

IOSCO endorsement assessment of the ISSB Standards for sustainability-related disclosures

1 Endorsement Decision

The IOSCO Board endorses the International Sustainability Standards Board's (ISSB) final standards on General Requirements for Disclosures of Sustainability-related Financial Information (IFRS S1)¹ and Climate-Related Disclosures (IFRS S2)² (hereafter the 'ISSB Standards') and calls on members to consider ways in which they might adopt, apply or otherwise be informed by the ISSB Standards.

Through its Sustainable Finance Task Force (STF), IOSCO has had an intensive engagement with the ISSB over the last two years. The STF has completed a comprehensive and independent review of the ISSB Standards to determine whether they are likely to meet investor needs for climate-related disclosures and are appropriate to serve as a framework for wider sustainability-related financial information. Throughout its review, IOSCO has applied its endorsement criteria published in June 2021³.

Based on this review, IOSCO has concluded that the ISSB Standards serve as an effective and proportionate global framework of investor-focused disclosures in relation to climate-related matters, specifically (IFRS S2) and, more generally, sustainability-related information (IFRS S1). IOSCO has concluded that the ISSB Standards are appropriate for the purpose of helping globally integrated financial markets accurately assess relevant sustainability risks and opportunities. It has also concluded that they form an appropriate basis for the development of a robust assurance framework to apply to such disclosures.

Recognising that individual jurisdictions have different domestic arrangements regarding the consideration of international standards, IOSCO calls on members to consider ways in which they might adopt, apply or otherwise be informed by the ISSB Standards, within the context of their jurisdictional arrangements, in a way that promotes consistent and comparable climate-related and other sustainability-related disclosures for investors. IOSCO encourages jurisdictions to consider implementing the ISSB Standards for compulsory application or to allow for companies to voluntarily use the ISSB Standards in their jurisdictions in the absence of an existing framework.

Where relevant, IOSCO encourages jurisdictions to consider how existing climate-related, or other sustainability-related, disclosure requirements or practices in their jurisdictions will relate

¹ <https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf>

² <https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s2-climate-related-disclosures.pdf>

³ IOSCO's Report on Sustainability Disclosures, page 44, June 2021 available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD678.pdf>



to the ISSB Standards so as to support global markets in having access to comparable sustainability information.

Relatedly, IOSCO welcomes the ISSB's upcoming guidance to set out pathways for gradual take-up of the ISSB Standards, enabling those issuers and jurisdictions that find the full immediate implementation of the ISSB Standards challenging, to participate progressively. IOSCO is committed to working closely with the ISSB, other relevant bodies, and IOSCO members to help build capacity to promote consistent and comparable climate-related and other sustainability-related disclosures for investors.

IOSCO's endorsement of the ISSB Standards does not constitute an endorsement of any other standards currently referred to in those standards.

2 Technical Assessment Report

2.1 Introduction

This report describes the background to IOSCO's engagement with the IFRS Foundation on sustainability-related corporate reporting and summarises the conclusions of IOSCO's endorsement assessment of the ISSB Standards, published on 26 June 2023.

In the interests of its members and capital markets, IOSCO reviewed the final ISSB Standards in detail against Board-approved assessment criteria. This formal assessment built on several years of committed technical work and strategic deliberations, alongside extensive engagement with the IFRS Foundation, the ISSB, the Monitoring Board and relevant global stakeholders.

This assessment report sets out:

- (i) Background to IOSCO's work on sustainability-related corporate reporting standards and investor needs for sustainability-related financial disclosures as well as IOSCO's consideration of endorsement of the ISSB Standards.
- (ii) An overview of the criteria IOSCO has used to assess whether the ISSB Standards are fit for purpose and meet capital market needs.
- (iii) A description of the detailed technical work IOSCO has undertaken to assess the ISSB Standards against these criteria, including a summary of IOSCO's conclusions on how well the ISSB Standards meet the criteria.
- (iv) An appendix that includes references to key documents published by IOSCO related to sustainability-related corporate reporting and the development of the ISSB Standards.

2.2 Background to the endorsement assessment process – IOSCO's role in sustainability-related corporate reporting

Securities regulators are responsible for the oversight of capital markets. These authorities often have, among other things, responsibilities for (i) regulating the form and content of financial reporting, and (ii) applying and enforcing accounting standards and disclosure regulations. In some cases, securities regulators are also responsible for the oversight of audit and assurance standards (including auditor independence requirements).

IOSCO's membership regulates more than 95% of the world's securities markets. Reflecting the responsibilities of its members, IOSCO's objectives include investor protection, maintaining fair, efficient and transparent markets, and seeking to address systemic risks. The principles of full, timely, and fair disclosure of current and reliable information material to investment decisions underpin these objectives.

Information on how environmental and social matters impact and may impact a company's business and its prospects is material to investors. It allows them to make informed investment, engagement, and stewardship (e.g., voting) decisions and to fulfil their own reporting

obligations. This information is also the main input for other capital markets intermediaries that create sustainability-oriented instruments, funds, ratings, indices and other data products that influence capital allocation. As a result, IOSCO has made sustainability-related financial disclosures a priority of its broader sustainable finance agenda for a number of years.

In response to strong demand from the market and its members' appetite for more in-depth work, IOSCO established the Sustainable Finance Task Force ("STF") in February 2020 as a Board-level task force. Identifying and addressing gaps and shortcomings in corporate sustainability-related disclosures was a particular focus of the STF from the start. In February 2021, IOSCO set out its view of the "urgent need for globally consistent, comparable, and reliable sustainability disclosure standards" and articulated its vision for a Sustainability Standards Board under the IFRS Foundation".

IOSCO elaborated its vision in a *Report on Sustainability-related Issuer Disclosures*, published in June 2021. This report reiterated the urgent need to improve the consistency, comparability and reliability of sustainability reporting for investors, and looked ahead to the establishment of the ISSB. The report also identified the granular attributes necessary in a regime for sustainability-related reporting for corporate issuers. These attributes formed the basis for the assessment criteria applied in IOSCO's endorsement decision of the ISSB Standards (see Figure 1).

In March 2022, the ISSB published for consultation two Exposure Drafts of the IFRS Sustainability Disclosure Standards: [Draft] IFRS S1 and [Draft] IFRS S2. IOSCO publicly welcomed the ISSB's publication of the Exposure Drafts and carried out a detailed review against its assessment criteria. IOSCO engaged closely and constructively with the ISSB during the consultation and post-consultation period, providing extensive feedback (summarised in a [media release](#) in July 2022).

2.3 Description of IOSCO's endorsement assessment criteria and the endorsement process

The endorsement assessment criteria are based on IOSCO's view that a global framework for sustainability reporting should:

- (i) serve as an effective global framework for consistent and comparable approaches to mandatory or voluntary reporting.
- (ii) be compatible and connected with existing accounting and financial reporting standards.
- (iii) promote interoperability by acting as a common framework for national or jurisdiction-related requirements.
- (iv) meet core investor and capital market needs, enabling markets to price sustainability-related risks and opportunities and support capital allocation.
- (v) form the basis for the development of a robust audit and assurance framework.

To ensure these objectives are met by the ISSB Standards, IOSCO’s assessment criteria comprise a set of granular attributes, organised under five dimensions (set out in Figure 1). The development of these attributes was informed by:

- (i) The STF’s engagement with asset managers internationally to understand investors’ information needs and an analysis of the status of corporate reporting on sustainability-related matters (set out in IOSCO’s June 2021 report on issuers’ sustainability-related disclosures).
- (ii) Analysis of the key features of the leading pre-existing voluntary sustainability reporting frameworks and standards (Taskforce on Climate-related Financial Disclosures (TCFD), Sustainability Accounting Standards Board (SASB), CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC))⁴. These pre-existing frameworks informed the work of the Technical Readiness Working Group (TRWG), established by the IFRS Foundation Trustees in June 2021 to provide a ‘running start’ for the ISSB ahead of its formal launch.
- (iii) Engagement with financial reporting, audit and assurance, and ethics and independence standard-setting bodies, the TRWG and other stakeholders on issues such as connectivity, interoperability, assurance, and digitisation strategy.

Figure 1 sets out the assessment attributes (denoted by letters) used by IOSCO in its assessment of the ISSB Standards for endorsement that have been categorized in five dimensions (denoted by numbers and bold text). Section 2.4 below sets out the conclusions of the IOSCO’s formal assessment of the ISSB Standards against these attributes.

Figure 1 – IOSCO assessment criteria

Dimension 1: The completeness, consistency and comparability of sustainability-related information

- a. Provide investors with the necessary information to accurately assess the impact of sustainability issues on companies’ ability to create and preserve enterprise value
- b. Promote internationally comparable disclosures to facilitate efficient pricing of risk and capital allocation across issuers and markets

Dimension 2: Principles, frameworks and standards

- a. Provide a common, comprehensive and structured global framework for sustainability-related reporting
- b. Leverage existing principles, frameworks and guidance
- c. Apply an overarching principles-based approach, while prescribing narrative content elements, quantitative metrics, location, format, taxonomy and audit/assurance requirements

⁴ CDSB was consolidated into the IFRS Foundation in January 2022. SASB and IIRC merged to become the Value Reporting Foundation (VRF) in June 2021, with the VRF in turn consolidated into the IFRS Foundation in August 2022.

Dimension 3: Topic scope and materiality

- a. Sustainability topics covered:
 - i. Climate: include physical and transition risks
 - ii. Wider environmental issues: where identified via multi-stakeholder, inter-governmental, science/evidence-based approaches
 - iii. Social: where identified via multi-stakeholder, inter-governmental, science/evidence-based approaches
 - iv. Governance: inclusion of sustainability issues into terms of reference of board committees, board and management responsibilities and processes; other governance topics where identified via multi-stakeholder, inter-governmental, science/evidence-based approaches
- b. Assume an investor orientation, with attention to the materiality of sustainability matters for enterprise value creation
- c. Accommodate dynamic materiality by updating standards and guidance over time to reflect developments in stakeholder views, regulations, investor preferences and evolving scientific knowledge on sustainability matters; the standard should also be interoperable with multi-stakeholder-oriented standards to facilitate adoption of complementary reporting requirements
- d. Provide industry-specific guidance, including materiality mapping, activity metrics and scenario analysis parameters
- e. Provide for a materiality assessment by a company within its industry/sector, reflecting its size, business model and geographical factors

Dimension 4: Narrative disclosures and quantitative metrics

- a. Provide guidance for standardised/consistent and detailed management discussion and analysis across specified content elements
- b. Provide guidance for granular, science-based metrics and methodologies
- c. Provide guidance for gap analysis against objective science-based criteria
- d. Provide guidance for granular, structured historical, current and forecast data
- e. Provide guidance for disclosure of short, medium and long-term targets with timelines, scenario analysis and underlying assumptions
- f. Specify the location and format of disclosures and provide a common taxonomy and structure

Dimension 5: Linkage between sustainability issues and business strategy/financial implications

- a. Provide a framework that can be integrated with financial reporting standards
- b. Provide guidance for disclosure, discussion and analysis of quantitative impact of sustainability issues on financial performance
- c. Provide guidance for consistent discussion and analysis across specified content elements, and facilitate integration with financial reporting standards

Provide a framework that can be compatible with financial reporting standards and facilitate independent audit and assurance

Between February 2023 and June 2023, IOSCO carried out its formal assessment of the ISSB Standards. The work was done with reference to the pre-ballot, ballot post-ballot versions of the draft ISSB Standards and the final standards. These drafts were shared confidentially with IOSCO progressively from February 2023, in parallel with ISSB review and governance processes, allowing the STF's technical review team to begin its endorsement assessment without undue delay.

In assessing these drafts, IOSCO undertook a paragraph-by-paragraph analysis of the near-final Standards (also considering accompanying documents such as the basis for conclusions, illustrative guidance and illustrative examples), which was then compared to the final standards and benchmarked these against the assessment criteria.

IOSCO's work drew a careful distinction between:

- fitness for purpose of the standards in steady state, as reflected in the assessment criteria, including in-built provisions (on the face of the standards) for the *permanent* scaling of requirements, as well as in-built time-based transitional reliefs; and
- pathways to adoption at the jurisdiction level, which may be informed by accompanying ISSB 'adoption guidance' for securities regulators and other jurisdictional authorities with responsibility for the domestic implementation of the ISSB Standards; the ISSB is developing this guidance for publication later in 2023 and shared a draft guidance for regulatory adoption purposes with IOSCO, which it has subsequently published, to clarify matters relating to the scope of application of the ISSB Standards and targeted areas where individual jurisdictions may consider additional time-limited transition relief, depending on their circumstances.

The conclusions in Section 2.4, below, focus primarily on the fitness for purpose of the standards in steady state. IOSCO did, however, also engage with ISSB members and IFRS Foundation staff on the planned adoption guidance. Accordingly, the assessment also makes observations regarding the balance between global transitional reliefs on the face of the ISSB Standards, and the potential areas for targeted time-limited jurisdiction-specific relief to be elaborated by the ISSB.

IOSCO also engaged with the Monitoring Board of the IFRS Foundation, as the body responsible for oversight of the IFRS Foundation's governance on issues relating to due process, broader governance and public interest matters to satisfy itself that the Standards had benefited from appropriate due process. The Monitoring Board had previously indicated its support for the work of the ISSB and its governance due process through engagement and various press releases and confirmed this stance.

2.4 Summary of conclusions

Having reviewed IFRS S1 and IFRS S2 against the assessment criteria included in Figure 1, IOSCO considers that the ISSB Standards serve as an effective and proportionate global framework of investor-focused disclosures in relation to climate-related matters, specifically IFRS S2 and, more generally, sustainability-related information under IFRS S1 (see IOSCO's endorsement decision in Section 1).

Dimension 1. The completeness, consistency and comparability of sustainability-related information

Dimension 1 focuses on the completeness, consistency and comparability of sustainability-related information and considers whether: (i) the ISSB Standards provide capital providers with the necessary information to accurately assess the impact of sustainability issues on companies' ability to create and preserve enterprise value; and (ii), they promote internationally comparable disclosures to facilitate efficient pricing of risk and capital allocation across issuers and markets.

IFRS S1 and IFRS S2 fully meet the attributes under this dimension. In summary:

- *Attribute 1(a) Target outcome.* The analysis determined that both IFRS S1 and IFRS S2 provide capital providers with the necessary information to accurately assess the impact of sustainability and climate issues on companies' future prospects. In fact, the stated purpose of IFRS Sustainability Disclosure Standards is to provide useful information to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.
- *Attribute 1(b) Objective of the framework.* Both IFRS S1 and IFRS S2 promote internationally consistent disclosures to facilitate efficient pricing of risk and capital allocation across issuers and markets.

The ISSB Standards, along with the planned adoption guidance, necessarily include provisions and reliefs aimed at ensuring proportionality and smoothing the pathway to implementation (including by scaling and phasing of requirements in the transition to the steady state). While the application of such provisions and reliefs may compromise comparability, IOSCO has concluded that: (a) the ISSB has reached an appropriate balance between addressing implementation challenges and upholding the objective of consistent and comparable disclosures; (b) similar provisions already exist to a certain extent in the context of financial reporting and this has not prevented international convergence of reporting practices; and (c) investors' demand for high-quality sustainability information internationally will further promote swift convergence of reporting practices.

Dimension 2. Principles, frameworks and standards

Dimension 2 considers whether the ISSB Standards provide a common, comprehensive and structured global framework for sustainability-related reporting, leveraging existing principles, frameworks and guidance.

IFRS S1 and IFRS S2 fully meet the attributes under this dimension, but with some observations on: (i) the potential need for additional guidance related to how entities should in practice exercise judgement in applying provisions such as 'reasonable and supportable information that is available at the reporting date without undue cost or effort', and

consideration of ‘skills, capabilities and resources’; and (ii) the need for continued engagement with the ISSB’s efforts to support adoption of the ISSB Standards globally.

In summary:

- *2(a) Purpose of framework.* IFRS S1 provides a common, comprehensive and structured global framework for sustainability-related reporting. It provides a framework that can both act as a common, comprehensive and international standard for sustainability reporting on a breadth of sustainability topics with an investor materiality lens, and that can be integrated with financial reporting standards and facilitate independent audit and assurance. IFRS S2 covers one of these sustainability topics in depth i.e., climate.
- *2(b) Approach.* Both IFRS S1 and IFRS S2 leverage existing principles, frameworks and guidance. Indeed, the structure of both standards derives from TCFD and the ISSB’s aim has been explicitly to leverage pre-existing frameworks – as reflected in prototypes published by an alliance of sustainability reporting organisations in December 2020. IFRS S1 also includes references to ‘sources of guidance’, which include existing international frameworks such as the SASB Standards, CDSB Framework Application Guidance for Water- and Biodiversity-related Disclosures, GRI and the EU Sustainability Reporting Standards. Additionally, IFRS S2 requires entities to use the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)* to measure their greenhouse gas emissions, except for the first year of application of the IFRS S2 if the entity used a different method the year before, or if the entity is required to use a different method within its jurisdiction.
- *2(c) Principles vs prescription.* Both IFRS S1 and IFRS S2 provide for an appropriately principles-based framework, but with a ‘core’ of prescription to promote consistency and comparability. Limited flexibilities have been introduced to support proportionality in the application of the Standards, such as for example the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’, and the consideration of ‘skills, capabilities and resources’. To achieve effective and consistent application of these provisions, IOSCO encourages the ISSB to develop further application guidance, illustrative guidance or educational materials. While the concept of ‘undue cost or effort’ is familiar from financial reporting standards, its application in the context of sustainability-related reporting arguably poses new challenges. ‘Skills, capabilities and resources’ is a more novel concept. Some application guidance has been provided in the context of assessing climate resilience, which could perhaps be built upon.

Additionally, IOSCO will engage further with the ISSB on its work to support implementation, including capacity building. As part of this, IOSCO encourages the ISSB to publish, on a timely basis, its planned adoption guidance. This guidance will be critical in legitimising different pathways for effective, proportionate and timely application, adoption or use of the standards in local jurisdictions, depending on their

particular circumstances and characteristics. Based on a summary of this guidance, published alongside the final Standards, this will clarify, among other things, that: (i) the primary focus is on publicly accountable entities, with the exception of smaller ones; and (ii) there are additional options for further scalability and phasing in of requirements at a jurisdictional level, such as options to extend the transitional reliefs built into the ISSB Standards.

Even with transitional relief, some jurisdictions and entities may face implementation issues. Therefore, IOSCO also welcomes the ISSB's establishment of the Transition Implementation Group on IFRS S1 and IFRS S2 and encourages a continued focus on capacity building, especially targeted at those jurisdictions and entities that are less familiar with sustainability reporting. Some of this will be delivered jointly with IOSCO.

Dimension 3. Topic scope and materiality

Dimension 3 considers the topic scope of the ISSB Standards, assesses whether they assume an investor materiality lens – applied at the entity level – and gauges the extent to which the Standards accommodate dynamic materiality and provide industry-specific guidance that may be helpful to reporting entities.

IFRS S1 and IFRS S2 fully meet the attributes under this dimension, with some observations on matters that will benefit from continued engagement with the ISSB. These include: (i) the need for additional guidance related to the identification of material information on sustainability-related risks and opportunities; and (ii) some matters for further engagement related to the further development of the ISSB Standards beyond IFRS S1 and IFRS S2.

In summary:

- *3(a) Sustainability topics covered.* IFRS S1 provides a framework for disclosure about the broad scope of sustainability-related risks and opportunities that may affect an entity's future prospects. These may relate to climate, the broader environment or social risks and opportunities. IFRS S2 explicitly provides for disclosure of physical and transition climate risks.

Future ISSB Standards are expected to further elaborate disclosure requirements regarding specific environmental and social risks and opportunities. The ISSB recently issued a request for information to inform its consultation on agenda priorities, which refers to three possible projects: biodiversity, ecosystems and ecosystem services; human capital (including diversity, equity and inclusion); and human rights (including labour rights and communities' rights in the value chain). IOSCO will engage with the ISSB as the responses to the agenda consultation are considered by the ISSB. IOSCO also observes that, over time, the ISSB may need to further elaborate disclosure expectations in areas such as transition planning, which is increasingly under scrutiny.

- *3(b) Materiality lens.* IFRS S1 and IFRS S2 are clear that an investor materiality lens is to be applied when preparing disclosures in accordance with the Standards. The definition of materiality relies on the definition in IAS 1, Presentation of Financial Statements,⁵ which is well established in financial reporting. The focus on investors is captured unambiguously in the objectives of both IFRS S1 and IFRS S2, which clarify that the reporting entity is required to disclose information about climate- and sustainability-related risks and opportunities that “could reasonably be expected to affect the entity’s cash flows, its access to finance or cost of capital over the short, medium or long term”.

To support consistency in implementation, the Standards provide application guidance to assist reporting entities in determining: the scope of their value chains; the sustainability-related risks and opportunities that could reasonably be expected to affect their prospects; and the material information to disclose in respect of those risks and opportunities. In addition to application guidance, both IFRS S1 and IFRS S2 also provide illustrative guidance (which are non-mandatory) on how to meet this requirement. The ‘sources of guidance’ mentioned above are intended to assist reporting entities in this process. In its summary of planned adoption guidance, the ISSB also notes that it plans to issue further guidance to help entities conduct materiality assessments.

As part of the sources of guidance, IFRS S1 and IFRS S2 state that entities shall ‘refer to’ and ‘consider the applicability of’ the industry-based standards developed by SASB prior to the formation of the ISSB. Work is ongoing at the ISSB to internationalise the SASB Standards. The reference to SASB Standards recognises that the financial materiality of climate- and sustainability-related matters differs across industries. The ISSB Standards are clear that an entity may conclude that SASB Standards are not applicable in their circumstances, but do not elaborate [on how an entity may reach any such conclusion](#). In its analysis, IOSCO has determined that this may warrant further monitoring in future. ISSB may wish to consider providing further illustrative examples to support consistent application of the requirement and facilitate assurance or compliance review.

- *3(c) Dynamic materiality and interoperability with other reporting standards.* The ISSB Standards accommodate ‘dynamic materiality’ by acknowledging the evolving nature of developments in stakeholder views, regulations, investor preferences and scientific knowledge on sustainability matters. The ISSB has established several consultative groups to support its standard-setting activities, including a Sustainability Consultative Committee, which was established (with IOSCO’s encouragement in its June 2021 report) expressly to “identify, inform and advise the ISSB on priority sustainability matters and related technical protocols, as well as significant interdependencies between sustainability matters.” IOSCO also considered how well the ISSB had taken interoperability with other jurisdictional reporting requirements into

⁵ IAS 1, Paragraph 7

account in determining its Standards. The analysis concluded that the ISSB had taken appropriate steps to: (i) align IFRS S1 and IFRS S2 with corporate reporting norms; (ii) implement arrangements/organisational structures to keep abreast of sustainability reporting developments in other jurisdictions, including through its Jurisdictional Working Group and Sustainability Standards Advisory Forum, while also engaging deeply with key jurisdictions bilaterally (e.g., the EU); and (iii) ensure sufficient precision and application of definitions and concepts to form a robust foundation for interoperability with jurisdiction-specific requirements.

- *3(d) Industry-specific guidance.* IFRS S1 and IFRS S2 recognise the relevance of industry-specific information by: (i) requiring that an entity disclose industry-based metrics that are associated with specific business models, economic activities and other common features that characterise participation in an industry; and (ii) requiring that an entity refer to and consider the applicability of the industry-based content in the SASB Standards. As noted above, a reporting entity might conclude that a SASB disclosure topic, or associated metric, is not applicable to its circumstances. Should the ISSB determine in the future that it would be appropriate to strengthen expectations regarding disclosure against metrics in the SASB Standards and consider making these binding requirements, IOSCO considers that the detailed content of the SASB Standards would need to be subject to broad-based stakeholder feedback and IFRS Foundation's due process.
- *3(e) Company-level materiality assessment.* IFRS S1 emphasises an entity-specific approach to the materiality assessment, noting that materiality is “an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, in the context of the entity's sustainability-related financial disclosures.” Accordingly, notwithstanding the inclusion of cross-industry metrics and the reference to industry-based SASB standards and other sources of guidance, the entity's disclosures must ultimately be made on the basis of an entity-specific judgement.

Dimension 4. Narrative disclosures and quantitative metrics

Dimension 4 considers the approach to defining both narrative and quantitative disclosure requirements, and to promoting an appropriate level of granularity and structure in the disclosure of historical, current and forecast data. Dimension 4 also considers the reference to science-based parameters, as well as the Standards' treatment of forward-looking data and the format and location of disclosures.

IFRS S1 and IFRS S2 fully meet the attributes under this dimension. In summary:

- *4(a) Narrative disclosures.* The ISSB Standards require detailed narrative disclosures for all 4 pillars of governance, strategy, risk management, and metrics and targets. The strategy pillar disclosure requirements include additional sections on: (i) climate-related risks and opportunities; (ii) business model and value chain; (iii) strategy and decision

making; (iv) financial position, performance, cash flows; and (v) climate resilience. Taken together, these specified content requirements facilitate consistent and standardised management discussion and analysis. In particular, disclosure requirement (iv) enables investors to understand the impact of sustainability issues on financial results, forecasts and the entity's future prospects. IFRS S1 specifies that both qualitative and quantitative factors should be considered in determining whether information is material. The Standard provides guidance on: (i) criteria for use of qualitative (narrative) information instead of quantitative information; (ii) developing consistent narrative content to connect the different elements in a coherent discussion format; and (iii) criteria for understandability of disclosures, including language and structure, to enhance the usefulness of information. These support the provision of consistent and comparable narrative disclosures.

- *4(b) Quantitative metrics.* IFRS S2 requires the disclosure of seven cross-industry quantitative metrics, including underlying measurement approaches, scopes, inputs and assumptions. IFRS S2 also requires the disclosure of industry-based metrics, along with accompanying guidance. In respect of quantitative targets, the ISSB Standards require granular details and structured context (e.g., time period, milestones, interim targets and progress). The ISSB Standards also require disclosure of current financial effects and anticipated effects on financial position, financial performance and cash flows over the short, medium and long term. The Standards specify targeted circumstances in which an entity need not provide quantitative information about anticipated financial effects, including if the entity lacks the requisite skills, capabilities and resources. However, an entity is required to disclose its reasons for not providing quantitative information and should consider providing quantitative information on a more aggregated basis if that is useful. The reference to the use of tables, graphs and diagrams provides for a structured, consistent and typically quantitative approach to disclosures.
- *4(c) Reference to science-based parameters.* IFRS S2 requires use of the GHG Protocol (with limited exception where jurisdictions used a different method), a science-based methodology with specific measurement formulas, standardised metrics, and science-based global warming potential values published by the Intergovernmental Panel on Climate Change. Although IFRS S2 does not prescribe the use of science-based targets or Paris-aligned scenarios, investors will be able to understand whether and how science-based parameters have been used through required disclosures on: (i) how the latest international agreement on climate change has informed the target; (ii) whether the scenario chosen for climate resilience is aligned to the latest international climate agreement; and (iii) whether the target was derived using a sectoral decarbonisation approach. The requirement to disclose gross emissions (current and targets) and segregate the use of carbon credits is aligned with science-based decarbonisation measurement and target setting methodologies which do not accept carbon credits as a decarbonisation lever.
- *4(d) Structured historical, current and forecast data.* The ISSB Standards require disclosure of current and forecast data, for instance in: the requirement to disclose current financial effects and anticipated (over the short, medium and long term) effects

of sustainability risks and opportunities on financial position, financial performance and cash flows; the requirement to disclose comparative information for the preceding period (subject to transition relief in the first year). Consistent historical data that is similarly structured has to be provided alongside current and forecast data. Disclosure of structured, consistent and granular information of sufficient quality is further supported by: (i) the use of financial terms (e.g., cash flows, carrying amounts of assets and liabilities), which are defined terms with structured disclosure formats under IASB IFRS Accounting Standards; (ii) IFRS S1 requirements for connectivity with financial statements; and (iii) guidance on materiality of information pertaining to future events.

- *4(e) Forward looking (i.e. targets).* The ISSB Standards require granular disclosures on metrics, underlying sources/scopes/assumptions and measurement approaches for the purpose of targets. IFRS S2 provides detailed guidance on the characteristics of a climate-related target, including required disclosures on gross versus net targets and the use of carbon credits. IFRS S2 also requires disclosure on transition plans, including assumptions and dependencies. The disclosures on resourcing and interim progress against targets provide the necessary insight into the achievability of targets and potential additional resourcing costs. Granular disclosures are required, including on funding and committed capital expenditure, with examples provided of profit and loss statement items. In addition, the ISSB Standards require assessment of resilience, which can be conducted using scenario analysis. The resilience assessment may inform and provide context for users to understand the entity's targets.
- *4(f) Format, location and taxonomy.* IFRS S1 does not prescribe the location of disclosures. However, IOSCO agrees with ISSB's approach, as it reduces the scope for duplicative reporting and enhances interoperability with other existing jurisdictional disclosure initiatives and supervisory/regulatory requirements that may prescribe disclosure locations. IFRS S1 guidance on cross referencing and the future use of digital tagging should remove the necessity of having entire disclosure sets in full in one single comprehensive location. The guidance on clear identification and specification of location also facilitates data collection and access. IFRS S1 requirements on Timing and Interim Reporting are indirectly related to location, as the prescribed timing would impact the feasibility of certain location options. IOSCO is encouraged that the IFRS Foundation is working towards a common taxonomy for the ISSB Standards to create a consistent language and facilitate data collection, digitization, tagging and storage. IOSCO has opened a dialogue on this with IFRS Foundation staff and will continue to engage as this work progresses.

Dimension 5. Linkage between sustainability issues and business strategy/financial implications

Dimension 5 considers whether the ISSB Standards provide an appropriate framework for the linkage between sustainability issues and business strategy/financial implications, while also assessing whether the ISSB Standards provide a framework that can be compatible with financial reporting standards and facilitate independent audit and assurance.

IFRS S1 and IFRS S2 fully meet the attributes under this dimension, with some observations on matters for further engagement related to the visibility of financial effects and the interaction with assurance standards. In summary:

- *5(a) Framework for connectivity and compatibility with financial reporting standards, and 5(b) Link to financial statements.* The analysis determined that the ISSB Standards provide a framework that can be compatible with financial reporting standards. The ISSB Standards require disclosure, discussion and analysis of the quantitative impact of sustainability issues on financial performance, financial position and cash flow. These requirements cover the impact on current period financials, as well as the anticipated impacts on the entity's financial performance, and current and committed investment to implement the entity's strategy regarding sustainability risks or opportunities. Relief is provided in relation to disclosure of quantitative information about current and anticipated financial effects of a sustainability-related risk or opportunity when the entity concludes that it lacks sufficient skills, capabilities or resources or when those effects are not separately identifiable. Information enabling an understanding of the conditions underlying an entity's conclusions on its inability to provide quantitative information, as well as qualitative information about those financial effects and quantitative information about the combined financial effects (where considered useful) is nonetheless requested. Further guidance on making a judgement regarding the lack of sufficient skills, capabilities or resources would be beneficial (see Attribute 2 (c)).
- *5(c) Linkage between sustainability issues and business strategy/financial implications.* The ISSB Standards provide readers with consistent and detailed management discussion and analysis to help investors understand the entity's strategy, governance, risk management and metrics and targets, and how risks and opportunities could reasonably be expected to affect the entity's prospects. The ISSB Standards facilitate connectivity and compatibility with financial reporting standards, for instance by grounding disclosure requirements in the same underlying concepts (e.g., materiality) and requiring entities to disclose in a manner that enables users to understand the connections between sustainability-related financial disclosures and related financial statements. There is also a requirement in IFRS S1 for sustainability-related financial disclosures to be provided at the same time as the related financial statements (subject to limited transitional relief). Further work is underway at the IASB to explore whether and how entities can provide better information about the effects of climate-related risks in their financial statements and in its agenda consultation, the ISSB is seeking feedback on a proposed research project on how to integrate information in financial reporting beyond the requirements related to connected information in IFRS S1 and IFRS S2. IOSCO will engage with this ongoing work.
- *5(d) Audit and assurance.* The analysis determined that the ISSB Standards provide a framework that can facilitate independent audit and assurance. To consider this attribute, IOSCO identified certain characteristics of assurable information, including the fundamental qualitative characteristics (relevance, materiality, and faithful

representation) and the enhancing qualitative characteristics (comparability, verifiability, timeliness, and understandability) identified in IFRS S1. IOSCO also considered the financial statement assertions contained in existing assurance frameworks that auditors are required to consider for the audit of general-purpose financial statements. The assertions of existence, occurrence and completeness were determined to be the ones most relevant when considering assurance for sustainability-related financial information. IOSCO's assessment did identify some challenges for assurance providers, for instance related to the challenges of assurance on forward-looking information and novel areas in which reporting entities will need to exercise judgement (e.g., the matters considered under Attribute 2(c)). These assurance challenges will benefit from further activity by standard setters, either as part of additional guidance materials or for inclusion in the new assurance standard in development by the International Auditing and Assurance Standards Board. IOSCO will continue to engage with this standard development work, as considered in its report on the development of a global assurance framework for sustainability-related corporate reporting, published in March 2023.

3 Appendix – Key publications

2018

- **October 2018:** Sustainable Finance Network established as a forum for IOSCO members to exchange experiences and gain a better understanding of, and have structured discussions on, various sustainability issues.

2019

- **January 2019:** IOSCO “Statement on Disclosure of ESG Matters by Issuers”, prepared by C1; <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD619.pdf>
 - *Key message: Importance for issuers of considering the inclusion of environmental, social and governance (ESG) matters when disclosing information material for investors’ decisions.*
- **June 2019:** “Growth and Emerging Market Committee report on Sustainable finance in emerging markets and the role of securities regulators”, <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD630.pdf>
 - *10 recommendations that IOSCO members should consider when issuing regulations or guidance regarding sustainable instruments and additional disclosure requirements of ESG risks*

2020

- **February 2020:** STF established by the IOSCO Board.
- **April 2020** press release: “IOSCO steps up its efforts to address issues around sustainability and climate change”, <https://www.iosco.org/news/pdf/IOSCONEWS564.pdf>
- **April 2020 report:** “Sustainable Finance and the Role of Securities Regulators and IOSCO”, <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD652.pdf>
- **October 2020:** In reply to the Alliance, the STF Chair reiterated IOSCO’s commitment to continuing to work closely with both the IFRS Foundation and the alliance of standard setters. <https://www.iosco.org/library/speeches/pdf/20201029-Erik-Thed%C3%A9n.pdf>
- **December 2020:** “IOSCO responds to IFRS Consultation on Sustainability Reporting”, <https://www.iosco.org/news/pdf/IOSCONEWS589.pdf>
- **December 2020:** “IOSCO response to the IFRS Foundation Consultation on Sustainability Reporting”, https://www.iosco.org/library/comment_letters/pdf/IFRS-17.pdf

2021

- **February 2021:** “IOSCO sees an urgent need for globally consistent, comparable, and reliable sustainability disclosure standards and announces its priorities and vision for a Sustainability Standards Board under the IFRS Foundation”, <https://www.iosco.org/news/pdf/IOSCONEWS594.pdf>
- **March 2021:** “IOSCO Technical Expert Group to undertake an assessment of the technical recommendations to be developed as part of the IFRS Foundation’s sustainability project”, <https://www.iosco.org/news/pdf/IOSCONEWS599.pdf>
 - *IOSCO’s Technical Expert Group was formed to assess the Alliance prototype and its contents, and to consider whether it could be a sound basis for the development of an international reporting standard. The Technical Expert Group would also interface with the Technical Readiness Working Group, established by the IFRS Foundation Trustees.*
- **May 2021:** “IOSCO sees strong support for its vision for an International Sustainability Standards Board under the IFRS Foundation”, <https://www.iosco.org/news/pdf/IOSCONEWS603.pdf>
 - *IOSCO hosted two roundtables to engage global stakeholders on IOSCO’s role in promoting a global system architecture for sustainability-related corporate disclosures. The roundtables revealed strong support for IOSCO’s vision for an International Sustainability Standards Board under the IFRS Foundation.*
- **June 2021:** IOSCO elaborates on its vision and expectations for the IFRS Foundation’s work towards a global baseline of investor-focussed sustainability standards to improve the global consistency, comparability and reliability of sustainability reporting, <https://www.iosco.org/news/pdf/IOSCONEWS608.pdf>
- **June 2021:** IOSCO Report on Sustainability-related Issuer Disclosures, <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD678.pdf>
 - *Key message: The report reiterated the urgent need to improve the consistency, comparability and reliability of sustainability reporting for investors, elaborating its vision for an International Sustainability Standards Board. IOSCO also looked ahead to potential endorsement of the future standards issued by the new body and elaborated on a set of granular attributes necessary in a regime for sustainability-related reporting for corporate issuers.*
- **November 2021:** “IFRS Foundation’s International Sustainability Standards Board on the Right Track, says IOSCO”, <https://www.iosco.org/news/pdf/IOSCONEWS625.pdf>

2022

- **March 2022:** “IOSCO welcomes ISSB’s publication of sustainability standards exposure drafts”, <https://www.iosco.org/news/pdf/IOSCONEWS638.pdf>
- **July 2022:** “IOSCO welcomes the strong stakeholder engagement on proposals for a comprehensive global baseline of sustainability disclosures for capital markets”, <https://www.iosco.org/news/pdf/IOSCONEWS653.pdf>
- **September 2022:** “IOSCO encourages standard-setters’ work on assurance of sustainability-related corporate reporting”
<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD713.pdf>
- **November 2022:** “IOSCO outlines regulatory priorities for sustainability disclosures, mitigating greenwashing and promoting integrity in carbon markets”, <https://www.iosco.org/news/pdf/IOSCONEWS669.pdf>

2023

- **February 2023:** “IOSCO welcomes the ISSB’s decision to enter into the finalisation phase of its inaugural corporate sustainability reporting standards”, <https://www.iosco.org/news/pdf/IOSCONEWS682.pdf>
- **March 2023:** “IOSCO sets out key considerations to promote an effective global assurance framework for sustainability-related corporate reporting”
<https://www.iosco.org/news/pdf/IOSCONEWS686.pdf>
- **March 2023:** “Report on International Work to Develop a Global Assurance Framework for Sustainability-related Corporate Reporting”, <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD729.pdf>
- **April 2023:** “IOSCO Commits to Deliver on Sustainability Disclosures and Crypto Exchanges in 2023. IOSCO publishes Work Program for 2023-2024”, <https://www.iosco.org/news/pdf/IOSCONEWS688.pdf>
- **April 2023:** “IOSCO Board Priorities - Work Program 2023-2024”, <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD731.pdf>