Sustainability Disclosure Standards – coming ready or not?

May 31, 2022

By MASB secretariat

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For those of us who may be skeptical about the likelihood of global sustainability standards any time soon, it is worth remembering the global adoption of the IFRS Accounting Standards, issued by the International Accounting Standards Board (IASB). In the *'Use of IFRS Standards around the world'* published by the IFRS Foundation in 2018, 144 of the 166 profiled jurisdictions require the use of IFRS Standards. This significant milestone was achieved in less than 20 years as it was only from 1 April 2001 when the standard-setting work of the IFRS Foundation was carried out by the IASB.

In response to overwhelming demand for global sustainability standards, the IFRS Foundation on 3 November 2021 established the International Sustainability Standards Board (ISSB) which aims to develop a comprehensive global baseline of sustainability disclosures for the financial markets, the IFRS Sustainability Disclosure Standards. On the same date, the IFRS Foundation announced the consolidation of the Climate Disclosure Standards (CDSB) and the Value Reporting Foundation (VRF), which houses the Integrated Reporting Framework and the Sustainability Accounting Standards Board (SASB) Standards. Consolidation of CDSB was completed on 31 January 2022 whilst consolidation of VRF is expected to be completed by 30 June 2022.

The ISSB within a short period of 5 months after its establishment delivered two Exposure Drafts for public consultation on 31 March 2022 - another significant milestone achieved! The two Exposure Drafts, i.e., IFRS S1 entitled "General Requirements for Disclosure of Sustainability-related Financial Information" (S1) and IFRS S2 "Climate-related Disclosures (S2)" are open for public comment until 29 July 2022.

It therefore should not be a surprise to witness ISSB finalising and issuing the two IFRS Sustainability Disclosure Standards that provide the global baseline standards by end of the year. The global baseline builds upon, incorporates, and protects the heritage of the existing investor-focused sustainability disclosure standards, including those of the Task Force on Climate-related Financial Disclosures (TCFD), the Climate Disclosure Standards Board (CDSB), SASB Standards, Integrated Reporting and the World Economic Forum's metrics.

Why the rush?

The ISSB was established by the IFRS Foundation in response to calls from investors and regulators to use the experience gained in creating internationally adopted accounting standards to develop globally comparable reporting standards on sustainability.

As evidence of the pressure building for such standards one need only look at the Leaders Declaration released immediately after the G20 meeting in Rome on 30 and 31 October 2021[1] which included specific reference that welcomed "the work programme of the International Financial Reporting Standards Foundation to develop a baseline global reporting standard under robust governance and public oversight, building upon the Financial Stability Board's TCFD framework and the work of sustainability standard-setters[2]".

More recently, on 31 March 2022, The International Organization of Securities Commissions (IOSCO) released a statement[3] welcoming the publication of Exposure Drafts on proposed climate and general sustainability disclosure requirements and indicated that it would begin an in-depth review of the exposure drafts to determine whether they meet securities regulators' expectations.

In addition, only days earlier, Malaysia's Joint Committee on Climate Change (JC3) issued for public consultation a draft TCFD Application Guide[4] for Malaysian financial institutions which sets out the various proposed recommendations as well as guidance to facilitate the adoption of TCFD Recommendations by financial institutions in Malaysia.

The JC3 is co-chaired by Jessica Chew Cheng Lian, Deputy Governor of Bank Negara Malaysia and Datuk Zainal Izlan Zainal Abidin, Deputy Chief Executive of Securities Commission Malaysia with members comprising senior officials from Bursa Malaysia and 19 financial industry players as well as relevant experts. Members of JC3 have also indicated support for certain climate-related disclosures, based on the Application Guide, to become mandatory from 2024[5] .

This proposed timing is similar to the initiatives announced by the European Commission in February 2022[6] for its Corporate Sustainability Reporting Directive (CSRD) and by the U.S. Securities and Exchange Commission in March 2022[7] on proposed rule changes to enhance and standardise climate-related disclosures.

So, the pressure on companies, both locally and internationally, to provide mandatory sustainability financial and non-financial information is building very rapidly and consequently it is vital that directors stay abreast of capital market expectations.

Broad requirements of S1 and S2

Both S1[8] and S2[9] build on the recommendations of the TCFD which seek to assist public companies and other organisations more effectively to disclose climate-related risks and opportunities through their existing reporting processes. It is structured around four thematic areas that represent core elements of how organisations operate namely governance, strategy, risk management and metrics and targets.

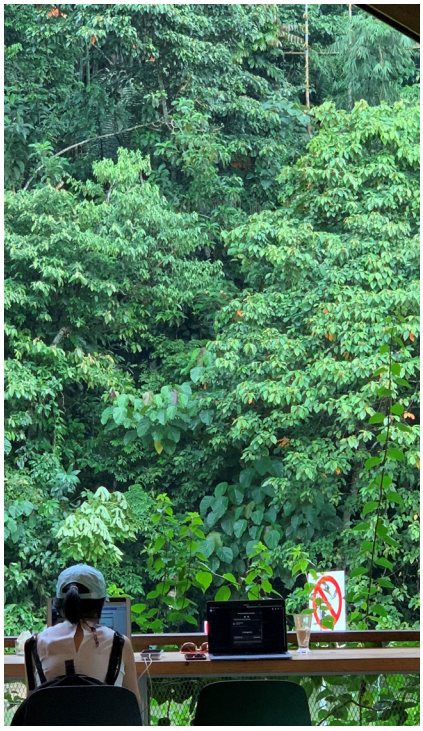
S1 proposes that a reporting entity be required to include in its general purpose financial reporting disclosures about the

- governance
- strategy
- risk management
- financial position, performance and cash flow
- resilience
- metrics

connected with sustainability related risks and opportunities.

It specifically requires an entity to provide information to enable users to assess the connections between these sustainability-related risks and opportunities and how information about these risks and opportunities is linked to information in the general purpose financial statements.

S2 requires an entity to disclose information that enables users of general purpose financial reports to understand the significant climate-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium and longer term. The proposed Standard would require disclosure of information to enable users to understand the:



- governance processes, controls and procedures used to monitor climate-related risks and opportunities
- entity's strategy for addressing significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period and the anticipated effects over the short, medium and long term
- resilience of the entity's strategy to climate-related changes, developments or uncertainties
- processes used to identify climate-related risks and opportunities
- metrics and targets used to measure, monitor and manage significant climate-related risks and opportunities and how the entity assesses its performance including progress towards the targets it has set.

1. https://www.consilium.europa.eu/en/press/press-releases/2021/10/31/g20-rome-leaders-declaration/
2. https://www.consilium.europa.eu/media/52730/g20-leaders-declaration-final.pdf
3. https://www.iosco.org/news/pdf/IOSCONEWS638.pdf
4. https://www.bnm.gov.my/-/jc3-7th-meeting
5. https://www.bnm.gov.my/-/bnm-sc-6th-jc3-meeting-en
6. https://data.consilium.europa.eu/doc/document/ST-6292-2022-INIT/en/pdf
7. https://www.vorys.com/publications-3084.html#:~:text=On%20March%2021%2C%202022%2C%20the,statements%20filed%20with%20the%20SEC
8. https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf
9. https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf

Avoiding duplication

Through a collaboration agreement announced on 24 March 2022[10] with the Global Sustainability Standards Board (GSSB), both the ISSB and GSSB will coordinate their work programme and standard-setting activities to facilitate reducing the reporting burden on companies and further harmonise the sustainability reporting internationally. The objective is to align GSSB's sustainability standards which have been developed under the oversight of the Global Reporting Initiative (GRI) with investor-focused standards being developed by the ISSB.

The GSSB has developed global standards for sustainability reporting designed to enable organisations to report on their impacts on the economy, environment and people in a comparable way. The GRI Standards are a modular system comprising three series of Standards, namely the GRI Universal Standards, the GRI Sector Standards and the GRI Topic Standards.[11]

By combining the work of both the GSSB and ISSB it is intended that organisations will be able to report on the impact of sustainability issues both on their own organisation and that on the wider environment in which they operate with the results that investors and other stakeholders can more readily ascertain the overall contribution of an organisation.

The intention to avoid unnecessary duplication is further underwritten by paragraphs 53 and 54 of S1 which require management in the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk or opportunity to use its judgement in identifying disclosures that are relevant, neutral and faithfully represent the entity's risks and opportunities to consider, to the extent that they do not conflict with IFRS Sustainability Disclosure Standards,

- the metrics associated with disclosure topics included in industry-based SASB Standards;
- the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting; and
- the metrics used by entities in the same industries and geographies.

Embrace the inevitable but influence the outcome

As mentioned earlier, the ISSB is seeking feedback on its proposed initial standards by 29 July 2022. Given the probability that adherence to these Standards may be inevitable in the near future, it is therefore imperative for both directors and their stakeholders to **NOW** become more aware of the Standards and recommendations of the TCFD and GSSB and the detailed content of the proposed S1 and S2.

This will enable the board of directors to give timely consideration to the impact of the proposed Standards on their companies and provide constructive feedback to the ISSB on proposed requirements such as practical difficulties envisaged in implementing certain requirements on a consistent basis or other undesirable unintended consequences.

In conjunction with the ISSB's public consultation on the IFRS Sustainability Disclosure Exposure Drafts, MASB in collaboration with the ISSB will be organising an Outreach Session on 13 June 2022. This is an opportunity for you to share your views and feedback directly with the ISSB representatives. Please register your interest via this link https://bit.ly/RegistrationForm-MASB or you can also send your registration details to events@masb.org.my.

10. https://www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-signs-agreement-with-gri/
11. https://www.globalreporting.org/standards/
https://www.globalreporting.org/media/wtaf14tw/a-short-introduction-to-the-gri-standards.pdf