



## ISSB Sustainability Disclosure Standards:

### Who's In? Who's Out? Who Might be Surprised? (One of a Series)

The International Sustainability Standards Board (ISSB) released two Sustainability disclosure standards on June 26, 2023<sup>1</sup>. With many

developments in the Sustainability/ ESG space – and more on the horizon (notably an SEC climate disclosure rule), ISSB standards have received scant attention. Some companies may think it doesn't apply to them - but they could be surprised.



#### Who's In?

The International Accounting Standards Board (IASB) developed International Financial Reporting Standards (IFRS) for *financial reporting* and disclosures. IFRS has been adopted by 168 jurisdictions worldwide (not including the United States). ISSB<sup>2</sup> is an independent body that was formed to meet the demand for global sustainability standards.



The intended primary users of ISSB standards are existing and potential investors, lenders and other creditors. ISSB standards set forth requirements (“Shall” appears 118 times!) for sustainability disclosures in “general purpose financial reports.” For example, the purchase or sale of stock. Companies that use IFRS for financial reporting and trade equities in these jurisdictions are in scope for ISSB S1 and S2.

#### Who's Out?

Companies not incorporated where IFRS is used for financial reporting would not be in scope. For example, U.S.-based companies that trade stock only on U.S.

Private companies based in the U.S. would not be in scope.

But maybe ....



#### Who Might be Surprised?

ISSB S1 goes on to describe applicable decisions for those primary users. They include:

- Buying, selling, or holding debt instruments;
- Providing or selling loans and other forms of credit; or
- Exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources.

<sup>1</sup> S1 (General Requirements) and S2 (Climate-Related Disclosures)

<sup>2</sup> Readers may know SASB; ISSB assumed responsibility for SASB standards in August 2022.



ISSB S1 says the entire value chain – suppliers, customers - must be considered in determining applicability and preparing sustainability disclosures. [“Value chain” appears 23 times in S1.]

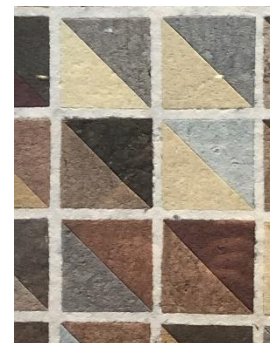
Consider these scenarios for a U.S.-based company, whether public or private.

- A non-US bank purchases a portfolio of loans that include one of yours.
- A US-based company relies on credit from suppliers to procure goods to enable its business.
- A US-based companies extends credit to distributors or vendors, who sell products on a commission or consignment basis.
- Business partners subject to S1 and S2 identify aspects of the disclosure standards that require data and information from their value chain – including your company.

Any of these business partners subject to ISSB may request data and information in ISSB disclosure topics, either in whole or in part. It matters not whether your company is public or private.

### What Next?

- 1) **Applicable?** Determine if they apply to your company - directly or indirectly. Involve Legal, Accounting and/ or Finance<sup>3</sup>.
- 2) **Read!** Read the ISSB S1 and S2 standards. The structure of these standards should look familiar, with sections on governance, strategy, risk management, and metrics and targets. This is consistent with TCFD<sup>4</sup>. These topics were also sections of the proposed SEC climate disclosure rule. These are essential components of any ESG/ Sustainability program, whether public disclosures to capital markets is required or not.
- 3) **Learn.** Become familiar with COSO’s recent supplemental guidance on Internal Controls over Sustainability Reporting (ICSR)<sup>5</sup>. COSO is the default framework to achieve confidence in financial reporting worldwide. COSO published the ICSR document to help preparers and users alike get onto the same page. Those not already familiar with the language of “internal controls” [Environmental, HR, Procurement, etc.] provide much of the information; they will do well to learn it.
- 4) **Begin.** Begin developing or improving your systems and controls to enable sustainability disclosures following S1 and S2. The standards kick in in 2024 – right around the corner. Regardless of the maturity of your organization’s current Sustainability disclosures and underlying programs, there will be work to do.



<sup>3</sup> Disclaimer: I’ve been involved in Sustainability programs, reporting and disclosures for decades, but I am neither an accountant nor an attorney.

<sup>4</sup> Task Force on Climate-Related Financial Disclosures; see <https://www.fsb-tcfid.org>

<sup>5</sup> Douglas Hileman is an author of this document – the only non-CPA and Sustainability specialist. The document is available at no charge on the COSO website and at [www.douglashileman.com](http://www.douglashileman.com).