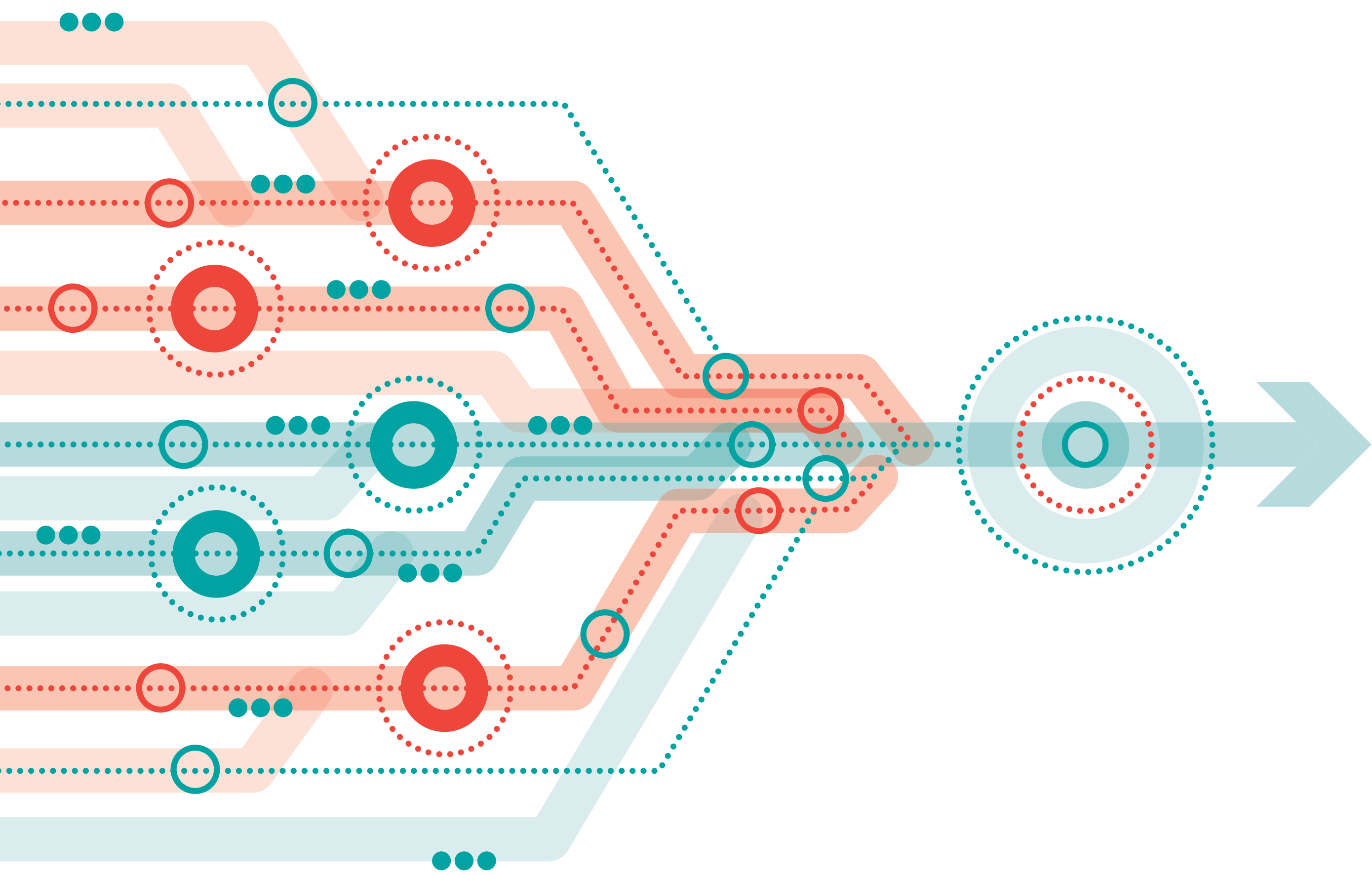
IRSG
INTERNATIONAL REGULATORY STRATEGY GROUP

CLIFFORD CHANCE

Harmonising Sustainability Disclosures: A Roadmap for the Adoption of ISSB Standards

A report by the International Regulatory Strategy Group
in association with Clifford Chance LLP



March 2025

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About the IRSG

The International Regulatory Strategy Group (IRSG) is a practitioner-led group comprising senior leaders from across the UK-based financial and related professional services industry. It is one of the leading cross-sectoral groups in Europe for the industry to discuss and act upon regulatory developments.

With an overall goal of promoting sustainable economic growth, the IRSG seeks to identify opportunities for engagement with governments, regulators and European and international institutions to advocate for an international framework that will facilitate open and competitive capital markets globally. Its role includes identifying strategic level issues where a cross-sectoral position can add value to existing views.

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FOREWORD

Clifford Chance LLP

The publication of the ISSB IFRS S1 and S2 standards represented a pivotal moment in the journey towards consistent, transparent, and comparable sustainability reporting by companies and financial institutions.

It has been a privilege to collaborate with the International Regulatory Strategy Group (IRSG) to analyse the adoption of these transformative standards across the globe and provide insights and recommendations with respect to the challenges and opportunities this brings. Drawing on our extensive experience advising clients on cross-border regulatory frameworks and ESG compliance, as a firm we are committed to supporting the successful implementation of the ISSB Standards. This collaboration with IRSG reflects our dedication to fostering clarity, consistency, and confidence in global sustainability reporting practices.

We hope this report will serve as a helpful resource to equip policymakers, legislators and regulators with a clear understanding of the global trends shaping the adoption of ISSB Standards and the critical role of harmonised reporting frameworks in achieving sustainable economic growth and addressing pressing global challenges. By providing a roadmap for consistent adoption, this report underscores the importance of aligning national and international regulatory efforts to ensure the widespread acceptance and effectiveness of the ISSB Standards.

We are deeply grateful to the IRSG, and the members of the IRSG ISSB standards subgroup, for their support and collaboration; their invaluable insights and contributions have been instrumental in identifying practicable recommendations for achieving the stated objectives of this report.

We also extend our gratitude to colleagues in the UK, Australia, Brazil, Hong Kong, Japan and Türkiye, and to Bowmans in South Africa and Blakes in Canada, all of whom have contributed to the jurisdictional case studies in this report. Particular thanks go to our London colleagues, Michaela Hanzelova and Calista Annika, whose hard work and support has been vital in drafting this report.

Kate Norgett and Adam Hedley
Clifford Chance LLP

FOREWORD

IRSG

Against a backdrop of an increasingly fragmented global regulatory environment, the demand for a globally consistent approach to sustainability disclosures has never been greater. The ISSB Standards provide a valuable opportunity to enhance international comparability, ensuring that businesses, investors, and regulators have access to reliable, decision-useful information. To maximise their effectiveness, a consistent and well-structured implementation strategy across international jurisdictions is essential.

With this report, we seek to explore the key regulatory considerations that should underpin the successful adoption of the ISSB Standards around the world, to enhance their effective implementation locally and their international interoperability. By assessing common approaches to financial materiality, transition reliefs, and jurisdictional alignment, this report shows how policymakers can support transparent, accountable sustainability reporting, both in their jurisdiction, and internationally.

We examine priority areas for strengthened regulatory alignment, including the flexibility needed for Scope 3 emissions reporting, the role of regulatory oversight and enforcement, and the importance of ensuring ISSB disclosures remain a standalone requirement. The report also explores substituted compliance to reduce duplication and strategies for smoother transitions to the introduction of mandatory disclosures.

Global coherence in ISSB adoption will bring significant benefits for international businesses when making their disclosures and investors, regulators and all users of sustainability reporting. Establishing a clear pathway for endorsement, implementation, and enforcement will be essential to realising these outcomes. The time is now to ensure a regulatory approach that balances ambition with pragmatism, fostering an environment where companies can disclose sustainability-related risks and opportunities with confidence.

We are grateful to Kate Norgett, Adam Hedley, Michaela Hanzelova and Calista Annika, of Clifford Chance for their collaboration on this report which has received input from across the globe.

Ilan Jacobs
Chair of the ESG Committee

1
EXECUTIVE SUMMARY AND RECOMMENDATIONS

Executive Summary

The International Sustainability Standards Board (ISSB) Sustainability Disclosure Standards S1 and S2, released in June 2023, aim to ensure globally consistent, comparable, and reliable sustainability reporting. These standards provide a global baseline for sustainability disclosures, enhancing trust and confidence in company reports on sustainability risks and opportunities. However, their voluntary nature requires adoption into national law to become mandatory, making coherent global implementation a crucial step towards achieving the desired outcome.

The International Regulatory Strategy Group (IRSG), together with Clifford Chance, strongly support the need to avoid major jurisdictions taking different approaches. The IRSG is concerned that there is a risk of divergence from the ISSB Standards in countries committed to adoption, for example through amendments to the standards when they are translated into local rules.

Divergence of national regulatory approaches risks fragmenting global markets, limiting flows of sustainable capital and delaying the transition to a low carbon and sustainable future.

With over 20 jurisdictions currently in the process of adopting the ISSB Standards, the time to ensure coherent implementation is now. This report, commissioned by the IRSG, identifies and analyses the effects of proposed divergent approaches, highlighting the risks of divergence and emphasising the need for high alignment with the ISSB Standards. It provides a comparative analysis of global adoption approaches, including case studies from Australia, Brazil, Canada, Hong Kong, Japan, South Africa, Türkiye, and the UK, as well as consideration of alternative approaches in the EU and US.

The report concludes with actionable recommendations for national governments, legislators, regulatory and enforcement bodies, which are summarised in the next section.

THE FOLLOWING THREE RECOMMENDATIONS ARE IDENTIFIED AS KEY PRIORITIES:

1.
Align local standards fully with ISSB standards. Where group consolidated disclosures are prepared, ensure there is not a requirement to also present local subsidiary disclosures on a standalone basis.

REASON:
This would ensure global consistency, minimise divergence, and enhance comparability of sustainability-related disclosures, which is essential for investors and stakeholders globally.

2.
Where appropriate, extend transition reliefs for Scope 3 and non-climate disclosures[1]

REASON:
This acknowledges the practical challenges organisations face in preparing comprehensive disclosures, particularly around Scope 3 emissions and non-climate factors. Framing this as a pragmatic step would balance the readiness of preparers with the need for transparency.

3.
Clear timetable for endorsement and implementation

REASON:
A clear timetable is critical to minimise delays, reduce uncertainty, and ensure the timely availability of decision-useful data for investors.

1 Jurisdictions that have not previously implemented TCFD-based climate disclosures may consider a phased approach to extending transition reliefs, recognising their level of preparedness and existing reporting practices. However, jurisdictions with prior TCFD-based climate disclosures should not grant additional extensions.

Overview of Recommendations

KEY ISSUES	RECOMMENDATIONS	RESPONSIBILITY	TIME-FRAME
1. Production of Local Standards based on ISSB Standards	Jurisdictions should fully align local standards with ISSB Standards, ensuring any modifications are minimal and justified by specific local needs. Local standards should remain a standalone requirement and not be embedded into prudential reporting regimes to avoid dilution of ISSB objectives.	National Governments, Legislators National Legislators	**Ongoing**
2. Delay in Effective Dates	Provide a clear public timetable for endorsement and implementation, minimising delays where possible. Promote voluntary early adoption of the standards to familiarise preparers with reporting requirements.	National Governments National Regulatory Bodies	**Immediate**
3. Extension of Transition Reliefs	Where appropriate, extend transition reliefs for Scope 3 and non-climate disclosures from one year to two years. Require preparers to disclose available data and explain gaps during the relief period, along with plans for improving data quality.	National Governments, Legislators National Regulatory Bodies, ISSB	**Short term**
4. Climate-Only Reporting	Adopt a phased approach, starting with climate-related disclosures while setting clear timelines for integrating broader sustainability reporting requirements. Balance investor needs for data with preparers' capacity to produce reliable disclosures.	National Legislators, Regulatory Bodies National Governments, ISSB	**Medium-term**
5. Combining Sustainability and Financial Disclosures	Mandate the inclusion of sustainability disclosures within the same reporting framework as financial statements, where feasible.	National Legislators, Regulatory Bodies	**Medium-term**
6. Materiality and Sustainability Risk Definitions	Provide additional guidance on performing materiality assessments and defining sustainability risks. Clarify the relationship between ISSB materiality concepts and jurisdiction-specific frameworks, such as the EU's ESRS, to support consistent application.	ISSB ISSB, National Governments	**Ongoing**

Overview of Recommendations

KEY ISSUES	RECOMMENDATIONS	RESPONSIBILITY	TIME-FRAME
7. Assurance Requirements	Develop ISSB guidance to standardise assurance requirements (e.g., transition from limited to reasonable assurance).	ISSB	**Medium term**
	Adopt assurance requirements consistent with any guidance issued by the ISSB, starting with limited assurance and moving to reasonable assurance over time	National Governments	
8. Supervisory and Enforcement Approaches	Encourage jurisdictions to adopt supervisory strategies that focus on capacity-building during initial implementation phases.	National Regulatory Bodies	**Short term**
	Adopt enforcement approaches similar to the UK's phased model for TCFD-aligned disclosures.	National Regulatory Bodies	
9. Issuer and Director Liability	Introduce safe harbours during transitional periods to protect preparers from disproportionate liability.	National Legislators	**Immediate**
	Clarify liability regimes to encourage open and transparent reporting.	National Legislators, Regulatory Bodies	
10. High Reporting Burden on Smaller Entities	Exempt smaller companies from mandatory reporting, aligning with local corporate reporting frameworks.	National Legislators	**Ongoing**
	Provide optional guidance to encourage voluntary disclosures from smaller entities.	National Regulatory Bodies	
11. Comparability Across Jurisdictions	Promote equivalence or substituted compliance for multinational entities to avoid duplicative reporting under multiple frameworks (e.g., ISSB and ESRS).	National Legislators, ISSB	**Ongoing**
	Advocate for international collaboration to harmonise jurisdictional frameworks.	ISSB, National Governments	

2
INTRODUCTION

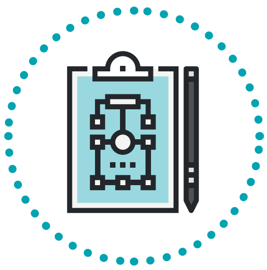
a. Introduction to the ISSB Standards

The IFRS S1 and IFRS S2 Standards (the "**ISSB Standards**"), issued by the International Sustainability Standards Board ("**ISSB**") in June 2023, represent a significant milestone in sustainability reporting. The ISSB Standards aim to provide a global framework for consistent, comparable, and decision-useful disclosures of sustainability-related information to investors and other capital market participants.

IFRS S1 provides a framework for disclosing sustainability-related risks and opportunities that influence a company's financial performance, including cash flows, position, or capital costs. It emphasises material information on governance, strategy, risk management, and metrics, enabling investors to understand how sustainability impacts corporate resilience over time.

IFRS S2 specifically addresses climate-related risks and opportunities, building upon the widely recognized recommendations of the Task Force on Climate-related Financial Disclosures ("**TCFD**"). It mandates disclosures on areas such as greenhouse gas ("**GHG**") emissions, the financial implications of climate risks, and strategies for transitioning to a low-carbon economy. IFRS S2 seeks to enhance transparency, enabling stakeholders to assess the company's climate resilience and its alignment with global decarbonization goals.

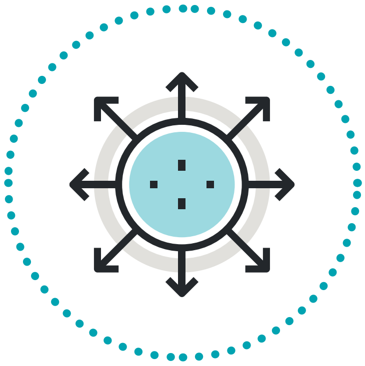
As a voluntary framework, ISSB Standards require national adoption to become mandatory. Therefore, while the introduction of the ISSB Standards represents a crucial step in enhancing corporate sustainability reporting, their intended impact on corporate reporting will only be realised if jurisdictions choose to adopt them and will vary depending on how they are adopted.



b. How the ISSB Standards will support the climate transition

The seamless flow of international capital is vital for the global economy. Historically, differing national accounting standards have complicated international business and investment, making it challenging for investors to compare financial statements. A similar challenge is presented to investors when faced with differing levels of corporate sustainability reporting. The publication of the ISSB Standards marked a significant step towards unified sustainability-related financial disclosures for use in capital markets. The building-blocks approach of the ISSB Standards allows for flexibility by facilitating the integration of additional requirements. This ensures that jurisdiction-specific nuances or the needs of key stakeholder groups can be addressed effectively, while maintaining a core set of reporting principles globally.

The ISSB Standards create a consistent global framework, reducing reporting complexity and helping investors make informed, sustainable decisions. Additionally, disclosures under the ISSB Standards will help users understand how sustainability-related matters translate into a company's financial performance. A greater connectivity between narrative reporting and climate-related assumptions in financial statements can help financial institutions better understand their exposure to climate-related risks (and in turn assess the risks for portfolio companies).



c. Divergent approaches to adoption of ISSB Standards

The global impact of the ISSB Standards relies on consistent adoption across jurisdictions. This requires alignment of national regulations with the ISSB framework and robust supervisory mechanisms to ensure uniform implementation and maintain the integrity of disclosures.

In reality, as has already been observed, different jurisdictions will adopt different approaches towards the introduction of sustainability-related disclosure requirements. This is inevitable to some degree, just as there is a patchwork quilt of financial regulatory frameworks that apply across the global financial markets. However, divergent approaches towards implementing the ISSB Standards will erode the ability of the ISSB Standards to act as a global benchmark for investors when seeking to make informed investment decisions based on sustainability-related factors. Similarly, divergent approaches towards regulatory supervision and enforcement of the ISSB Standards will practically result in divergent approaches towards sustainability-related financial reporting that will inhibit investor decision-making. Therefore, whilst it is accepted that some degree of global divergence in ISSB adoption is unavoidable, it is imperative that any such divergences are proportionate to the impact they will have on the global effectiveness of the ISSB framework.

To judge the proportionality of divergence, it is important to distinguish between different types of divergences in adoption of the ISSB Standards and the impact they will have. Some divergences will be more disruptive to the ultimate objective of comparability of sustainability information than others. For the purposes of this report, we have considered the following broad categories of divergences:

- **Transitional/phase-in periods**, which allow jurisdictions to gradually implement the standards, providing time for adaptation without disrupting market stability.
- **Other transition reliefs**, which offer temporary measures to ease the initial burden of compliance while maintaining the overall integrity of the standards. As progress in ISSB adoption varies globally, jurisdictions can scale and phase in requirements beyond IFRS S1 and S2 transition reliefs as summarised below:
    - **'Climate-first' reporting:** In the first annual reporting

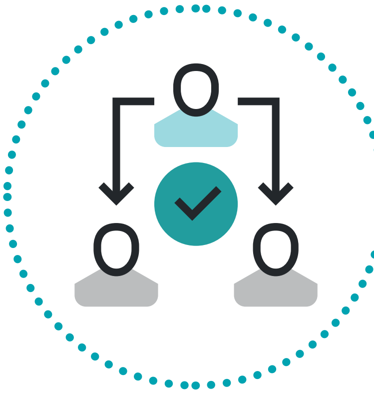
period in which a company applies the IFRS S1 Standard, it may choose to disclose information on climate-related risks and opportunities only.

- **Timing of the reporting:** While the IFRS S1 Standard requires companies to report their sustainability-related financial disclosures at the same time as their related financial statements (covering the same reporting period), in the first reporting period, companies may prepare their annual sustainability-related financial disclosures after they have published the related financial statements.
- **Comparative disclosures:** In the first annual reporting period in which a company applies the IFRS S1 or S2 Standards, it may choose not to disclose comparative information on sustainability-related risks and opportunities.
- **GHG Protocol:** While the IFRS S2 Standard requires companies to use the *GHG Protocol: A Corporate Accounting and Reporting Standard (2004)* to measure greenhouse gas ("GHG") emissions (unless the entity is required by regulation to use a different measurement method), if a company is using a different measurement method, it can continue using it in the first year it applies the IFRS S2 Standard.
- **Scope 3 GHG emissions:** Companies do not have to disclose their Scope 3 GHG emissions in the first annual reporting period under the IFRS S2 Standard.

○ **Jurisdictional modifications that are proportionate and workable**, ensuring that any adjustments made are reasonable and do not undermine the core objectives of the ISSB Standards. Such modifications include:

- renaming or renumbering the ISSB Standards;
- providing further guidance and context for the application of the reporting requirements;
- restricting, removing or excluding options, permissions or alternative treatments set out in the IFRS S1 and S2 Standards;
- requiring the disclosure of information that would otherwise be optional under the IFRS S1 and S2 Standards; or
- introducing additional sustainability reporting requirements to meet jurisdiction-specific requirements or broader stakeholder needs.

○ Other **jurisdictional modifications that risk fragmentation of approach globally**, i.e. modifications which create material substantive differences in the approach towards ISSB reporting in a particular jurisdiction, which inhibit or prevent comparability with ISSB reporting in other jurisdictions.



d. Objective of this report

This report aims to provide actionable recommendations for a globally consistent and effective adoption of the ISSB Standards, supporting the IRSG's mission to enable investors and finance providers to allocate capital towards sustainable investments.

In order to achieve this objective, this report:

- **Considers global approaches to adoption of the ISSB Standards.** Drawing upon the *Inaugural Jurisdictional Guide for the adoption or other use of ISSB Standards*[2] developed by the IFRS Foundation ("**IFRS**"), Section 3 explores global themes of ISSB adoption and divergent approaches to adoption. It also provides a comparative analysis of key differences between the ISSB framework and the approaches taken by the EU (which has adopted an alternative framework) and the U.S. (which has not committed to adopting the ISSB Standards).
- **Analyses in depth the approach towards adoption of the ISSB Standards in a number of key jurisdictions.** Through jurisdictional case studies of Australia, Brazil, Canada, Hong Kong, Japan, South Africa, Türkiye and the UK, Section 4 summarises the specific approach taken in those jurisdictions to adopt the ISSB Standards and the jurisdictional divergences that emerge from them.
- **Sets out the key issues and themes of ISSB Standards adoption:** Drawing on insights from the jurisdictional case studies, Section 5 sets out the issues and themes of global ISSB adoption most relevant to financial services firms and corporate entities. It examines jurisdictional modifications and transition reliefs that significantly impact these sectors, as well as enforcement and enforceability of the ISSB Standards in light of the legal nature of the reporting requirements in relevant jurisdictions.
- **Provides a set of recommendations for national governments, legislators, regulatory and enforcement bodies, and the ISSB.** The report outlines recommendations aimed at fostering the adoption of ISSB Standards in a manner that ensures global consistency and interoperability across various jurisdiction-specific frameworks and regulations. Minimal divergence, which is the recommended approach to global ISSB adoption, may be achieved via use of transition reliefs or tolerable jurisdictional modifications.

2 https://www.ifrs.org/content/dam/ifrs/supporting-implementation/adoption-guide/inaugural-jurisdictional-guide.pdf

SECTION 3
GLOBAL ADOPTION OF ISSB STANDARDS

a. ISSB Jurisdictional Guide

Recognising the importance of the widest adoption of the standards, the IFRS Foundation actively supports global regulators in timely ISSB adoption. A pivotal aspect of this effort is its collaboration with the International Organization of Securities Commissions (IOSCO), which has endorsed the ISSB Standards across its 130 jurisdictions following a rigorous independent review. This endorsement underscores the standards' potential to harmonise sustainability reporting on a global scale, ensuring that disclosures are transparent, comparable, and reliable.

In May 2024, the IFRS Foundation introduced the "Inaugural Jurisdictional Guide for the adoption or other use of ISSB Standards", which aims to promote globally consistent and comparable sustainability-related disclosures, underscoring the need for transparent capital markets. The Guide is intended to serve as a resource for jurisdictions planning to adopt or integrate ISSB Standards into their regulatory frameworks, providing transparency for market participants and regulators to monitor progress. Given that approaches to sustainability-related disclosures will evolve over time, the Guide was designed to be dynamic and updated to reflect ongoing developments beyond IFRS S1 and IFRS S2, ensuring its continued relevance.

The Guide is structured into three sections:

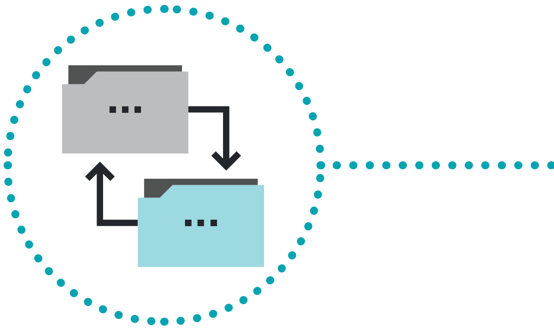
- **Section 1** outlines the journey towards adopting or using ISSB Standards, offering information to assist jurisdictions in their planning. This section provides a roadmap for understanding the necessary steps and considerations involved in the adoption process.
- **Section 2** describes the Regulatory Implementation Programme, detailing the IFRS Foundation's support for regulators in designing adoption pathways. This programme includes resources, training, and technical assistance to ensure a smooth transition.
- **Section 3** focuses on the features and descriptions of jurisdictional approaches, summarising progress and providing transparency to stakeholders, highlighting diverse strategies, and offering insights into emerging trends and best practices.

To complement the Guide, the IFRS Foundation plans to develop Jurisdictional Profiles, offering insights into the status and progress of sustainability-related disclosure requirements within individual jurisdictions. These profiles will be prepared once a jurisdiction's approach to adopting or using ISSB Standards is formally announced or finalised, enhancing transparency and comparability.
By documenting unique approaches and timelines, these profiles facilitate a deeper understanding of global trends and challenges in sustainability reporting.

In November 2024, the IFRS Foundation released the 'Progress on Corporate Climate-related Disclosures' report, highlighting the transition from TCFD to ISSB Standards. The report notes a shift to ISSB Standards, with 1,000+ companies referencing them from October 2023 to March 2024. By September 2024, 30 jurisdictions, accounting for 57% of global GDP and more than half of global greenhouse gas emissions, had adopted or had announced plans to adopt the ISSB Standards. Jurisdictions with pre-existing TCFD-aligned requirements, along with new adopters, are incorporating these into their regulatory frameworks. The report concludes with optimism about the ongoing transition to ISSB Standards, emphasising the need for continued jurisdictional support and regulatory alignment to meet the evolving needs of investors and stakeholders.

To enhance the framework for sustainable finance, the IRSG recommends a coherent ISSB implementation approach for standard setters and the UK government. By complementing the objectives of the Jurisdictional Guide and providing additional arguments for the benefits of coherent adoption of ISSB Standards, this report aims to strengthen the case for consistent implementation, addressing the risk of fragmented global markets due to differing national regulatory approaches.

This report also considers corporate implementation of the standards across jurisdictions, placing particular emphasis on assessing implementation of ISSB Standards in the financial services industry. To support this work, IRSG conducted a factual comparison of the different enforcement mechanisms across jurisdictions, introducing a deeper layer of analysis and expanding upon the IFRS Foundation's Jurisdictional Profile.



b. Balancing the needs of "preparers" and investors

In preparing the ISSB Standards, the ISSB considered proportionality, scalability, and the varying capabilities and preparedness of entities worldwide. In particular, in its July 2023 paper "The jurisdictional journey towards implementing IFRS S1 and IFRS S2 – Adoption Guide overview[3]", the ISSB noted that it was trying to balance *"preparers' needs and their state of readiness with investors' need for enhanced transparency and comparability with respect to the [sustainability-related] information on which they base their investment decisions."*

3 https://www.ifrs.org/content/dam/ifrs/supporting-implementation/adoption-guide/adoption-guide-overview.pdf

Balancing these considerations lead to the inclusion of transition reliefs (discussed above) within the ISSB Standards that support the phasing-in and scaling of the disclosure requirements as well as proportionality provisions to support application by companies with limited capacity or experience, or those in developing and emerging economies. The ISSB has sought to address proportionality by introducing the concepts of *'reasonable and supportable information that is available at the reporting date without undue cost or effort'* as well as the concept of *'the skills, capabilities and resources available to the entity'*. The ISSB Standards also allow preparers to apply qualitative approaches instead of quantitative approaches in some instances.

Whilst the inclusion of these provisions in the ISSB Standards themselves is undoubtedly helpful, they may not sufficiently address implementation challenges in individual jurisdictions. This is clear from the variety of approaches to implementation in the jurisdictions covered in this report.

c. Capacity building

The IFRS Foundation's role extends beyond just setting standards. Through its Partnership Framework, it supports capacity building to enable effective implementation of sustainability disclosures. It aims to establish a global baseline by providing advisory services, education and tools, with a special focus on developing and emerging markets.

A notable example of such a partnership is the collaboration between the International Finance Corporation (IFC) and the IFRS Foundation to establish a strategic partnership aimed at strengthening sustainable capital markets by enhancing sustainability and climate reporting in emerging markets and developing economies (EMDEs). This collaboration will focus on implementing programs to build capacity for the consistent application of the IFRS Standards across EMDEs. This includes developing toolkits, research publications, and conducting training programs to encourage sustainability reporting. Additionally, the partnership plans to provide technical assistance and tailored support to help jurisdictions adopt and implement these Standards effectively, leveraging IFC's successful initiatives in Bangladesh and Jordan and building on its efforts through programs like Beyond the Balance Sheet and the Sustainable Banking and Finance Network (SBFN).

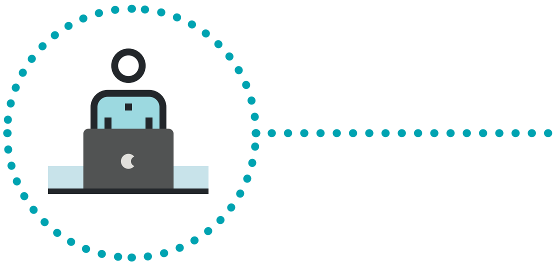
In addition, the IFRS Foundation has also partnered with the United Nations Development Programme (UNDP), the Global Reporting Initiative (GRI), GSG Impact, and the International Organisation for Standardization (ISO) to establish Sustainability Disclosure and Management Hubs (SDMHs) which will support the adoption of the IFRS Standards. These hubs will operate in collaboration with UNDP Financial Centres for Sustainability across 14 developing and emerging economies in Latin America, the Caribbean, Africa, and Asia during 2024 and 2025. The projects will focus on capacity building, aligning with national development priorities, providing stock exchange guidance, and developing regulations.

d. Alternatives to adoption of the ISSB standards

Whilst many jurisdictions have implemented or have plans to implement the ISSB Standards, the EU and the US have taken a different approach.

EU approach

For the purposes of this report, in considering the EU's approach to sustainability reporting we are going to start with the Non-Financial Reporting Directive (NFRD). The NFRD was published in the Official Journal on 22 October 2014 and was implemented by member states for FYs starting on/after 1 January 2017 and in July 2017. The EU Commission published guidelines to assist companies in preparing their non-financial disclosures "*with a view to facilitating relevant, useful and comparable disclosure of non-financial information by undertakings*". In June 2019 the EU issued a "Supplement on reporting climate-related information", which integrated the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.



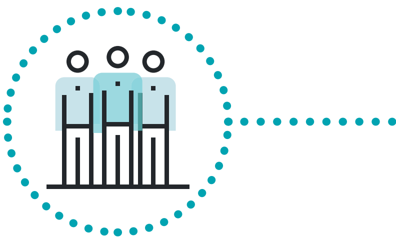
In 2021, the EU Commission published a report setting out its findings from a review of the EU framework for public reporting by companies which identified problems with the effectiveness of the NFRD, including:

- non-disclosure of material information on all major sustainability-related topics;
- limited comparability and reliability of sustainability information;
- lack of understanding of the double materiality perspective;
- insufficient breadth of undertakings in scope.

In 2022, the EU adopted the Corporate Sustainability Reporting Directive (CSRD), to address the identified problems with the NFRD. The CSRD came into force on 5 January 2023 and EU and EEA Member States had until July 2024 to transpose it into their national laws (although as at the date of this report a significant number of member states have not completed the transposition and are subject to EU infringement proceedings[4]). The first wave of companies are due to report for financial years starting on or after 1 January 2024.

The CSRD aims to ensure disclosure of reliable, comparable, and relevant information regarding sustainability risks, opportunities, and impacts. To achieve this, it mandates:

- Double materiality assessment: Companies must assess both the impacts of their activities on people and the environment as well as how sustainability matters affect their activities to determine relevant information.



4 https://ec.europa.eu/commission/presscorner/detail/en/inf_24_4661

- Reporting standards: Disclosure must follow the European Sustainability Reporting Standards (ESRS) for consistency and comparability across reports.
- Audit requirement: Initial reports will require limited assurance auditing to enhance the reliability of information disclosed, moving to reasonable assurance in the future.

As companies face global sustainability disclosure requirements, EFRAG and ISSB collaborated to align ISSB Standards with ESRS, in particular in relation to the financial materiality test (see below). In May 2024, the IFRS Foundation and EFRAG published Interoperability Guidance[5] to illustrate the alignment achieved between the ISSB Standards and the ESRS and how a company can apply both sets of standards, including detailed analysis of the alignment in climate-related disclosures. In relation to the guidance, Emanuel Faber, Chair ISSB, said *"Thanks to our deep collaboration with EFRAG, companies can use our joint guidance as a module for providing the global baseline while also providing incremental disclosures required within the European Union."*

In the European Commission's Q&A on the adoption of the ESRS, the Commission confirms that *"Companies that are required to report in accordance with ESRS on climate change will to a very large extent report the same information as companies that will use the ISSB standard on climate-related disclosures. Climate change disclosures under ESRS will provide additional information on impacts relevant for users other than investors such as business partners, trade unions, social partners, and academics."*

ISSB financial materiality vs EU double materiality

A mentioned above, EFRAG and ISSB have worked together to make the financial materiality tests consistent. Section 1.1 of the Interoperability Guidance explains this as follows:

"Under ISSB Standards, materiality is judged on the basis of whether omitting, misstating or obscuring that information could reasonably be expected to influence decisions of primary users of general-purpose financial reports, which provide information about a specific reporting entity (see paragraphs 18 and B13 of IFRS S1).

Under ESRS, a sustainability matter is material when it meets the criteria defined for impact materiality or financial materiality, or both (see paragraph 28 of ESRS 1). On financial materiality, paragraph 48 of ESRS 1 states in particular that information is considered material for primary users of general-purpose financial reports if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's sustainability statement. 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 therefore aligned between the two sets of standards."

5 https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/ESRS-ISSB%20Standards%20Interoperability%20Guidance.pdf

The Guidance also notes that:

"The requirements for assessing the materiality of information and therefore for supporting the identification of the information to be reported on a material matter (see paragraph 31 of ESRS 1) is expected, in most cases, to rely on decision-usefulness. Decision-usefulness is the basis for the definition used in IFRS S1 to identify the information to be reported as material (see paragraph 18 of IFRS S1). While in ESRS the double materiality assessment of what is decision-useful considers both investors and other stakeholders (including in relation to impact materiality), in ISSB Standards this assessment is focused on the information needs of investors. On financial materiality, the two assessments are expected to provide an aligned outcome."

On 26 February 2025, the European Union released the Omnibus Simplification Package[6], introducing adjustments to CSRD implementation timelines, ESRS compliance obligations, and assurance requirements. These changes may affect the alignment of ISSB and ESRS materiality assessments and the timeline for mandatory sustainability disclosures in the EU. While the package aims to reduce the reporting burden, it is essential for stakeholders to assess potential divergences in global sustainability reporting frameworks and ensure continued interoperability between ISSB and EU regulatory standards.

US approach

In March 2024 the Securities and Exchange Commission (SEC) issued its final Climate Disclosure Rule which SEC Chair Gary Gensler said will provide *"investors with consistent, comparable, decision-useful information, and issuers with clear reporting requirements"*. When the SEC first proposed the rule in 2022, it noted that US registrants had been disclosing climate-risk related information for some time, although mostly outside of their public filings and not to a consistent standard and sought to justify the proposed rule based on existing authority and practice. In fact, the SEC referred to the proposal as the "Enhancement and Standardization of Climate-Related Disclosures" rather than a new climate disclosure rule. However, this did not stop the rule being almost immediately stayed pending litigation[7].

The SEC's final rule would require domestic and foreign registrants to include certain climate-related information in their registration statements and periodic reports, such as on Form 10-K. The proposed rules are limited to climate and do not address broader sustainability or biodiversity topics. The SEC's rule aligns with the disclosure frameworks in the TCFD, rather than the ISSB Standards, and the Greenhouse Gas Protocol. They include the following categories of qualitative and quantitative disclosures:

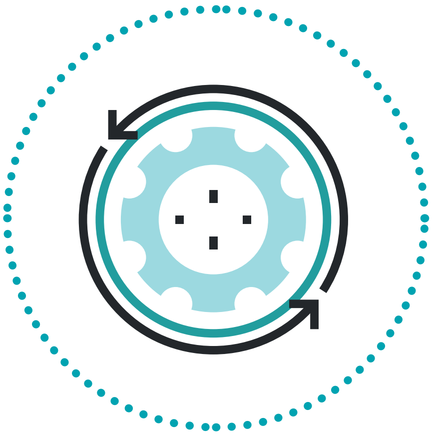
- Disclosure of climate-related risks and their actual or likely material impacts on the registrant's business, strategy, and outlook;

6 European Commission, Omnibus Simplification Package, 26 February 2025

7 https://www.sec.gov/files/rules/other/2024/33-11280.pdf

- Disclosure of the registrant's governance of climate-related risks and relevant risk management processes;
- Quantitative disclosure of the registrant's greenhouse gas (GHG) emissions, which, for accelerated and large accelerated filers and with respect to certain (Scope 1 and 2) emissions, would be subject to assurance requirements that would be phased-in.
- Information about climate-related targets and goals, and transition plan, if any; and
- Inclusion of footnotes to its audited financial statements regarding severe weather and other natural conditions (such as hurricanes, tornadoes, flooding, drought, wildfires etc) financial statement effects, carbon offset and renewable energy credit information and estimates and assumptions.

However, the re-election of former president Donald Trump and the Republican sweep of Congress have given de-regulatory forces control over the US federal legislative and administrative levers of power. The Securities and Exchange Commission (SEC) has indicated that it is withdrawing its support for its Climate Disclosure Rule.[8]

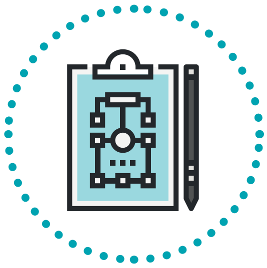


8 https://www.sec.gov/newsroom/speeches-statements/uyeda-statement-climate-change-021025

SECTION 4
JURISDICTIONAL CASE STUDIES

Table 2 of the IFRS Inaugural Jurisdictional Guide for the adoption or other use of ISSB Standards summarises the features the IFRS Foundation considers to inform and describe jurisdictional approaches towards the introduction of sustainability-related disclosure standards, including the adoption or other use of ISSB Standards. These features are:

- Regulatory or legal standing
- Degree of alignment
- Targeted entities – publicly accountable entities
- Publicly accountable entities – market segments
- Placement of disclosures
- Reporting entity
- Dual reporting
- Effective date
- Transition reliefs
- Jurisdictional modifications
- Additional disclosure requirements.



These features formed the basis of the jurisdictional questionnaire used in this report, with additional questions on legal frameworks and enforcement. Following preparation of the template jurisdictional questionnaire, it was completed by Clifford Chance in relation to how the UK had approached implementing the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations and recommended disclosures across the UK economy. This case study provides some insights into how the TCFD disclosures were phased in over time with a supervisory/regulatory approach for companies that was designed to set them up for success. This may be helpful for jurisdictions that are implementing sustainability-related disclosures for the first time. The approach to implementation is discussed further below and the completed template is included in **Annex 1**.

Case study – UK implementation of TCFD disclosures

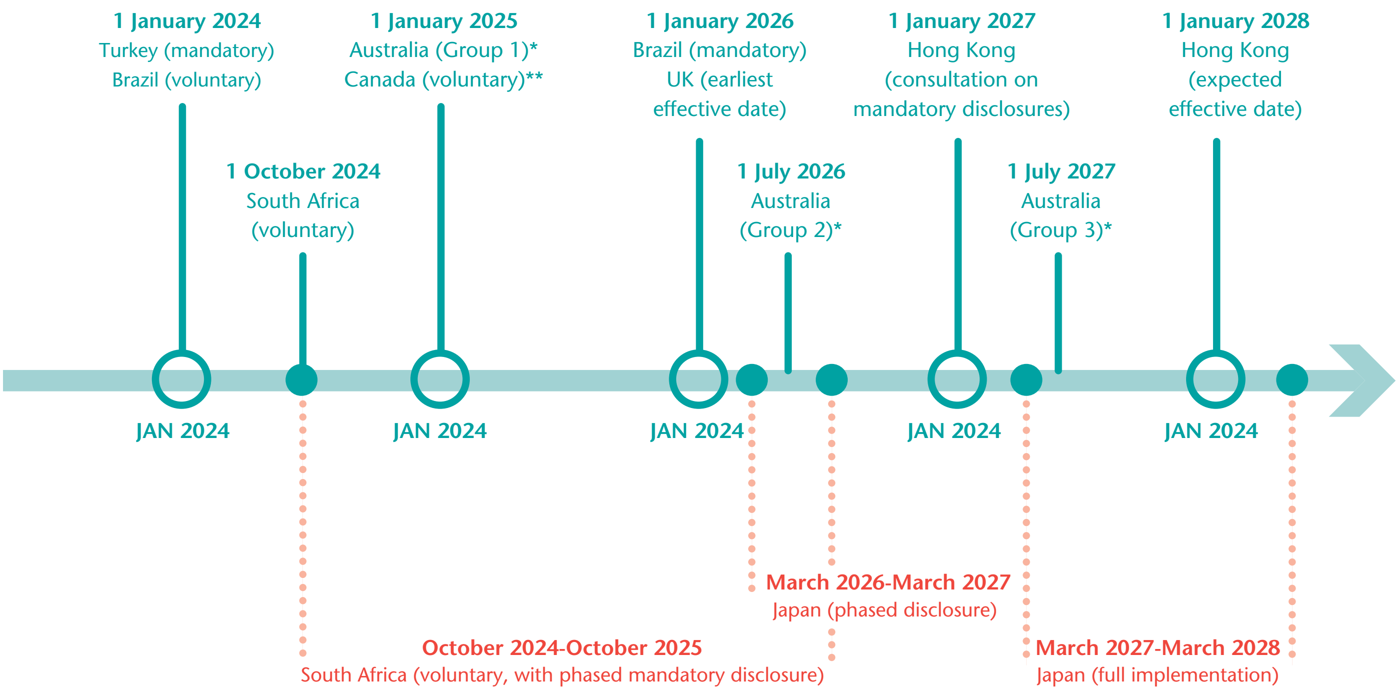
The UK's approach to implementation of the TCFD disclosures included the following helpful features:

- **Clear timetable for implementation** – the UK Government's 2019 Green Finance Strategy included an expectation that all listed companies and large asset owners would disclose in line with the TCFD recommendations by 2022. This timetable was updated in November 2022 when the UK TCFD taskforce (set up under the Green Finance Strategy) published its Roadmap towards mandatory climate-related disclosures setting out an indicative path over the next five years, with a significant proportion of mandatory requirements in place by 2023.
- **Requirements phased-in over time, with the most economically significant entities reporting first** – for example, in relation to UK incorporated companies, the requirement to make TCFD disclosures applied to premium listed companies first, then to standard listed issuers, and then to certain large companies.
- **Some flexibility in the compliance basis** – for example, the listing rule requirements were introduced on a 'comply or explain' compliance basis, whereas the companies act requirements were introduced on a mandatory compliance basis, but allowing certain disclosures to be omitted if the directors reasonably believe that they are not material.
- **Regulatory guidance about expected disclosures, acknowledging that companies may need additional time to be able to make all TCFD recommended disclosures** – the UK listing authority gave guidance highlighting which of the TCFD recommended disclosures a listed company should ordinarily be able to make (all of the disclosures on governance and risk management plus points a and b of strategy to the extent not facing transitional challenges in obtaining relevant data or embedding relevant modelling or analytical capabilities).
- **Clear supervisory statement about approach to enforcement** – for example, in relation to listed companies the UK listing authority and the reporting regulator developed a supervisory approach (set out in Primary Market Bulletin 36 in November 2021) which was designed to 'set issuers up to succeed'. This approach recognised that to raise levels of compliance their efforts should be focussed on raising awareness of the new rules and guidance and improving the quality of disclosures (by undertaking thematic reviews of disclosures to highlight areas of good practice and areas for improvement).

Implementation of ISSB Standards

On 12 November 2024, the IFRS Foundation published a report on progress on corporate climate-related disclosures (having taken over responsibility for monitoring this from the Taskforce on Climate-related Financial Disclosures). The report considers early and/or voluntary corporate reporting against the ISSB Standards (S1 and S2) and progress made by over 20 jurisdictions towards adopting the ISSB Standards for use in their legal and/or regulatory frameworks. This report builds on that analysis and considers how the following eight jurisdictions: Australia, Brazil, Canada, Hong Kong, Japan, South Africa, Türkiye and the UK have implemented or are planning to implement the ISSB Standards.[9]

TIMELINE
Implementation of ISSB (or equivalent) standards in various jurisdictions



* In Australia compliance with AASB S1 is voluntary whereas compliance with AASB S2 is mandatory

** In Canada the securities regulator anticipates adpoting only those parts of the local standards (based on S1 and S2) that are necessary for climate-related disclosures

9 The information contained in this report for each jurisdictional case study is accurate as of 31 December 2024

Australia

- Local standards based on IFRS S1 and S2 (AASB S1 and S2).
- AASB S1 is voluntary whereas AASB S2 is mandatory – this goes further than the ISSB transitional relief which allows for climate only reporting for the first year. Australia had not implemented TCFD disclosures prior to implementing the ISSB Standards.
- The requirements apply to all categories of publicly accountable entities (not just listed companies).
- The requirements are applied to the largest/most economically significant entities first (group 1 companies reporting for FYs starting on/after 1 January 2025; group 2 for FYs starting on/after 1 July 2026; and group 3 for FYs starting on/after 1 July 2027).
- ASSB S2 requires companies to conduct at least two scenario analyses – one aligned with 1.5˚C warming and one where warming 'well exceeds' 2˚C.
- Companies that do not comply with the requirements of AASB S1 are subject to civil penalties for non-compliance. Companies may also have statutory civil liability to third parties (e.g. shareholders) for misleading or deceptive conduct and/or false or misleading statements. However, there is a regulator-only enforcement period imposed for the first three years of mandatory climate-reporting under ASSB S1 (i.e. no civil liability to third parties during this period).

COMMENTARY

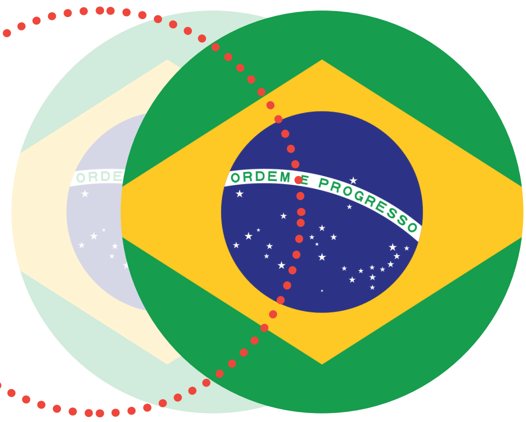
This regulator only enforcement period is a really interesting approach and will provide companies and their directors with time to improve the quality of disclosures, to respond to regulator feedback on what is expected etc. Other jurisdictions, particularly those which have not previously implemented TCFD disclosure requirements, may wish to consider putting in place a similar regime.

Brazil

- The Brazilian Securities and Exchange Commission (**CVM**) has approved guidelines for sustainability disclosures, following the conclusion of a public consultation process led by the Brazilian Committee for Sustainability Pronouncements (**CBPS**). These guidelines have been enacted through Resolutions CVM n° 217 and 218, which mandate the adoption of CBPS Technical Pronouncements No. 01 and 02 for publicly held companies.
- The CBPS Technical Pronouncements aim to integrate local standards and market conditions with explicit references to IFRS S1 and S2, incorporating modifications approved following the consultation process.
- Voluntary disclosure for publicly held companies, investment funds and securitization companies from 1 January 2024.
- Mandatory disclosure for publicly held companies from 1 January 2026.

COMMENTARY

This approach is interesting because it allows companies to voluntarily report against the ISSB Standards and to develop their disclosures for two years before they are required to report.



Canada

- The Canadian Sustainability Standards Board (**CSSB**) released its local standards based on the ISSB Standards (**CSDS 1** and **CSDS 2**) on 18 December 2024 – with the following transition reliefs:
  - Effective for FYs starting on/after 1 January 2025 (a one-year delay).
  - Two years of relief for disclosures beyond climate (a one-year extension, plus associated amendments to comparative information).
  - Three years of relief for the start of aligned reporting, with such reporting being required within the first nine months following the first year-end and within the first six months following the second and third year-end respectively (a two-year extension).
  - Three years of relief for disclosure of Scope 3 GHG emissions (a two-year extension).
  - Three years of relief for the quantitative aspects of scenario analysis data reporting (not the qualitative aspects).
- CSDS 1 and CSDS 2, along with their supporting bases for conclusions, are now part of the CPA Canada Handbook – Sustainability.
- The CSSB standards are voluntary and non-binding and it is up to the relevant regulatory bodies (such as prudential and securities regulators) to make decisions on mandating them for use. As of 31 December 2024, no type of entity (i.e., public/listed companies, regulated financial institutions, etc.) had yet been subject to CSDS 1 and CSDS 2.
- In March 2024, the Canadian prudential regulator (**OSFI**) for federally regulated financial institutions (which includes all banks operating in Canda), published updates on its Guideline B-15: Climate Risk Management. The updates include expectations for minimum mandatory climate-related financial disclosure that align with the ISSB's final IFRS S2. Annex 2-2 to the Guideline B-15 sets out baseline disclosure expectations for different categories of federally regulated financial institutions as well as a timeline for implementation. Annex 2-2 organises the disclosure expectations into four principal categories, mirroring the core content of IFRS S2:

COMMENTARY

Canada's focus on introducing climate-related disclosures first is similar to Australia's approach. This will give reporting entities time to develop their climate-related disclosures, but may limit information available to investors on other sustainability-related topics. Canada could perhaps consider making modifications to the liability regime, as Australia has done, to address concerns over an increased risk of liability for directors and companies from making these disclosures.

Governance, Strategy, Risk Management, and Metrics and Targets and, for each category prescribes distinct climate-related disclosure.

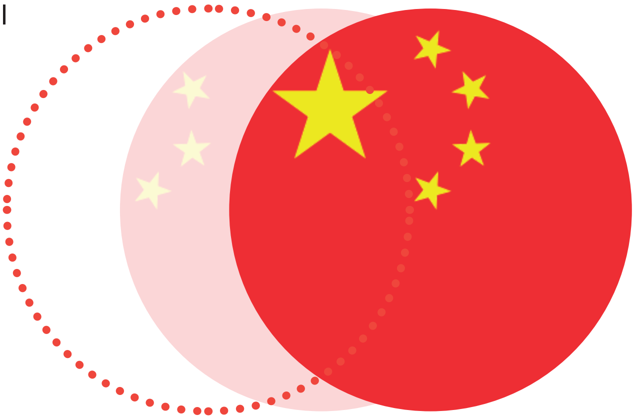
- In July 2024, the Autorité des marchés financiers (**AMF**), the regulatory and oversight body for Québec's financial sector, published its *Climate Risk Management Guideline* which aims to harmonize its expectations for the sound management and disclosure of climate-related risks for financial institutions constituted under Québec law with OSFI's Guideline B-15.
- In October 2024, the federal government of Canada announced that it is moving forward with mandating climate-related financial disclosures for large, federally incorporated private companies. To this end, the federal government will launch a regulatory process to determine the substance of these disclosure requirements and the size of private federal corporations that would be subject to them. Such a regulatory process had not been launched as of 31 December 2024, the effective date of these mandated climate-related financial disclosures is unknown.
- On 18 December 2024, immediately following the publication of the local standards CSDS 1 and CSDS 2, the Canadian Securities Administrators (**CSA**), the council of the securities regulators of Canada's provinces and territories, issued a market update on its climate-related disclosure project. The CSA announced that it will publish a revised version of its climate-related disclosure rule (proposed National Instrument 51-107 – *Disclosure of Climate-related Matters*, initially published for consultation in October 2021). The revised rule will consider CSDS 1 and CSDS 2 and may include modifications appropriate for the Canadian capital markets. The CSA is taking a climate-first approach and therefore is focusing only on the requirements of the local standards that are necessary to support climate-related disclosures.

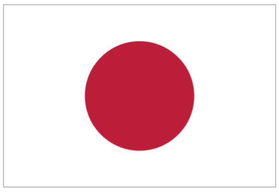
Hong Kong

- In March 2024 the HKSAR Government published a vision statement, setting out the approach of the HKSAR Government and financial regulators towards developing a comprehensive ecosystem for sustainability disclosures.
- On 10 December 2024, the HKSAR Government launched a roadmap on sustainability disclosure, setting out Hong Kong's approach to require publicly accountable entities ("PAEs", including Hong Kong listed entities) to adopt the ISSB Standards.
- The Hong Kong Institute of Certified Public Accountants is developing local sustainability reporting standards on a full alignment basis with the ISSB Standards, together with application and implementation guidance.
- As far as Hong Kong listed companies are concerned, all Main Board issuers will be required to disclose against the new climate requirements, based on IFRS S2, on a "comply or explain" basis starting from 1 January 2025. Issuers that are Hang Seng Composite LargeCap Index constituents will be required to disclose against the new climate requirements on a mandatory basis starting from 1 January 2026.
- HKEX will consult the market in 2027 on mandating sustainability reporting against the Hong Kong Standards for listed PAEs, with an expected effective date of 1 January 2028 under a proportionate approach.
- Relevant financial regulators (HKMA, SFC,AFRC, MPFA and IA) will require financial institutions carrying a significant weight (being non-listed PAEs) to apply the Hong Kong Standards no later than 2028.
- The Government and financial regulators will promote sustainability assurance (to enhance credibility of disclosures) and facilitate the use of technological solutions such a digital tagging (to assist with comparability and interoperability of disclosures)

COMMENTARY

The roadmap will be helpful to HK market participants to enable them to plan. The phased approach and different compliance basis for disclosures are also likely to be helpful for listed issuers to help them develop their disclosures over time.





Japan

- The Sustainability Standards Board of Japan (SSBJ) is developing Sustainability Disclosure Standards based on IFRS S1 and S2.
- Sustainability disclosure requirements will only apply to entities whose shares are listed on the Prime Market of the Tokyo Stock Exchange (i.e. those companies that have international investors).
- The SSBJ draft does not include significant differences from IFRS S1 and S2, but there are some points proposed not to be adopted in Japan. These points are clearly set out in a table together with reasons for the divergence – for example due to pre-existing disclosure requirements that apply in Japan/to avoid duplication of effort by issuers.
- The local standards will be finalized by March 2025. A preparation period will follow, lasting from March 2025 to March 2026. Companies will begin phased disclosure from March 2026 to March 2027, with no assurance opinions required during this initial period. Full implementation will take place from March 2027 to March 2028. In Japan, this timeline aligns with the typical fiscal year, which runs from April to March.
- The Japanese securities regulator is actively sharing good practices in sustainability reporting. In the first year of sustainability disclosure enforcement in Japan, it is likely that delayed publication of sustainability information will be allowed, provided that financial information is disclosed earlier as required. Assurance opinions will likely be exempted in the first year.
- The scope of assurance, level of assurance, authority/qualification/licence to provide assurance, independence requirement, supervision on the assurance providers are still under discussion.

COMMENTARY

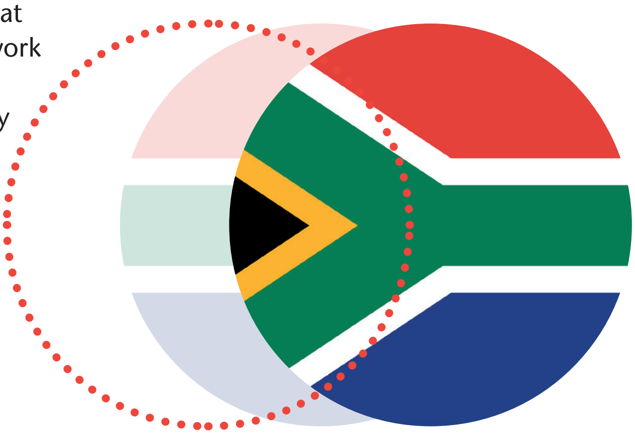
Highly consistent approach, with clear explanations for any divergence from the ISSB Standards and helpful steps taken to avoid duplication of effort by issuers. The phased approach to disclosure and assurance requirements, together with the sharing of good practice by the Japanese securities regulator, will allow issuers to develop their disclosures over time.

South Africa

- Whilst there are currently no mandatory ISSB disclosure requirements, South Africa seems to be moving towards the enactment and enforcement of a sustainability and climate-related disclosure framework. Should any such mandatory framework be enacted, it is anticipated that it will align with the ISSB standards, changed as may be necessary to cater for local context.
- This trend is evidenced by various guidance notes (based on early drafts of the ISSB Standards) including those published by the Johannesburg Stock Exchange and the Prudential Authority in relation to both climate and sustainability disclosures. The guidance notes aim to encourage voluntary reporting by (i) listed companies; and (ii) banks and insurers, respectively, in accordance with global standards and international best practice and, as indicated, draw on the TCFD requirements and the ISSB Standards.
- The Financial Sector Conduct Authority (**FSCA**) is currently working on a "*Framework for Disclosure regarding Sustainability*", which includes consideration of existing disclosure guidance, including the ISSB standards and the JSE Climate and Sustainability Guidance. The FSCA issued the Sustainable Finance Consumer Risk Report and Roadmap 2024 which outlines a sustainable finance regulation programme that is structured along five pillars, namely: (i) green taxonomy; (ii) disclosure, reporting and assurance; (iii) market development; (iv) active ownership; and (v) consumer education. The FSCA is investigating possible legislative interventions flowing from the programme, however no such proposals are indicated in the regulator's current regulatory 3-year plan (2024-2026).
- In October 2024 the Companies and Intellectual Property Commission introduced a voluntary regime to enable sustainability disclosures (which will be undertaken digitally at the same time as annual returns are submitted). The framework for such sustainability and climate-related disclosures is based on the ISSB standards. It is anticipated that mandatory compliance (at least for state-owned entities and public companies) will be phased in over the next two years.

COMMENTARY

Companies are being encouraged to report, through issue of guidance notes, to build the necessary reporting capacity and capabilities within their existing risk management and governance frameworks, then voluntary regime becoming mandatory for certain companies – i.e., state owned and public companies in next two years. Helpful to have a clear timeline to enable companies to prepare and clarification of enforcement/liability position.



Türkiye

- Türkiye's Public Accounting and Auditing Standards Authority (the "**PAASA**") has published Sustainability Disclosure Standards based on IFRS S1 and S2 (TSRS 1 and 2).
- Sustainability disclosure requirements will apply to a wide range of publicly accountable entities, including listed companies, large companies, regulated financial institutions etc. (with particular exceptions).
- TSRS 1 and TSRS 2 have the same transition reliefs as IFRS 1 and IFRS 2.
- TSRS disclosures should be made for accounting periods commencing on or after 1 January 2024.
- Türkiye supplemented its disclosure requirements with:
  - sectoral guideline implementations from Sustainability Accounting Standards Board (the "**SASB**"); and
  - local regulations specified in the Communiqué on Corporate Governance (the "**Communiqué**") requiring disclosure of information on corporate social responsibility activities, particularly regarding employees' social rights, occupational training, and other company activities with social and environmental impacts.

COMMENTARY

Highly consistent implementation. The PAASA has provided additional sectoral guides, voluntary reporting rules (such as GDS 3000), training materials, and online training sessions to assist companies. Consideration of modifications to the liability position and a light touch supervisory strategy could perhaps help to address any concerns about an increased risk of liability and encourage companies to make more decision-useful disclosures.

United Kingdom

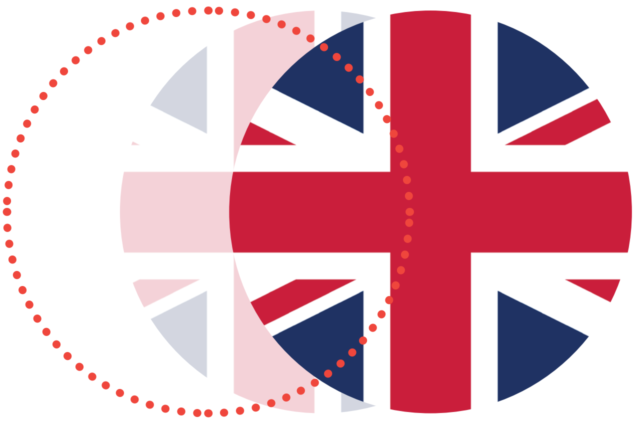
- The UK government has stated that it intends to endorse the ISSB Standards, to form UK Sustainability Reporting Standards (UK SRS), with the minimum changes necessary for the UK.
- The UK government first set out its timetable and framework for adopting the ISSB Standards in March 2023, and then updated this timeline in May 2024:
    - In Q1 2025, the UK Government aims to make the endorsement decision. The FCA will then consult on updating its listing rules.
    - In Q2 2025, the UK Government expects a decision regarding future requirements to be taken (e.g. new legislation), but any changes that may be introduced would be effective no earlier than accounting periods beginning on or after 1 January 2026.
- Sustainability disclosure requirements will apply to a wide range of publicly accountable entities, including listed companies, large companies, regulated financial institutions etc.
- In December 2024, the independent Technical Advisory Group (TAC) published its final recommendations to the Government. In advising endorsement, the TAC has also recommended minor amendments to IFRS S1 and IFRS S2. These include:
    - amending the financed emissions requirements in IFRS S2 so that entities are not required to use GICS (Global Industry Classification Standard) when disaggregating gross financed emissions by sector/industry classification but might use GICS or a different classification system they use for existing regulatory or financial reporting purposes.
    - amending the transition relief in IFRS S1 to extend the 'climate-first' reporting relief to up to two years (and therefore require disclosure of all sustainability-related risks and opportunities by the third year of reporting).
    - removing the transition relief in IFRS S1 paragraph E4 that permits an entity to report its annual sustainability-related financial disclosures after it has published the related financial statements in the first year of reporting.

COMMENTARY

Highly consistent approach. The TAC highlights the need for additional guidance from the ISSB and as to how the UK can transition from the current TCFD-aligned disclosure regime to the new ISSB-aligned regime. The TAC also flagged the need for a supportive supervisory approach. When implementing the ISSB Standards, UK regulators/legislators should consider the impact of the proposed new regulator (ARGA) and civil liability regime for directors for breach of reporting duties and whether concerns about an increased risk of liability for directors and companies, both as a result of being required to disclose more forward-looking and uncertain sustainability-related information pursuant to the ISSB Standards and as a result of the proposed new liability regime, could lead to less decision-useful disclosures. In particular, it may be helpful to consider extension of the statutory safe harbour in section 463 Companies Act 2006 to cover all sustainability-related disclosures, including transition plans, irrespective of where the disclosures are located.

  - removing the effective date in IFRS S1 and IFRS S2, as the effective date for mandatory reporting is for the UK Sustainability Disclosure Policy and Implementation Committee (PIC) to decide, and amending the wording for voluntary application of the standards.

- The TAC also requested additional guidance to ensure practical and effective implementation, including suggesting that the PIC develop guidance on implementing IFRS S1 to clarify how entities can align this standard with existing sustainability-related disclosure requirements under the current UK legal framework.
- The TAC highlights that the application of IFRS Sustainability Disclosure Standards will be an evolutionary process and recommends that, across the corporate reporting ecosystem, regulators consider ways of supporting stakeholders to achieve transparency and with the learning this process will entail. The TAC also recognises the importance of a post-implementation review to monitor practice as it develops and to understand whether any amendments to the standards are required in the future.



SECTION 5
KEY ISSUES AND THEMES OF ISSB STANDARDS ADOPTION

A number of key issues and themes emerge from the various jurisdictional implementation approaches we have analysed, which inform the recommendations in this report:

- **Production of local standards based on ISSB Standards.** All jurisdictions considered in this report have either:
  - published and implemented local standards (Brazil, Canada, Türkiye)
  - have published draft local standards based on the ISSB standards/published the conclusions of its technical review of the ISSB Standards including proposed modifications/transition reliefs (Australia, Japan, UK)
  - are planning to undertake a technical review of the ISSB standards/consult on the ISSB Standards (Hong Kong)
  - have issued guidance and introduced a voluntary regime, based on the ISSB Standards, to enable sustainability disclosures to be undertaken digitally (South Africa).

  No jurisdictions considered in this report have introduced disclosure requirements simply referring to the ISSB Standards. This is perhaps unsurprising as producing local reporting standards allows jurisdictions to include any modifications or extensions to transition reliefs that they consider appropriate. It also allows for all the disclosure requirements to be in one place, making it easier for users of the local reporting standards.

  The ISSB Standards are investor-focussed non-sector-specific sustainability reporting standards, designed for capital market use. IFRS S1 highlights this point, by setting out that its objective is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports (defined as being existing and potential investors, lenders and other creditors) in making decisions relating to providing resources to the entity. Accordingly, the ISSB Standards require that sustainability-related disclosures should be provided as part of an entity's general purpose financial reports, so that they complement and supplement the information in the financial statements. The ISSB Standards have therefore not been designed to be incorporated into sector-specific regulation (such as a bank or insurance prudential regulation), and doing so risks creating overlapping obligations and attaching a prudential supervisory and liability regime that is not appropriate for capital market-type disclosures.

RECOMMENDATION:

Jurisdictions should align local standards with ISSB, limiting modifications to essential local needs. (Owner: National Governments, Legislators)

Local standards should remain a standalone requirement and not be embedded into prudential reporting regimes to avoid dilution of ISSB objectives. (Owner: National Legislators)

- **Delay of the effective date.** For financial years starting on or after 1 January 2024, only Türkiye has implemented mandatory sustainability-related disclosures with Brazil expressly permitting use of the ISSB Standards on a voluntary basis (as part of its pathway towards mandatory disclosures for financial years starting on or after 1 January 2026). In other jurisdictions it may be possible for companies to voluntarily report against the ISSB Standards without this being expressly permitted – for example in the UK, the securities regulator has encouraged listed companies to familiarise themselves with the ISSB Standards ahead of future mandatory disclosure requirements.

RECOMMENDATION:

Provide a clear public timetable for endorsement and implementation, minimising delays where possible. (Owner: National Governments)

Promote voluntary early adoption of the standards to familiarise preparers with reporting requirements. (Owner: National Regulatory Bodies)

- **Extension of transition reliefs in the ISSB Standards.** Australia, Japan and the UK are currently proposing, and Canada has already adopted, extensions to some or all of the transition reliefs included in the ISSB Standards, typically extending the relief from one year to two years. While delays may frustrate investors, they give preparers more time to collect and verify complex data, such as Scope 3 emissions. This should ultimately produce fuller and more accurate disclosures, which is in the interest of investors and financial markets more generally.

RECOMMENDATION:

Where appropriate, extend transition reliefs for Scope 3 and non climate disclosures from one year to two years. (Owner: National Governments, Legislators)[10]

Require preparers to disclose available data and explain gaps during the relief period, along with plans for improving data quality. (Owner: National Regulatory Bodies, ISSB)

- **Climate-only reporting.** For listed companies, Australian and Canadian securities regulators are considering using the respective local standards, based on the ISSB Standards, to require disclosure of only climate-related information, with disclosure of other sustainability reporting remaining voluntary. Australia has previously proposed implementing rules requiring TCFD-aligned disclosures and subsequently amended these proposed rules to refer to the local standards based on the ISSB Standards. By taking a climate-only reporting approach, these jurisdictions are following the pathway that other jurisdictions have taken, such as the UK which implemented TCFD-aligned disclosures several years ago. This allows companies to improve reporting on this issue before broadening out reporting to other sustainability issues. As above, whilst this delay is potentially unwelcome to investors wishing to use non-climate sustainability-related information, it is likely to improve the quality of climate-related disclosures faster as companies will be able to focus their time and resources on this area. This approach should be aligned with the development of corresponding assurance standards, which could focus on assurance of climate-related disclosures before other sustainability reporting requirements.

10 Jurisdictions that have not previously implemented TCFD-based climate disclosures may consider a phased approach to extending transition reliefs, recognising their level of preparedness and existing reporting practices. However, jurisdictions with prior TCFD-based climate disclosures should not grant additional extensions.

RECOMMENDATION:

Adopt a phased approach, starting with climate related disclosures while setting clear timelines for integrating broader sustainability reporting requirements. (Owner: National Legislators, Regulatory Bodies)

Balance investor needs for data with preparers' capacity to produce reliable disclosures. (Owner: National Governments, ISSB)

- **Combining sustainability-related disclosures with the financial statements.** In most jurisdictions considered in this report, the transitional relief included in the ISSB Standards allowing delayed reporting of sustainability-related information (after the financial statements) in the first year has been included as drafted. This reflects the fact that many companies may have historically prepared separate reports published at different times, primarily to allow them more time to collect the non-financial data needed for this reporting. There is a similar transitional relief in the EU Corporate Sustainability Reporting Directive. However, in the UK, financial and non-financial reporting are required to be published in the same document (although companies may choose to publish additional voluntary sustainability reports separately/at different times), and so the UK is proposing to remove this transitional relief.

  Publishing sustainability-related disclosures alongside financial statements enhances transparency by highlighting interconnections between financial and sustainability-related risks and opportunities. This approach benefits investors by reducing the risk of omitting material non-public information. However, it may also pose challenges for preparers as they align reporting timelines.

RECOMMENDATION:

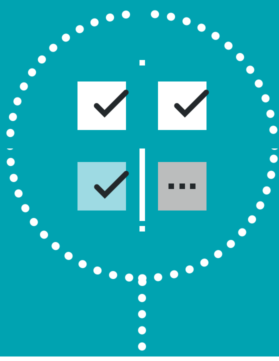
Mandate the inclusion of sustainability disclosures within the same reporting framework as financial statements, where feasible. (Owner: National Legislators, Regulatory Bodies)

- **Materiality and sustainability risk definitions.** There is currently a lack of clarity and consistency on the correct approach towards conducting materiality assessments and defining sustainability-related risks. Whereas the EU has provided guidance on the CSRD materiality assessment[11], the ISSB Standards provide companies with more flexibility, meaning national regulators are at liberty to introduce national approaches (in this regard, we note that the UK already has resources providing guidance on materiality assessments and the definition of sustainability-related risks, which could serve as examples for other jurisdictions). While this flexibility may be advantageous in some cases, it could lead to inconsistencies in reporting. Additional guidance on these aspects from the ISSB would help align companies' decisions on what constitutes a sustainability risk and how to perform effective materiality assessments.

RECOMMENDATION:

Provide additional guidance on performing materiality assessments and defining sustainability risks. (Owner: ISSB)

Clarify the relationship between ISSB materiality concepts and jurisdiction-specific frameworks, such as the EU s ESRS, to support consistent application. (Owner: ISSB, National Governments)



- **Assurance.** Assurance requirements for sustainability-related disclosures made in accordance with the ISSB Standards (or local reporting standards based on the ISSB Standards) have been left to the discretion of the implementing jurisdictions. In the IFRS Foundation's Progress on Climate-related Disclosures Report[12], the position in relation to assurance for the jurisdictions considered in this report is as follows:

  - **AUSTRALIA** – Proposed limited assurance for some disclosures in the first year of reporting progressing to reasonable assurance for all disclosures in the fourth year of reporting, based on the Proposed Australian Standard on Sustainability Assurance published by the Auditing and Assurance Standards Board published in September 2024.

  - **BRAZIL** – In accordance with the standards issued by the Federal Accounting Council sustainability-related financial disclosures are subject to assurance by an independent auditor registered with the CVM: (a) limited assurance until

11 https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/IG%201%20Materiality%20Assessment_final.pdf

12 https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/progress-climate-related-disclosures-2024.pdf

the end of FY 2025; and (b) reasonable assurance from FY 2026.

- **CANADA** – Not yet known.
- **HONG KONG** – The Accounting and Financial Reporting Council will lead the development of local sustainability-related assurance and ethics standards, taking into account the latest global developments, such as relevant discussions at the IAASB and International Ethics Standards Board for Accountants.
- **JAPAN** – Assurance is expected to be required for listed companies required to apply the local reporting standards.
- **SOUTH AFRICA** – Not yet known.
- **TÜRKIYE** – Assurance required from FY 2025.
- **UK** – No assurance required, but companies may choose to obtain assurance.

Whilst assurance can enhance the reliability of sustainability-related disclosures, allowing different jurisdictions to set their own assurance requirements (both as to timing and level of assurance – limited or reasonable – and what each of these standards actually entails) may negatively impact the consistency and comparability of these disclosures. Accordingly, it could perhaps be helpful for the IFRS to provide additional guidance on what it considers the best approach so that jurisdictions can take a more uniform approach. For example, if the IFRS were to recommend assurance, it would seem sensible to phase this in over time, starting with limited assurance and moving to reasonable assurance in the future, as the EU has done in relation to CSRD.

RECOMMENDATION:

Develop ISSB guidance to standardise assurance requirements (e.g., transition from limited to reasonable assurance). (Owner: ISSB)

Adopt assurance requirements consistent with any guidance issued by the ISSB, starting with limited assurance and moving to reasonable assurance over time. (Owner: National Governments)

- **Supervisory/enforcement approach by regulators.** Similar to assurance requirements, the supervisory/enforcement approach to sustainability-related disclosures made in accordance with the ISSB Standards (or local reporting standards based on the ISSB Standards) have been left to the discretion of the implementing jurisdictions. Whilst none of the jurisdictions considered in this report have publicly announced a supervisory strategy in relation to sustainability-related disclosures, it seems likely that many of them will adopt a supervisory strategy similar to that of the FCA in the UK in relation to TCFD-aligned disclosures. This supervisory strategy focussed on building capacity and setting companies up for success, and seems to have been successful in improving the quality of TCFD disclosures made by UK listed companies[13].

RECOMMENDATION:

Encourage jurisdictions to adopt supervisory strategies that focus on capacity building during initial implementation phases. (Owner: National Regulatory Bodies)

Adopt enforcement approaches similar to the UK s phased model for TCFD aligned disclosures. (Owner: National Regulatory Bodies)

- **Issuer/director liability.** In most jurisdictions considered in this report, there was no change to issuer/director liability, for example in relation to false or misleading statements included in ISSB-aligned sustainability-related disclosures, presumably on the basis that there was sufficient protection for directors and issuers already in place. However, in Australia the position will be changed so that there is a regulator-only enforcement period imposed for the first three years of mandatory climate-reporting under ASSB S1 (i.e. no civil liability to third parties during this period) which provides additional protection for directors and issuers during this period.

RECOMMENDATION:

Introduce safe harbours during transitional periods to protect preparers from disproportionate liability. (Owner: National Legislators)

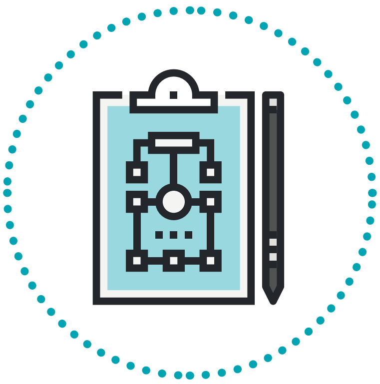
Clarify liability regimes to encourage open and transparent reporting. (Owner: National Legislators, Regulatory Bodies)

13 In its annual review of corporate reporting published in September 2024, the UK reporting regulator observed that "Climate-related reporting [is] becoming more well established"

RECOMMENDATIONS

Our recommendations listed in the previous section promote the uptake of the ISSB standards in a globally consistent manner to ensure the interoperability of the ISSB standards across the different jurisdiction-specific reporting frameworks and regulations that are in place or are in development globally. In making these recommendations, we recognise:

- the importance of the transposition of the ISSB Standards focusing on the desired outcome (i.e. decision-useful, consistent, comparable and reliable sustainability disclosures) and for jurisdictions to be mindful of this when considering their implementation approach;
- that the purpose of consistent, comparable, and decision-useful disclosure on sustainability and climate information is to enable investors and other stakeholders to understand how a company is managing its sustainability and climate-related risks and opportunities;
- sustainability disclosures present unique challenges compared to traditional financial disclosures. They often involve less certain and longer-term considerations, making the process inherently more complex. Scope 3 reporting, in particular, remains a persistent challenge due to data availability, reliability issues, and the complexities of mapping emissions across value chains, hence the importance of transition relief in ISSB adoption;
- that achieving the desired outcome will not be instant and that companies will need time to develop their approach. As disclosure practices are still developing, companies will need time to build the necessary systems, processes and expertise to meet these evolving standards effectively. To that end, governments/regulators should consider how best to create an environment where companies and their directors are willing to be more transparent about the challenges that they face and that concerns about liability do not prevent disclosure of decision-useful information about sustainability and climate-related risks; and
- that consistent, comparable, and decision-useful disclosures are more likely to be achieved through the transposition of the proportionality provisions, transition reliefs under the ISSB Standards and clear but flexible approaches to enforcement, which are adaptable to various companies and facilitate the development of their reporting capabilities – rather than through carve-outs from the substance of the reporting requirements.



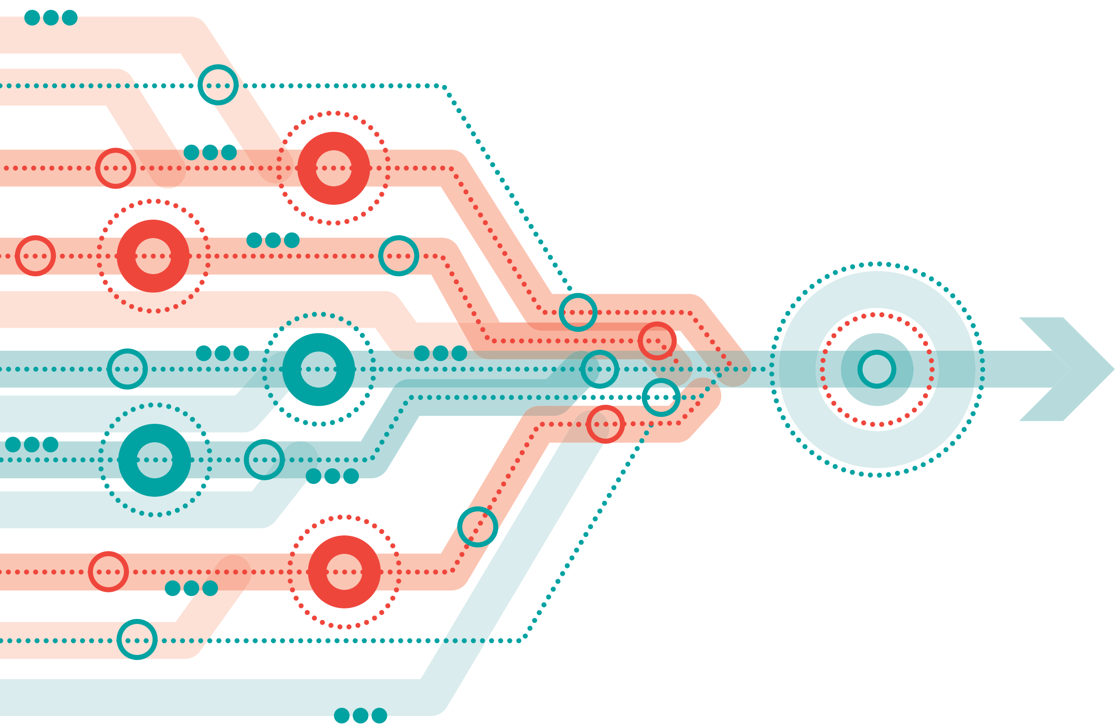
CONCLUSION

The effective adoption of the ISSB Standards is crucial to ensuring transparent, high-quality, and comparable sustainability-related financial disclosures worldwide. A consistent and internationally aligned approach will enhance investor confidence, facilitate capital flows, and support the transition to a more sustainable global economy. While many jurisdictions have taken significant steps towards implementation, further action is required to ensure coherence, minimise regulatory fragmentation, and maximise the impact of these standards.

The transition to ISSB-aligned reporting presents a major opportunity for businesses, investors, and regulators, providing a global baseline for sustainability disclosures. However, successful adoption requires close coordination between policymakers, standard-setters, and market participants. Key priorities include ensuring appropriate transition reliefs, fostering interoperability with existing regulatory frameworks, and promoting clear, practical implementation pathways.

This report has identified a set of recommendations to guide jurisdictions in their adoption of the ISSB Standards, focusing on minimising divergence, enhancing comparability, and supporting effective enforcement. By taking decisive action, governments and regulators can create a globally consistent sustainability reporting framework that drives informed investment decisions and accelerates the shift towards a more sustainable and resilient financial system.

Achieving widespread and reliable sustainability disclosures is essential to directing capital towards sustainable investments, improving climate risk management, and fostering long-term economic stability. To realise these benefits, jurisdictions must prioritise effective implementation, ensuring that the ISSB Standards fulfil their potential as the foundation for globally harmonised sustainability reporting.



For further information about this report, please contact
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With an overall goal of promoting sustainable economic growth, the IRSG seeks to identify opportunities for engagement with governments, regulators and European and international institutions to advocate an international framework that will facilitate open and competitive capital markets globally. Its role includes identifying strategic level issues where a cross-sectoral position can add value to existing views.

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