG have published interoperability guidance material: https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/esrs-issb-standards-interoperability-guidance.pdf

Webcast overview: ISSB—ESRS Interoperability Guidance

- Overview of Section 1 of the document covering key concepts and how both sets of standards refer to each other
- Considering the common disclosures and the basis for alignment between some key aspects between the two sets of standards
- Elements companies will need to approach in a specific way to comply with both sets of standards
- Incremental disclosures in ESRS

Using both ISSB Standards and ESRS

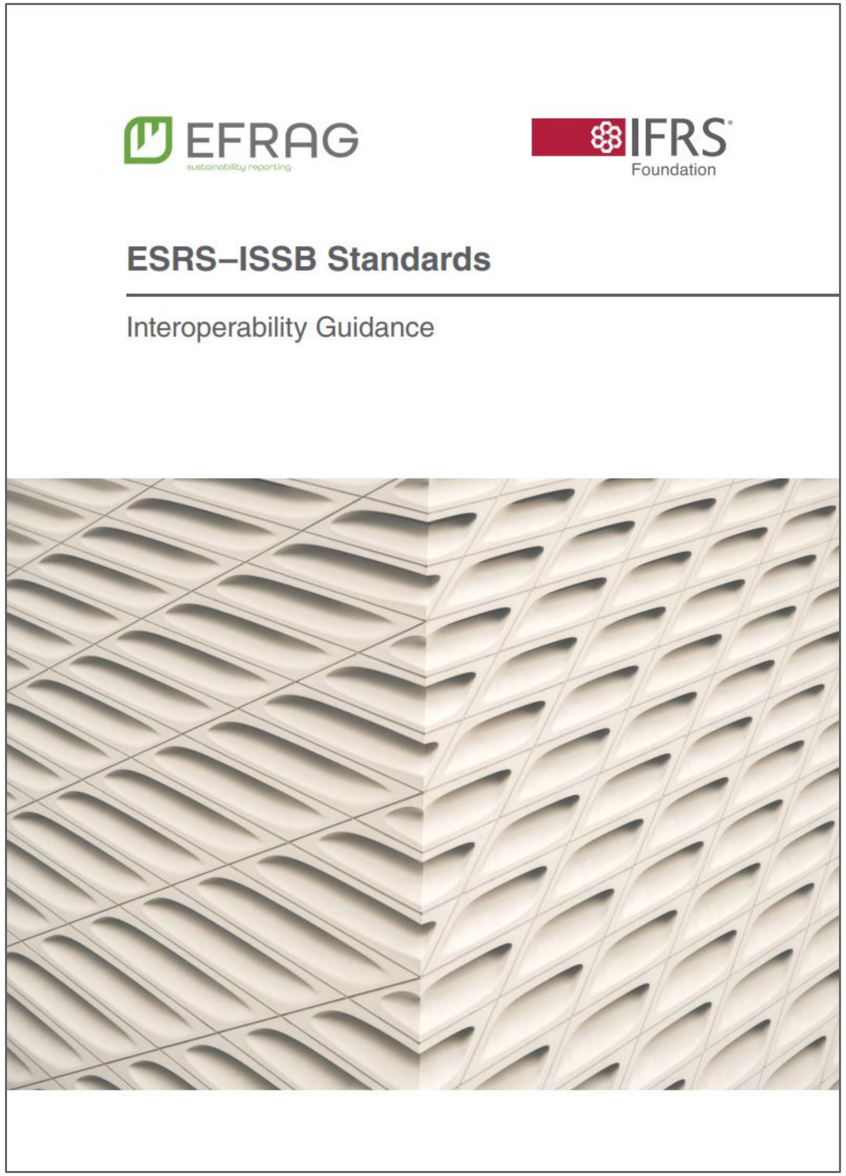
- Many companies are expected to choose—or be required—to **apply both** ESRS and ISSB Standards
- As jurisdictions around the world introduce the ISSB Standards as a global baseline, companies will be **better prepared to meet disclosure requirements around the world**
- The high-degree of alignment between ISSB Standards and ESRS **reduces complexity and duplication** for companies applying both
- ISSB Standards facilitate decision-useful information targeted at capital markets enabling **global comparison for investors**

How we made the ISSB Standards and ESRS interoperable

- **Mapped** each IFRS S2 paragraph to relevant ESRS paragraphs
- Regular ISSB, European Commission and EFRAG **discussions** about where different wording was used for similar requirements, or where requirements were clearly different
- Discussions started prior to finalisation of both sets of standards, so initial discussions focused on making changes to **wording** in both sets of standards to improve alignment

ESRS – ISSB Standards Interoperability Guidance

- **Provides practical support** that explains how companies can efficiently comply with both sets of standards.
- Illustrates the **high level of alignment** achieved between ISSB Standards and ESRS
- Describes alignment of general requirements including key concepts such as **materiality, presentation and disclosures** for sustainability topics other than climate.
- Includes **detailed analysis of climate-related disclosures**
- Explains that companies **can't just rely on the Guidance**. They still need to refer to the Standards, the Guidance make it **easier to navigate** this



Interoperability guidance on ISSB Standards and ESRS

Section 1: Comments on general requirements in ESRS and ISSB Standards

Section 2: Common climate-related disclosures

Section 3: ESRS to IFRS S2 (climate): information that an entity starting with ESRS needs to know when also applying ISSB Standards to enable compliance with both sets of standards

Section 4: IFRS S2 (climate) to ESRS: information that an entity starting with ISSB Standards needs to know when also applying ESRS to enable compliance with both sets of standards

Section 1: Part one

Materiality

- An entity reporting under both sets of standards, needs to consider the relevant **materiality requirements** of both ISSB Standards and ESRS.
- The financial materiality assessment in ESRS 1 corresponds to the identification of information that is material for primary users of general purpose financial reports in **making decisions relating to providing resources to the entity** (see paragraph 48 of ESRS 1 and paragraph 18 of IFRS S1)
- The **definition** of information that is considered material for users of general purpose financial reports is **aligned** between the two sets of standards
- On financial materiality, the two assessments are expected to provide an **aligned outcome**

Presentation

- Paragraphs 111–117 of **ESRS 1** require an entity to present sustainability information prepared in accordance with ESRS in a sustainability statement which is a **dedicated section of the management report** identified as such
- Applying ISSB Standards, there are **various possible locations** in which an entity may disclose sustainability-related financial information, as long as the information is included **in its general purpose financial reports**
- An entity **starting with ESRS** that wishes to comply with ISSB Standards should pay **particular attention**, when preparing its human-readable sustainability statement, to the requirements in **IFRS S1**, in particular the requirements about presenting additional information (see paragraph 62 of IFRS S1)

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Section 1: Part two

Use of ESRS in IFRS S1

- To identify sustainability-related risks and opportunities to report on and appropriate disclosures, **IFRS S1 refers to materials other than ISSB Standards** (for example these materials are used in the absence of an applicable ISSB Standard)
- IFRS S1 sets out the **sources that can be used**: an entity may refer to and consider the applicability of ESRS (see paragraph C2(b) of IFRS S1) as a source of guidance, to the extent that ESRS assist the entity in meeting the objective of IFRS S1 and do not conflict with ISSB Standards
- An entity is able to **utilise ESRS** to provide the disclosures required by IFRS S1, if the requirements in paragraphs C1–C3 of IFRS S1 are also met

Use of ISSB Standards in ESRS

- ESRS also make reference to the **IFRS industry-based guidance** (which includes the *Industry-based Guidance on Implementing IFRS S2* and the SASB Standards) enabling an entity to use that guidance to complement its disclosures prepared applying ESRS to cover sustainability matters that are material for the undertaking in its sector(s)

Reliefs

- In order to **comply with both sets of standards**, when using one or more of the reliefs, entities have to check carefully if the reliefs meet the requirements in both sets of standards
- **Reliefs in ISSB Standards**: Undue cost and effort, Current and anticipated financial effects, Scope 3 GHG emissions
- **Reliefs in ESRS**: Reasonable effort in reporting value chain information, Undue cost and effort in reporting value chain information, Quantification of financial effects for opportunities

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Section 2

Table 2.1 – Corresponding climate-related disclosure requirements between ISSB Standards and ESRS that are aligned

ISSB Standards	ESRS
GOVERNANCE	
IFRS S2.6(a)	ESRS 2.22(a)
IFRS S2.6(a)(i)	ESRS 2.22(b)
IFRS S2.6(a)(ii)	ESRS 2.23
IFRS S2.6(a)(iii)	ESRS 2.26(a)
IFRS S2.6(a)(iv)	ESRS 2.26(b)
IFRS S2.6(a)(v) IFRS S1.21(b)	ESRS 2.22(d) ESRS 2.29(b)–(c) ESRS E1.13 ESRS 1.124
IFRS S2.6(b)	ESRS 2.22(c)
IFRS S2.6(b)(i)	ESRS 2.22(c)(i)
IFRS S2.6(b)(ii)	ESRS 2.22(c)(iii)

- High degree of alignment of the **climate-related disclosures** in the two sets of standards
- Mapping the climate-related disclosure alignment
- **Examples:**
  - Governance disclosures
  - Current and anticipated financial effects
  - Additional context provided to explain the basis for alignment

Example: Carbon credits

- Points to consider for companies to comply with both sets of standards
- **Example:**
  - Carbon Credits
    - Starting with the ISSB Standards
    - Starting with ESRS

Topic	***(iii) Carbon credits***
Explanation	*Definition of carbon credit* Paragraph 36(e) of IFRS S2 requires an entity to disclose the planned use of carbon credits to offset greenhouse gas emissions to achieve any net greenhouse gas emissions targets. Paragraph 36(e)(ii) of IFRS S2 requires an entity to disclose which third-party scheme will verify or certify the carbon credits. ESRS define carbon credits as instruments that are 'issued and verified according to recognised quality standards'. Carbon credits that are not verified according to recognised quality standards (defined in Annex II to ESRS) do not meet the definition of 'carbon credits' and cannot be reported applying ESRS. Paragraph 59(a) of ESRS E1 requires disclosure of the total amount of carbon credits that are verified against recognised quality standards and cancelled in the reporting period. ESRS E1 also defines carbon credits as only relating to reductions or removals outside the entity's value chain (see paragraph 56(b) of ESRS E1) and has separate disclosure requirements for removal of greenhouse gas and storage projects inside the value chain. IFRS S2 does not make a distinction between carbon credits arising from within or outside the value chain. When public claims of greenhouse gas neutrality involve the use of carbon credits, paragraph 61(c) of ESRS E1 requires an explanation about the credibility and integrity of the carbon credits used, including by reference to recognised quality standards. *Use of carbon credits* Paragraph 36(e) of IFRS S2 requires an entity to disclose the planned use of carbon credits to offset greenhouse gas emissions to achieve any net greenhouse gas emissions targets. Paragraph 59(a)–(b) of ESRS E1 requires an entity to disclose the total amount of carbon credits cancelled in the reporting period and the total amount of carbon credits to be cancelled in the future and whether they are based on existing contractual agreements or not. Paragraph 34(b) of ESRS E1 does not allow an entity to use carbon credits to claim the achievement of greenhouse gas emission targets.

Example: Financed emissions

- Specific elements in the ISSB Standards
- **Example:**
  - Financed emissions
    - Specific considerations for companies with asset management, commercial banking or insurance activities

3.2 Incremental and additional requirements in IFRS S2

IFRS S2 requires additional climate-related disclosures on financed emissions for which there are no corresponding disclosure requirements in ESRS E1.

Topic	*(i) Financed emissions*
Explanation	Both sets of standards include requirements related to the disclosure of the amount of financed emissions (that is, both require disclosure of the amount of Category 15 Scope 3 emissions). Paragraphs 29(a)(vi)(2) and B58–B63 of IFRS S2 have specific additional disclosure requirements regarding Scope 3 Category 15 greenhouse gas emissions that apply to entities with the following types of business activities: asset management, commercial banking or insurance. So long as ESRS sector-specific standards are not in place, if Scope 3 Category 15 greenhouse gas emissions are material, the entity is expected to use the transition provision in paragraph 131(b) of ESRS 1 to identify relevant sector-specific disclosures in relation to those emissions, using available guidance, including IFRS S2. Paragraph AR46 of ESRS E1 requires financial institutions to consider the GHG Accounting and Reporting Standard for the Financial Industry from the Partnership for Carbon Accounting (PCAF), specifically part A, 'Financed Emissions'.
Points to consider	*An entity applying ESRS E1 that has asset management, commercial banking or insurance activities and that also wants to comply with IFRS S2 should provide information in accordance with paragraphs 29(a)(vi)(2) and B58–B63 of IFRS S2.*

Section 4.2

- This section contains two tables:
    - Requirements in ESRS 2 that do not have a corresponding requirement in ISSB Standards and
    - Requirements in ESRS E1 that do not have a corresponding requirement in the ISSB Standards
- ESRS has a complementary yet broader scope than the ISSB Standards

TABLE 4.2.1

ESRS 2	Reference to IFRS S1 or IFRS S2	Requirements not explicitly covered by IFRS S1 or IFRS S2
Governance		
ESRS 2.21(a)–(b) and (d)–(e)	NA	Composition and diversity of governance bodies (executive/non-executive, gender, etc.)
ESRS 2.21(c) ESRS 2.23(a)–(b)	IFRS S1.27(a)(ii) IFRS S2.6(a)(ii)	Experience relevant to the sectors, products and geographic locations of the undertaking. Leverage of collective expertise through access to experts or training. How skills and expertise relate to material matters.
ESRS 2.22(c)(ii)	IFRS S1.27(b)(i)–(ii) IFRS S2.6(b)(i)–(ii)	Information about reporting lines to the administrative, management and supervisory bodies (AMSB).
ESRS 2.26(a)	IFRS S1.27(a)(iii) IFRS S2.6(a)(iii)	Whether and by whom the AMSB are informed as well as describing the AMSB being informed about additional items.
ESRS 2.26(c)	IFRS S1.26–27 IFRS S2.5–6	Material IROs addressed during the reporting period.
ESRS 2.29(a)–(e) and AR7	NA	Details of incentive schemes.
ESRS 2.30–33 and AR8–AR10	NA	Due diligence mapping.
ESRS 2.34–36	NA	Risk management and internal controls over sustainability reporting.

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