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Heads Up | Volume 29, Issue 6
May 26, 2022

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#DeloitteESGNow — The Disclosure Heat Is On: The Move Toward International Standardization of Sustainability and Climate Reporting

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Introduction

Standardization and regulation of sustainability and climate disclosure are rapidly evolving. On March 21, 2022, the SEC released its proposed rule[1] on climate-related disclosure. Just 10 days after the SEC's announcement, the International Sustainability Standards Board (ISSB) released two exposure drafts (EDs) of proposed standards on general sustainability and climate reporting. One month later, on April 29, 2022, the European Financial Reporting Advisory Group (EFRAG) released 13 EDs of proposed European Sustainability Reporting Standards (ESRS) in accordance with the Corporate Sustainability Reporting Directive (CSRD) proposed by the European Commission (EC).

These three efforts together total more than 1,000 pages of proposed disclosure requirements. Given that the global reporting landscape is particularly significant for large, multinational companies, it is important for companies to understand the proposals' similarities and differences. Since each proposal will proceed through due process at its own pace, companies should closely monitor the interconnected regulatory and standard-setting developments so that they can leverage opportunities for efficiency and preparedness. To support enhanced understanding, this newsletter provides additional context on those developments and offers a high-level comparison of the three sets of proposed disclosure requirements.

[1] SEC Proposed Rule Release No. 33-11042, *The Enhancement and Standardization of Climate-Related Disclosures for Investors.*

Recent Regulatory and Standard-Setting Developments Related to Sustainability and Climate Reporting

SEC's Proposed Climate Disclosure Rule

Key Takeaways

- Mandatory (via SEC), industry-agnostic, climate-related disclosures.
- Financial impact metrics to be within the scope of internal control over financial reporting (ICFR) and subject to audit.
- Limited assurance followed by reasonable assurance for Scope 1 and Scope 2 greenhouse gas (GHG) emissions.
- Investor-focused materiality.
- Four-pillar-focused disclosures (governance, strategy, risk management, and metrics and targets).

The SEC issued its proposed rule on climate disclosure to enhance and standardize requirements for climate-related disclosures by public companies. The proposed disclosure requirements have quantitative and qualitative implications for companies' registration statements (e.g., Forms S-1, S-3, S-4, F-1, F-3, and F-4) and annual reports (e.g., Forms 10-K and 20-F). Topics addressed in the proposed rule include GHG emissions, climate-related physical and transition risks, certain financial statement impact metrics, and governance. The proposed rule would apply to all domestic and foreign SEC registrants (other than asset-backed issuers), companies completing an initial public offering, and private operating companies (targets) merging with a registrant (including special-purpose acquisition companies). The public comment period for the proposal was extended through June 17, 2022, and a final disclosure rule is expected as early as the end of 2022. If the proposed rule is finalized by the end of 2022 effective periods for the largest companies could be for 2023 annual reports (for calendar-year-end companies), although compliance and effective dates are subject to change when the rule is finalized. Financial statement impact metric disclosures would be subject to management's disclosure controls and ICFR. Disclosure of Scope 1 and Scope 2 GHG emissions would be subject to attestation requirements consisting of limited assurance during a phase-in period, followed by reasonable assurance thereafter. For a detailed summary of the proposed rule and considerations for companies, see Deloitte's March 29, 2022, *Heads Up*.

In addition to issuing the proposed climate disclosure rule, on May 25, 2022, the SEC continued its climate-focused rulemaking through two proposals that would amend existing rules. The SEC announced that the first proposal[2] would "enhance and modernize the Investment Company Act 'Names Rule' to address changes in the fund industry and compliance practices that have developed in the approximately 20 years since the rule was adopted." The second proposal,[3] the SEC announced, would amend "rules and reporting forms to promote consistent, comparable, and reliable information for investors concerning funds' and advisers' incorporation of environmental, social, and governance (ESG) factors."

Proposed ISSB Standards

Key Takeaways

- Intended to be mandated by jurisdictions (e.g., the United Kingdom has made a commitment to mandate, and China has signaled likely future adoption).
- Industry-tailored disclosures.
- Sustainability disclosures.

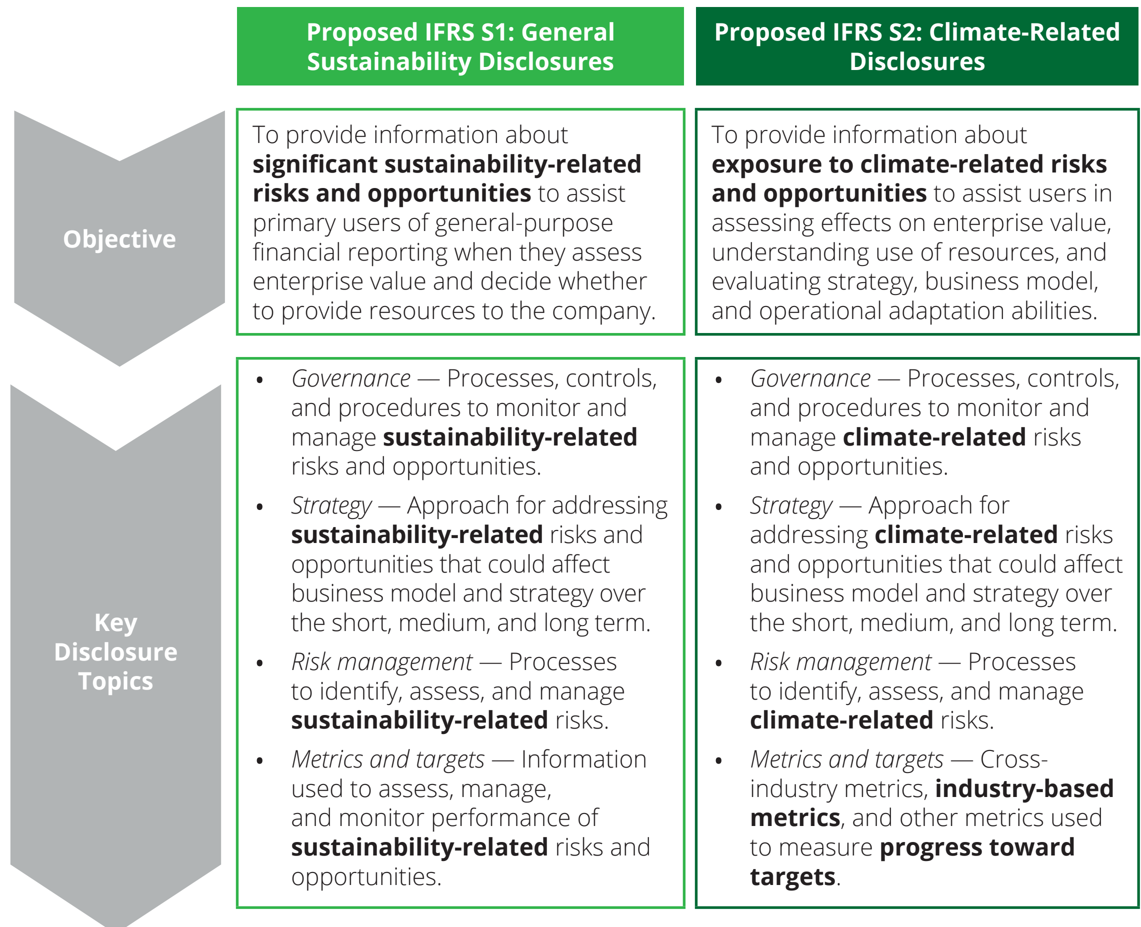
[2] SEC Proposed Rule Release No. 33-11067, *Investment Company Names*.

[3] SEC Proposed Rule Release No. 33-11068, *Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices*.

- Climate-related disclosures.
- Investor-focused materiality.
- Four-pillar-focused disclosures (governance, strategy, risk management, and metrics and targets).

Four months after the IFRS Foundation trustees announced the formation of the ISSB at the 26th United Nations Conference of the Parties (COP26) in November 2021, the ISSB released two EDs of proposed standards, one on general sustainability disclosures (IFRS S1)[4] and the other on climate-related disclosures (IFRS S2).[5] The proposals build on existing standards and frameworks, such as (1) the industry-based standards of the Sustainability Accounting Standards Board (SASB) and (2) the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

The ISSB's proposed IFRS S1 and IFRS S2 standards are intended to serve as the global baseline for sustainability disclosures, with an initial focus on climate change, to meet the information needs of the capital markets and function as a starting point for some, but not all, securities regulators around the world that choose to use these standards to advance their disclosure rulemaking. The proposals are based on the general sustainability and climate-related disclosure standard prototypes developed by the Technical Readiness Working Group (TRWG). The International Organization of Securities Commissions (IOSCO) had been an observer at the TRWG's deliberations and therefore became highly involved during the development of the ISSB's EDs. The SEC was informed and involved through its role as cochair of IOSCO's Technical Expert Group, which was tasked with assessing the potential for IOSCO's endorsement of the ISSB's standards.



	Proposed IFRS S1: General Sustainability Disclosures	Proposed IFRS S2: Climate-Related Disclosures
Objective	To provide information about **significant sustainability-related risks and opportunities** to assist primary users of general-purpose financial reporting when they assess enterprise value and decide whether to provide resources to the company.	To provide information about **exposure to climate-related risks and opportunities** to assist users in assessing effects on enterprise value, understanding use of resources, and evaluating strategy, business model, and operational adaptation abilities.
Key Disclosure Topics	• *Governance* — Processes, controls, and procedures to monitor and manage **sustainability-related** risks and opportunities. • *Strategy* — Approach for addressing **sustainability-related** risks and opportunities that could affect business model and strategy over the short, medium, and long term. • *Risk management* — Processes to identify, assess, and manage **sustainability-related** risks. • *Metrics and targets* — Information used to assess, manage, and monitor performance of **sustainability-related** risks and opportunities.	• *Governance* — Processes, controls, and procedures to monitor and manage **climate-related** risks and opportunities. • *Strategy* — Approach for addressing **climate-related** risks and opportunities that could affect business model and strategy over the short, medium, and long term. • *Risk management* — Processes to identify, assess, and manage **climate-related** risks. • *Metrics and targets* — Cross-industry metrics, **industry-based metrics**, and other metrics used to measure **progress toward targets**.

[4] IFRS Sustainability Disclosure Standards ED/2022/S1, *General Requirements for Disclosure of Sustainability-Related Financial Information*.

[5] IFRS Sustainability Disclosure Standards ED/2022/S2, *Climate-Related Disclosures*.

The proposed guidance in the ISSB's EDs is expected to be mandated under jurisdictional disclosure requirements such as those of the United Kingdom, which recently indicated that it would require companies under its jurisdiction to comply with ISSB standards. Assurance requirements related to disclosures prepared in accordance with ISSB standards would be subject to jurisdictional determination. The ISSB encourages all stakeholders to participate in the EDs' 120-day comment period, which closes on July 29, 2022. The ISSB aims to review the feedback in the second half of 2022 and issue final standards by the fourth quarter of 2022. For additional details on these developments, see Deloitte's April 2022 *iGAAP in Focus*.

The EC's Proposed CSRD and ESRS

Key Takeaways

Proposed CSRD

- Mandatory sustainability reporting (prepared in accordance with ESRS) and assurance over information.
- ESG disclosures.
- Double materiality disclosures.
- Three-pillar-focused measures (strategy, implementation, and performance).
- Incorporates EU Taxonomy regulations, indicators, and information tagging.

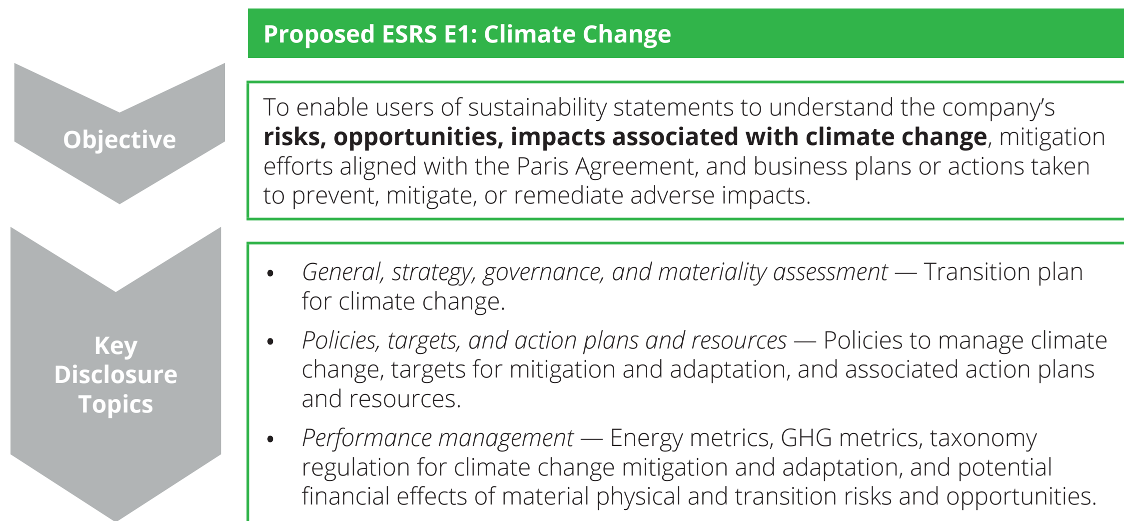
Proposed ESRS

- Mandatory disclosures (via CSRD).
- Four categories of disclosures:
  - Environmental.
  - Social.
  - Governance.
  - Cross-cutting (general principles and guidance that apply across the three ESG standards).
- Industry-tailored disclosures.

In April 2021, the EC issued a proposal for a CSRD to facilitate uniform sustainability reporting within the European Union. The CSRD proposal is expected to be finalized before summer. The objective of this proposal is to expand the existing reporting requirements of the Non-Financial Reporting Directive (NFRD) to include more extensive climate and sustainability considerations. The proposed CSRD would apply to large European Union–based companies, companies not established in the European Union that are listed on European Union–regulated markets, and EU subsidiaries of non-EU companies. The scope of the CSRD is still being discussed by the EU co-legislators and may therefore be changed or expanded. Under the CSRD proposal, sustainability reporting aligned with the ESRS would be required through management reporting (e.g., MD&A), subject to limited assurance initially and moving toward reasonable assurance as the reporting framework evolves.

On April 29, 2022, in accordance with a key provision of the CSRD proposal, EFRAG released its first set of proposed ESRS covering environmental, social, governance, and cross-cutting disclosure topics. Beyond the general disclosure requirements, one of the five draft

environmental standards, proposed ESRS E1,[6] would require a company to disclose its governance, business strategy, and transition plan for climate change mitigation; the financial effects of physical and transition risks; GHG emissions and removals; and targets for climate change mitigation and adaptation. Unlike the ISSB and SEC proposals, which are built on the existing TCFD pillars of governance, strategy, risk management, and metrics and targets, the architecture of the proposed ESRS E1 standard is structured around three key elements — strategy, implementation, and performance measures — and incorporates requirements of the EU Taxonomy and the Sustainability Financial Disclosure Regulation (SFDR). EFRAG has nonetheless considered the TCFD recommendations and offered a comparison of its proposed requirements with those of the TCFD.



Environmental

Proposed ESRS E2: Pollution	Proposed ESRS E3: Water and Marine Resources
Proposed ESRS E4: Biodiversity and Ecosystems	Proposed ESRS E5: Resource Use and Circular Economy

Cross-Cutting

Proposed ESRS 1: General Principles	Proposed ESRS 2: General, Strategy, Governance and Materiality Assessment

Social

Proposed ESRS S1: Own Workforce	Proposed ESRS S2: Workers in the Value Chain
Proposed ESRS S3: Affected Communities	Proposed ESRS S4: Consumers and End-Users

Governance

Proposed ESRS G1: Governance, Risk Management and Internal Control	Proposed ESRS G2: Business Conduct

[6] ESRS Exposure Draft E1, *Climate Change*.

In addition to detailing the disclosure requirements for several reporting areas that will already be described in the CSRD as disclosure requirements, EFRAG must ensure that its ESRS take into consideration, build on, and serve the purpose of the requirements of various other EU regulations in relation to sustainability matters. Among such regulations are the SFDR, which imposes on the financial sector several sustainability disclosure requirements related to the environmental and social characteristics of the products and services that companies in that sector offer their clients; the EU Taxonomy's environmental regulation, which defines sustainability alignment criteria for several activities to facilitate an assessment of whether such activities can be described as sustainable; and the upcoming Corporate Sustainability Due Diligence Directive (proposals published by the EC in February 2022), which reinforces the responsibilities for management and oversight bodies with respect to sustainability matters, including a requirement to establish a climate transition plan aligned with the Paris Agreement.

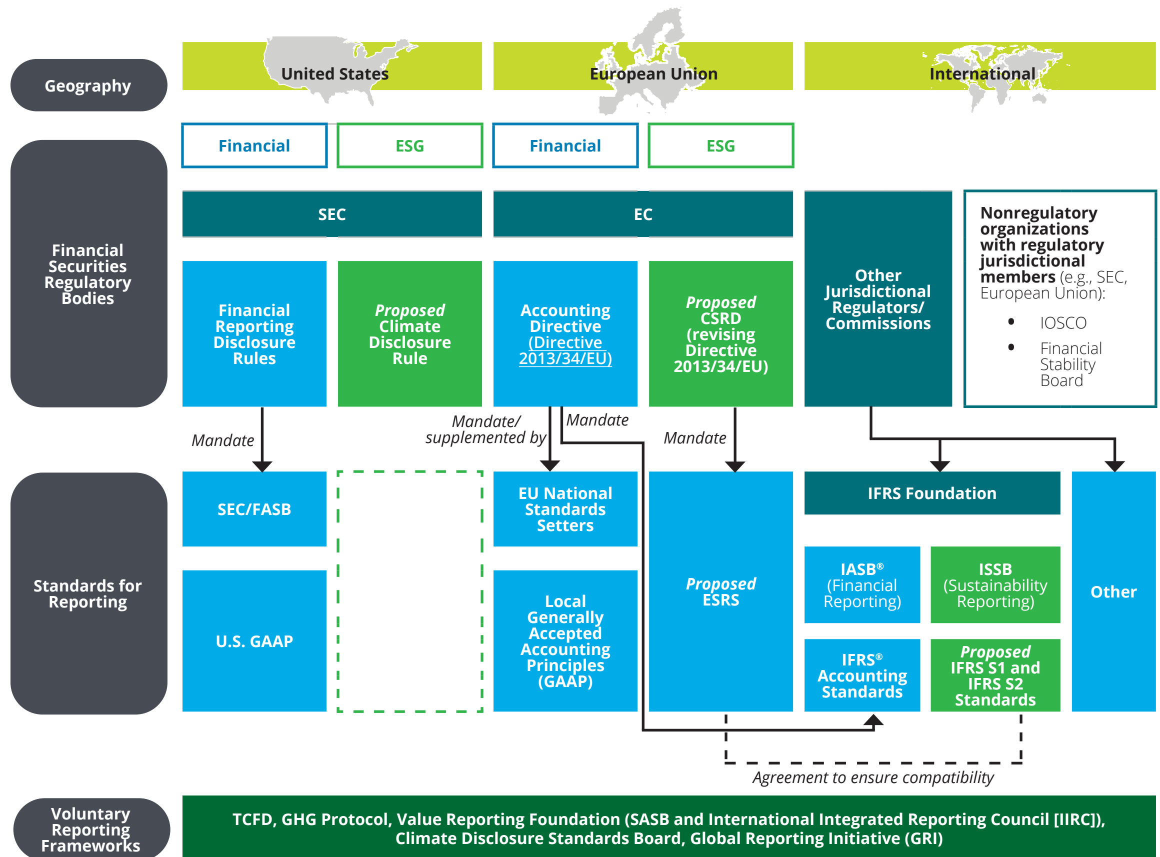
The CSRD proposal is expected to be finalized later in 2022, with the effective date being communicated at that time. It is expected that certain companies would have to prepare for sustainability reporting by using ESRS from 2024 reporting periods (for publication in 2025). Others may be granted one or two additional years to prepare. An effective date for the anticipated final ESRS has not been communicated. For additional information, see Deloitte's May 2022 *iGAAP in Focus*.

Understanding and Comparing the Emerging Regulations and Standards on Sustainability and Climate Disclosure

The recent regulatory and standard-setting developments related to sustainability and climate reporting support the market objective of greater clarity, consistency, and rationalization in the evolving sustainability reporting landscape. There are many similarities among the proposals, with differences primarily arising in the nature of the regulation and the granularity of disclosure.

The SEC's proposed disclosure rule and the EC's CSRD proposal are proposed jurisdictional regulations aimed at mandating sustainability and climate disclosure for U.S. companies, EU companies, and companies in other jurisdictions that would be subject to their requirements. In contrast, the ISSB's proposed IFRS S1 and IFRS S2 standards and EFRAG's proposed ESRS (developed in accordance with the CSRD proposal) are proposed disclosure standards, which represent more granular measurement and reporting criteria. As intended, these proposed standards support jurisdictional regulations — with the proposed ESRS being mandated through the CSRD proposal in the European Union, and the proposed ISSB standards expected to be mandated by the United Kingdom and other jurisdictions once finalized. Certain jurisdictional members of IOSCO have already expressed support for the mandate of ISSB standards, and rapid adoption is expected.

The graphic and Q&As below illustrate and further clarify the nature of these developments and the organizations involved.



1. **Are the U.S. and EU proposed regulations similar to one another? Would they require comparable actions and disclosures by companies?**

   There are several key differences between the SEC's proposed rule and the EC's CSRD proposal. First, the SEC's proposed rule would mandate disclosure of climate-related information only, while the EC's proposed CSRD would require companies to report on sustainability and climate-related information. Second, unlike the SEC's proposed rule, the EC's proposed CSRD would mandate the development of a set of reporting standards (ESRS) with which companies (in the European Union) would be required to comply. The SEC based the disclosures prescribed in its proposed rule on the GHG Protocol and TCFD recommendations, but it has not proposed mandating any reporting standard with which companies would be required to align their disclosures. Third, the scope of entities affected would differ: the EU requirements would extend to large nonlisted entities, while the SEC's proposed rule would apply only to SEC registrants. Lastly, the EU and U.S. proposed disclosures use a different focus for determining materiality (see discussion below).

2. **With which set of sustainability and climate disclosure standards will the SEC require U.S. public companies to align their reporting?**

   The SEC has proposed its own disclosures, rather than pointing to externally developed standards. Its proposal seeks feedback on whether U.S. climate reporting provisions should be structured to encompass reports made in accordance with global sustainability standards, such as those of the ISSB. The SEC is evaluating what conditions, if any, should be placed on the use of alternative reporting provisions based on guidance of the ISSB or a similar body (e.g., whether all companies should be allowed to use such alternative reporting provisions). At this time, it is unknown whether the SEC will look toward the EDs of the ISSB or EFRAG when the proposed rule is finalized — such as the IFRS S2 climate disclosure ED or the ESRS EDs for foreign private issuers.

3. **Since the SEC's proposal does not point to standards with which companies' sustainability and climate disclosures should align, and EFRAG has developed proposed standards (ESRS) for the European Union, where do the ISSB's proposed sustainability standards fit in?**

   The purpose of ISSB standard setting is to serve as the global baseline for sustainability reporting. Since its formation in late 2021, the ISSB has been working to consolidate and rationalize the existing assortment of sustainability reporting standards and frameworks (e.g., those of the SASB, IIRC, and TCFD). Further, the ISSB established a working group to foster compatibility between its sustainability standards and jurisdictional regulations such as the SEC's proposed rule and EFRAG's proposed ESRS. Sustainability disclosure standard setting at the jurisdictional level is new — with the United States and European Union serving as early movers. Other jurisdictions that do not yet have sustainability disclosure regulations will be able to look to the ISSB for examples of regulatory disclosure requirements, as well as to the underlying IFRS S1 and IFRS S2 standards for company disclosure alignment.

4. **Would assurance over the proposed disclosures be required?**

   The SEC's proposed rule and the CSRD proposal would both require assurance. Under the SEC's proposed rule, financial statement impact metrics disclosed in the footnotes would be within the scope of ICFR and subject to audit. In addition, the SEC's proposed rule would provide for limited assurance (with phased-in reasonable assurance) over Scope 1 and Scope 2 GHG emissions disclosures. Under the CSRD proposal, sustainability reporting aligned with the ESRS would be required through management reporting (e.g., MD&A). Initially subject to limited assurance, such sustainability reporting would move toward reasonable assurance as the reporting framework evolves (the final CSRD will most likely specify a timeline for this migration to reasonable assurance). Further, compliance with the ISSB's final IFRS S1 and IFRS S2 standards would be subject to assurance requirements, if applicable, in the jurisdiction(s) in which the standards are mandated.

5. **How do the ISSB's proposed standards compare with those of EFRAG? Would these proposed standards meet the needs of the SEC's proposed climate disclosure rule?**

   The table below compares key provisions of the proposed SEC rule, the proposed IFRS S1 and IFRS S2 standards, and the proposed ESRS.

		Regulation *(Proposed)*	**Standards** *(EDs)*	
		SEC	**IFRS**	**ESRS**
Guiding Requirements	**Type**	Authoritative regulatory disclosure requirements proposed by the SEC	Standards to be jurisdictionally regulated, developed by ISSB	Standards regulated by CSRD, developed by EFRAG
	Scope	**Climate-related disclosures** (industry-agnostic)	**Sustainability (S1) and climate-related (S2) disclosures** (industry-specific)	**Sustainability disclosures** (industry-specific)

(Table continued)

		Regulation *(Proposed)*	Standards *(EDs)*	
		SEC	**IFRS**	**ESRS**
Guiding Requirements	**Materiality**	Investor-focused: Consistent with U.S. Supreme Court's definition of the term as "a substantial likelihood that a reasonable shareholder would consider [an omitted fact] important in deciding how to vote" or "that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available"	Investor-focused: Omitting, misstating, or obscuring information could be reasonably expected to influence decisions that primary users make on an entity's enterprise value	Double materiality: • Impact of climate issues on business strategy • Impact of business strategy on people and environment
	Assurance	• Limited assurance, followed by reasonable assurance (Scope 1 and Scope 2 GHG emissions) • Financial statement audit/ICFR (financial impact metrics)	Subject to jurisdictional requirements	Limited assurance, followed by reasonable assurance (reported sustainability information)
Climate-Related Disclosures	**Governance**	• Board oversight of and expertise in climate-related risks • Process by which management is informed about and monitors climate-related risks	• Reflection of risks and opportunities within the board mandates and policies • Climate-related remuneration policies	• Roles of governance and management regarding sustainability • Sustainability matters addressed during reporting period • Integration of sustainability into incentive schemes
	Strategy *(Climate Risks, Opportunities)*	• How climate-related risks had or are likely to have material impact on the business or financial results • Effect of risks on strategy, business model, and outlook • Scenario analysis details, if performed	• Direct and indirect responses to climate risk • Changes to financial position and resourcing impacts • Assets aligned with risks and opportunities • Resiliency of strategy, informed by scenario analysis	• Identified sustainability risks and opportunities • Description of due diligence process, adverse value chain impacts, and remediation actions • Resilience to different climate scenarios
	Risk Management	• Processes to identify, assess, and manage climate-related risks • Significance and materiality of climate-related risks • Consider actual or potential regulations for transition risks	• Processes to identify, assess, and manage climate-related risks • Extent of integration into overall risk management processes	• Processes to identify, assess, and manage climate-related risks • Climate change mitigation and adaptation risk management plans and policies

(Table continued)

		Regulation *(Proposed)*	Standards *(EDs)*	
		SEC	IFRS	ESRS
Climate-Related Metrics	**Financial**	• Financial impact and expenditure metrics for climate-related events and transition activities • Impact on financial estimates and assumptions	Impact of climate-related risks and opportunities on financial position, performance, and cash flows for reporting period, and anticipated impacts over short, medium, and long term	Financial impact of physical and transition risks and reference to affected financial statement line items and anticipated impacts over short, medium, and long term
	GHG Emissions	• Scope 1 and Scope 2 GHG emissions • Scope 3 GHG emissions, if material, or Scope 3 target • Gross emissions disaggregated by each GHG • GHG emissions intensity	Scope 1, Scope 2, and Scope 3 GHG emissions required	• Scope 1, Scope 2, and Scope 3 GHG emissions required, and any material change to methodology • Granular qualitative and quantitative GHG disclosures
	Targets and Other Metrics	• Climate-related targets or goals, interim targets, and supporting qualitative disclosures • Carbon offsets or renewable energy credits (RECs)	• Metrics used to assess climate risks and opportunities • Targets, performance, and approach to target setting • Industry-based metrics	• Target aligned with Paris Agreement (1.5°C), net zero target (if applicable), and methods and frameworks used • If net zero target, methodologies and frameworks applied • Targets and target-setting process, industry-based metrics, offsets, renewable energy certificates, energy metrics, and internal carbon pricing

For a closer analysis, consider the following:

- **Beginning with the EDs,** the key comparisons between the ISSB's proposed standards and those of EFRAG may be summarized as follows:
  - *Scope and breadth of standards* — The ISSB's proposed IFRS S1 standard focuses on general sustainability disclosures, and its proposed IFRS S2 standard focuses on climate-related disclosures. In contrast, the standards proposed in the EFRAG's 13 EDs are collectively broader in scope, covering general principles and sustainability disclosure requirements as well as a wide range of topical disclosure requirements related to environmental, social, governance, and cross-cutting matters.
  - *Mandate through jurisdictional regulations* — When finalized, EFRAG's proposed ESRS will be mandated in the European Union by a final CSRD. However, ISSB standards are not yet being officially mandated by any jurisdictional regulations, although certain jurisdictions, such as the United Kingdom and China, have expressed their intention and interest in adoption of final ISSB standards, and G7 finance ministers and central bank governors have encouraged jurisdictions to prepare for using the ISSB's standards.

- *Materiality* — To enable a company to determine which information should be disclosed, the proposed ESRS would require a stakeholder-focused double materiality assessment, which is the consideration of both (1) the material risks and opportunities of sustainability topics on the company's value creation (financial materiality) and (2) the company's material impacts on the economy, the environment, and people (impacts materiality). However, the ISSB's proposed standards are geared toward investors and focus on enterprise value; therefore, the ISSB's proposed materiality requirements are primarily focused on the users of general-purpose financial reporting.
- *Building on existing climate disclosure standards and frameworks* — TCFD recommendations were the starting point for the ISSB's proposed IFRS S2 climate standard. The ISSB's proposed standards would require disclosures to be aligned with the same four thematic areas (governance, strategy, risk management, and metrics and targets) as those required by the TCFD recommendations. In contrast, EFRAG's proposed ESRS E1 climate standard takes into consideration the EU Taxonomy and the SFDR and has an architecture centered around three key elements: strategy (covering general information, strategy, governance, and materiality assessment), implementation (covering policies, targets, action plans, and resources), and performance measures. However, EFRAG incorporated most TCFD recommendations into its proposed ESRS E1 standard to ensure that they become disclosure requirements.
- *Disclosure granularity* — Both the ISSB's proposed standards and EFRAG's proposed ESRS would require granular disclosures, although the disclosures delineated in the proposed ESRS would be more so. For instance, in a company's assessment of climate-related physical risks in its own operations and along the value chain, the proposed ESRS E1 standard would require the company to identify climate-related hazards (at least in high-emission climate scenarios) as well as climate-related transition events, that may affect the company's assets and business activities. In addition, both EFRAG's proposed standards and those of the ISSB would require disclosure of financial metrics in management reporting, including the financial effects of physical and transition climate-related risks and opportunities, as well as industry-specific metrics. EFRAG has not yet released proposals for the ESRS industry-specific disclosure requirements (these are expected in its next ED release). However, EFRAG has released documents that map its EDs to those of the ISSB.

- **Potential alignment with the SEC's requirements** — The proposed IFRS S2 and ESRS E1 standards align with the SEC's proposed rule in the following areas:
  - *Disclosure in annual financial reporting* — The ISSB's proposed IFRS S2 standard specifies that climate-related financial disclosures should be made as part of a company's general-purpose financial reporting for the same reporting period as that of the financial statements. EFRAG's proposed ESRS E1 standard would also require disclosure in management reports at the same time as financial statements are published. Given that the SEC specifies that companies make disclosures within registration statements (e.g., Forms S-1, S-3, S-4, F-1, F-3, and F-4) and annual reports (e.g., Forms 10-K and 20-F), both proposed standards align with the SEC's proposed rule in this area.
  - *Climate-related disclosure topics* — Like the SEC's proposed rule, the proposed IFRS S2 and ESRS E1 standards would impose disclosure requirements regarding climate-related governance, strategy, and risk management.

- *Emphasis on financial implications of climate-related risks and opportunities* — Building on the TCFD recommendations, the SEC's proposed rule, the ISSB's proposed IFRS S2 standard, and EFRAG's proposed ESRS E1 standard each emphasize disclosure of the financial implications of climate-related risks and opportunities (the proposed ESRS E1 standard also emphasizes disclosure of impacts), although the proposed standards would require more granular quantitative information than the SEC's proposed rule.

- **Potential differences between the SEC's requirements and those of the ISSB and EFRAG** — The proposed IFRS S2 and ESRS E1 standards diverge from the SEC's proposed rule in the following areas:
  - *Proposed ESRS E1 standard's materiality requirements* — The proposed ESRS E1 standard would require stakeholder-focused double materiality. This differs from the SEC's proposed materiality requirement, which is consistent with the U.S. Supreme Court's definition of materiality.
  - *GHG emissions* — While all three proposals would require disclosure of Scope 1 and Scope 2 GHG emissions, the proposed IFRS S2 standard would require all reporting companies to disclose Scope 3 emissions. The SEC's proposed rule would require a company to disclose Scope 3 emissions only if (1) the company determines the emissions to be material or (2) a Scope 3 target has been set. Similarly, the proposed ESRS E1 standard would require disclosure of Scope 3 emissions, if material. The proposed ISSB S2 and ESRS E1 standards would require more granular GHG emissions disclosure overall. For example, proposed ISSB S2 would require disclosure of industry-specific emissions, and the proposed ESRS E1 standard would require more granular disclosure of the percentage share of Scope 1 emissions under regulated emissions trading schemes (e.g., EU Emissions Trading System).
  - *Financial statement line item requirement* — While the proposed ISSB S2 and ESRS E1 standards would require disclosure of financial impact metrics in management reporting, such disclosure would not meet the SEC's proposed requirements related to the disclosure of financial statement line item impacts, including the materiality requirement of 1 percent. In addition, the SEC's proposed rule would require disclosure of certain financial statement impact metrics in the financial statements and footnotes, whereas the proposed ISSB S2 and ESRS E1 standards would require disclosure of financial-related metrics in management reporting.

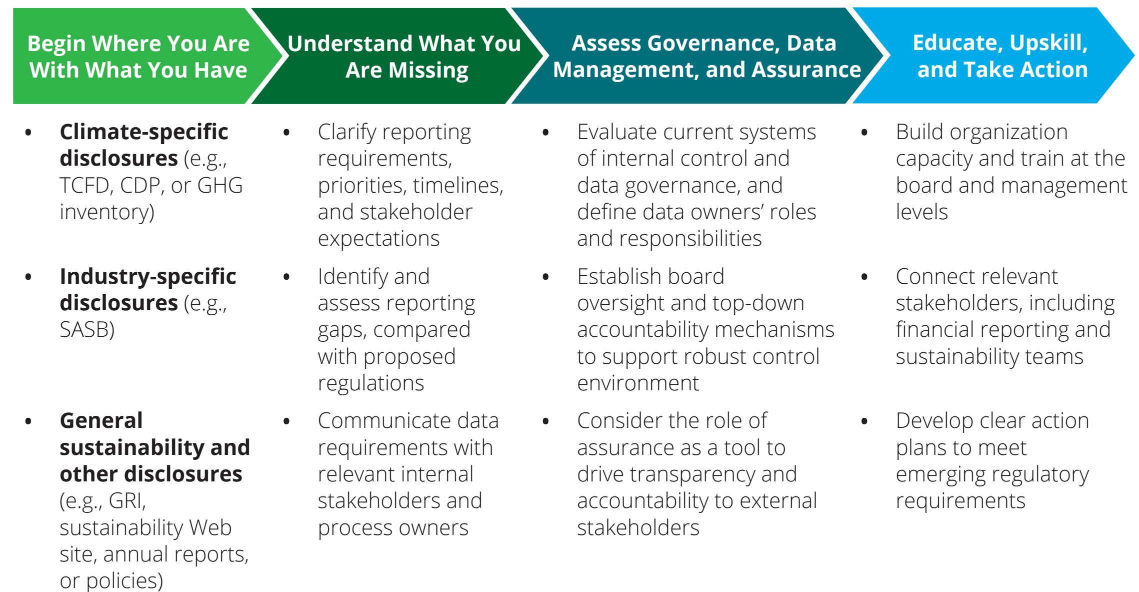
Key Takeaways

- Both the proposed IFRS S2 and proposed ESRS E1 standards on climate disclosure would meet a portion of the requirements in the SEC's proposed rule on such disclosure.
- Differences arise in the SEC's proposed requirement for financial statements metrics to be disclosed, as well as in materiality considerations and reporting boundary.
- The ISSB's proposed IFRS S2 standard more closely aligns with the SEC's proposed rule, in part because of the shared starting point — the TCFD recommendations — for the proposed disclosure requirements.
- EFRAG's proposed ESRS contain similar requirements that would align with the TCFD recommendations and meet the requirements of the SEC's proposed disclosure rule; however, the proposed standards are organized in a different manner.

Considerations for Companies

The most common thread among the three key developments is that they aim to change the sustainability disclosure landscape moving forward. The SEC's and EC's proposals would mandate climate-related disclosure alongside and within annual financial filings. The ISSB's proposed standards, once finalized, are expected to serve as the baseline standards for sustainability and climate disclosure and support future regulatory requirements across jurisdictions.

Moving forward, sustainability reporting will need additional time and resources to mature to a level comparable to financial reporting such as to require accelerated reporting timelines and enhanced governance and data management. The integration of financial metrics and nonfinancial disclosure across governance, risk management, and ESG strategy drives better organizational communication, connection, and accountability. Outlined below are a few considerations for companies as they take action to prepare for this changing disclosure landscape.



Companies may seek to participate in the public consultation and provide company- and industry-specific perspectives. In preparing for finalization of the SEC's proposed climate disclosure rule and the proposed standards of the ISSB and EFRAG, companies are encouraged to maintain awareness of any further developments, including public comments received, iterations of the draft regulations, and other emerging ESG and climate disclosure developments. This awareness will bring accuracy and confidence to climate reporting as companies continue along their ESG journeys.

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