

EFRAG-ISSB: Unlocking Synergy

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Brussels

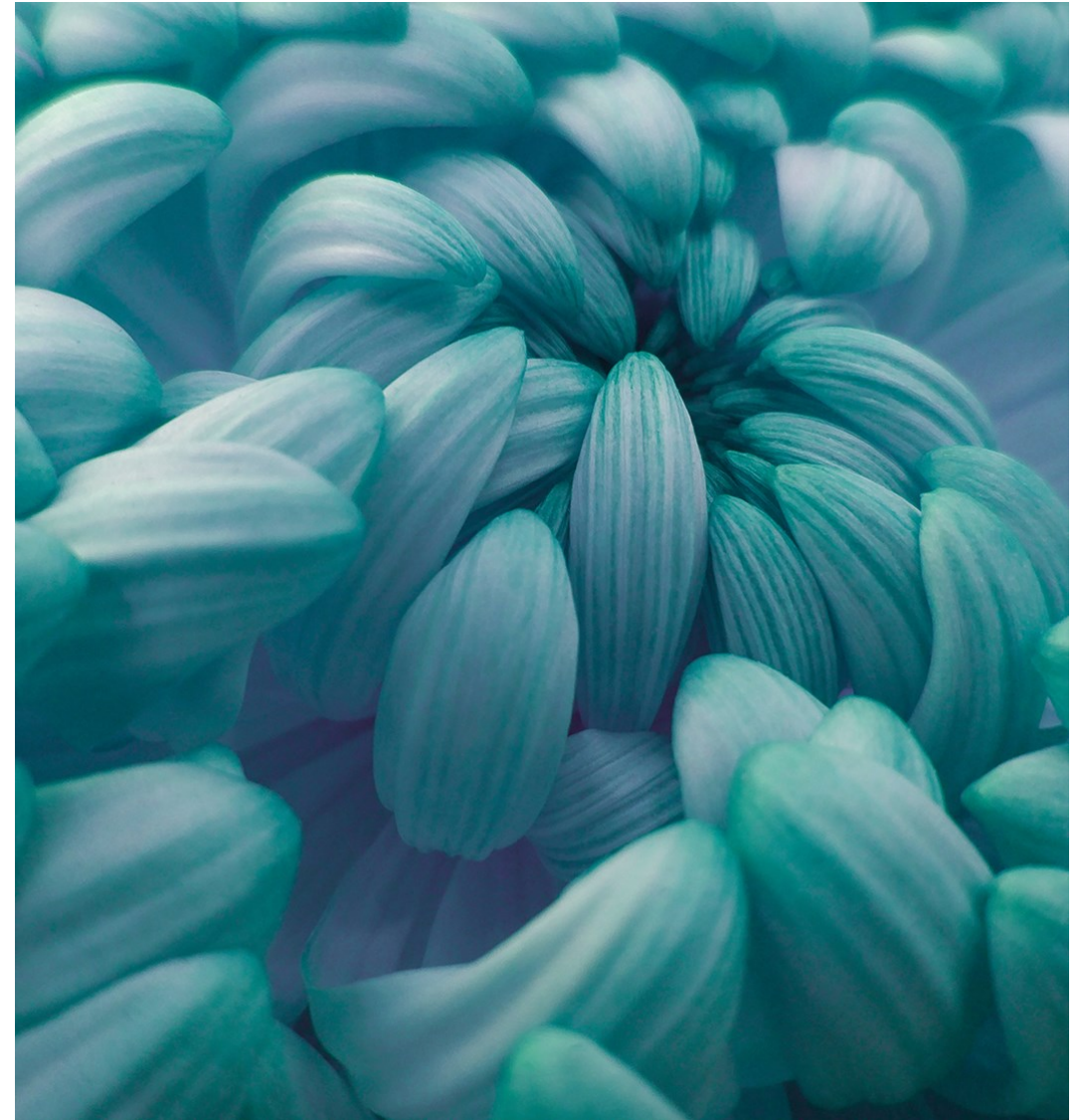
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Benefits of interoperability

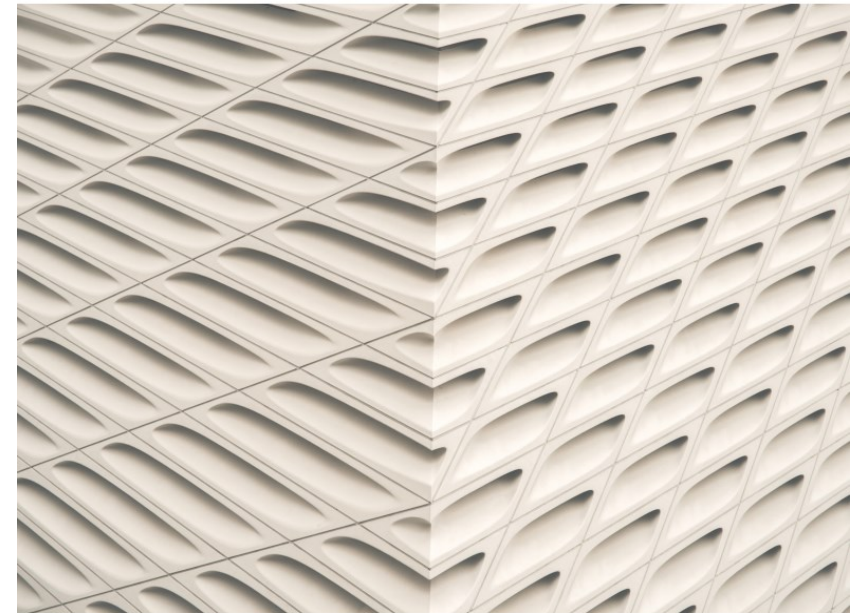
Identifying common disclosures between ISSB Standards and ESRS and aligning them as much as possible:

- reduces duplication by enabling companies to **collect, govern and control decision-useful data once**
- reduces **complexity and fragmentation** that create **barriers to comparability** and **undermine the usefulness** of sustainability information in decision-making
- demonstrates the drive to secure consistency and comparability - through a **global baseline of disclosures** - remains supported by international policy makers



ESRS – ISSB Standards Interoperability Guidance

- **Provides practical support** that explains how companies can efficiently comply with both sets of standards
- Illustrates the **high level of alignment** achieved between ISSB Standards and ESRS on climate disclosures
- Describes alignment of general requirements including key concepts such as **materiality, presentation and disclosures** for sustainability topics other than climate
- Includes **detailed analysis of climate-related disclosures**
- Explains why companies will **still need to use both** sets of standards, but makes it **easier to navigate** doing so



Interoperability guidance on ISSB Standards and ESRS

- **Section 1:** Comments on general requirements in ESRS and ISSB Standards
- **Section 2:** Common climate-related disclosures
- **Section 3:** ESRS to IFRS S2 (climate): information that an entity starting with ESRS needs to know when also applying ISSB Standards to enable compliance with both sets of standards
- **Section 4:** IFRS S2 (climate) to ESRS: information that an entity starting with ISSB Standards needs to know when also applying ESRS to enable compliance with both sets of standards

Section 1

Comments on general requirements in ESRS and ISSB Standards

Materiality

- An entity reporting under ESRS or ISSB Standards that also wants to meet the requirements of ISSB Standards or ESRS, need to consider the relevant **materiality requirements** of ISSB Standards and ESRS
- 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 **aligned** between the two sets of standards
- On financial materiality, the two assessments are expected to provide an **aligned outcome**

Presentation

- Paragraphs 111–117 of **ESRS 1** require an entity to present sustainability information prepared in accordance with ESRS in a sustainability statement which is a **dedicated section of the management report** identified as such
- Applying ISSB Standards, there are **various possible locations** in which an entity may disclose sustainability-related financial information, as long as the information is included **in its general purpose financial reports**
- An entity **starting with ESRS** that wishes to comply with ISSB Standards should pay **particular attention**, when preparing its human-readable sustainability statement, to the requirements in **IFRS S1**, in particular the requirements about presenting additional information (see paragraph 62 of IFRS S1)

Use of ESRS in IFRS S1

- IFRS S1 states that, in the absence of an IFRS Sustainability Disclosure Standard that specifically applies to a sustainability matter and to the related risks or opportunities, an entity shall **apply judgement** to identify and prepare the information to be reported
- IFRS S1 sets out the **sources that can be used**: entity may refer to and consider the applicability of ESRS (see paragraph C2(b) of IFRS S1) as a source of guidance, to the extent that ESRS assist the entity in meeting the objective of IFRS S1 and do not conflict with ISSB Standards
- An entity is able to **utilise ESRS** to provide the disclosures required by IFRS S1, if the requirements in paragraphs C1–C3 of IFRS S1 are also met

Use of ISSB Standards in ESRS

- ESRS also make reference to the **IFRS industry-based guidance** (which includes the *Industry-based Guidance on Implementing IFRS S2* and the SASB Standards) enabling an entity to use that guidance to complement its disclosures prepared applying ESRS to cover sustainability matters that are material for the undertaking in its sector(s)

Reliefs

- In order to **comply with both sets of standards**, when using one or more of the reliefs, entities have to check carefully if the reliefs meet the requirements in both sets of standards
- **Reliefs in ISSB Standards**: Undue cost and effort, Current and anticipated financial effects, Scope 3 GHG emissions
- **Reliefs in ESRS**: Reasonable effort in reporting value chain information, Undue cost and effort in reporting value chain information, Quantification of financial effects for opportunities



Section 2

Common climate-related disclosures

Section 2: part one

Example

ISSB Standards	ESRS
STRATEGY	
Climate-related risks and opportunities	
IFRS S2.10(a)	ESRS 2.48(a)
IFRS S2.10(b)	ESRS E1.18
IFRS S2.10(c) ³	ESRS 2.48(e)
IFRS S2.10(d) ⁴	ESRS 1.77(a)–(c) ESRS 1.78 ESRS 1.80 ESRS E1.AR11(b) ESRS 2.9(a)–(b)
IFRS S2.12*	ESRS 1.10 ESRS 1.11 ESRS 1.30(a) ESRS 1.130 ESRS 1.131(b)

Footnotes used to explain the basis for alignment in specific areas of interoperability.

(*) one asterisk is used to indicate that additional relevant information can be found in Section 3. *ESRS to IFRS S2 (climate): information that an entity starting with ESRS needs to know when also applying ISSB Standards to enable compliance with both sets of standards*

Section 2: part two

Example

Financial position, financial performance and cash flows	
IFRS S2.15(a)	ESRS 2.48(d)
IFRS S2.16(a)	ESRS 2.48(d) ESRS Annex II, Table 2 (Terms defined in the ESRS): current financial effects
IFRS S2.15(b)	ESRS 2.48(e)
IFRS S2.16(b)	ESRS 2.48(d)
IFRS S2.16(c)(i)–(ii)	ESRS 2.48(e)
IFRS S2.16(d)	ESRS 2.48(e)
IFRS S2.17**	ESRS E1.AR70(a) ESRS E1.AR73(a) ESRS E1.AR74(a)

(**) two asterisks are used to indicate that additional relevant information can be found in *Section 4. IFRS S2 (climate) to ESRS: information that an entity starting with ISSB Standards needs to know when also applying ESRS to enable compliance with both sets of standards.*

Section 3

ESRS to IFRS S2 (climate):

Information that an entity starting with ESRS needs to know when also applying ISSB Standards to enable compliance with both sets of standards

Topic	Point to consider
(i) Transition plan assumptions	Any key assumptions and dependencies that are not already captured through the disclosure required by ESRS E1
(ii) Scenario analysis	<ul style="list-style-type: none"> • Perform a scenario analysis commensurate with the entity’s circumstances to assess its climate resilience • Include key assumptions made
(iii) Industry-based metrics	Refer to and consider the climate-related disclosure topics and metrics of the <i>Industry-based Guidance on Implementing IFRS S2</i> , in line with the transition provision in paragraph 131(b) of ESRS 1
(v) Climate-related opportunities	The ‘potential market size or expected changes to net revenue’ in ESRS E1 corresponds to the ‘amount and percentage of business activities’ in IFRS S2

Topic	3.1 Point to consider
(vii) Carbon credits: any other factors	Ensure that disclosures about the characteristics of carbon credits meet the requirements in IFRS S2

Topic	3.2 Incremental and additional requirements in IFRS S2
(i) Financed emissions	An entity applying ESRS E1 that has asset management, commercial banking or insurance activities and that also wants to comply with IFRS S2 should provide incremental financed emissions information in IFRS S2

Section 4

IFRS S2 (climate) to ESRS:

Information that an entity starting with ISSB Standards needs to know when also applying ESRS to enable compliance with both sets of standards

Topic	Point to consider
(i) Scenario analysis	<ul style="list-style-type: none"> • Use the results of its scenario analysis to inform the assessment of risks, opportunities and describe the entity’s resilience in relation to climate change • Disclose whether and how it has considered at least a scenario consistent with the Paris Agreement (see paragraph AR12(c) of ESRS E1)
(iii) Carbon credits	<ul style="list-style-type: none"> • Non-verified/ verified under schemes not recognised as quality standards/ carbon credits that arise from within the value chain are excluded applying ESRS • Applying ESRS an entity can only report the carbon credits cancelled in the reporting period • Ensure disclosures about carbon credits – including their credibility and integrity – meet the requirements in ESRS E1 • An entity may need to disaggregate the information provided about carbon credits in order to meet the requirements of both ESRS and IFRS S2 • Do not use carbon credits to claim achievement of GHG targets applying ESRS E1

Topic	Point to consider
(iv) Quantitative information: single amount or range	<ul style="list-style-type: none"> Provide a range only in circumstances when permitted applying ESRS E1. In all other cases, it shall provide a single amount.
(v) Climate-related physical and transition risks	<ul style="list-style-type: none"> Disclose: (i) percentage of assets at material physical risk (see paragraph 66(b) of ESRS E1) and material transition risk (see paragraph 67(b) of ESRS E1) addressed by the climate change actions and (ii) the monetary amount and percentage of assets at material physical risk (see paragraph 66(a) of ESRS E1) and material transition risk (see paragraph 67(a) of ESRS E1) before considering climate mitigation or adaptation actions (that is, ‘gross’).
(vi) Greenhouse gas emission reduction targets	<ul style="list-style-type: none"> An entity should ensure that disclosures of ‘net zero targets’ are those that meet the ESRS definition given to this term, and that a net greenhouse gas emission reduction target is not disclosed as a ‘greenhouse gas emission reduction target’ under paragraph 34(a) of ESRS E1.
(vii) Greenhouse gas emissions: organisational boundary	<ul style="list-style-type: none"> When measuring its GHG emissions for group (see paragraph 50(a) of ESRS E1), the entity could elect financial control option as described by the GHG Protocol. In addition, include the GHG emissions covered by paragraph 50(b) of ESRS E1 to include emissions under the operational control approach.

TABLE 4.2.1

ESRS 2	Reference to IFRS S1 or IFRS S2	Requirements not explicitly covered by IFRS S1 or IFRS S2
Governance		
ESRS 2.21(a)–(b) and (d)–(e)	NA	Composition and diversity of governance bodies (executive/non-executive, gender, etc.)
ESRS 2.21(c) ESRS 2.23(a)–(b)	IFRS S1.27(a)(ii) IFRS S2.6(a)(ii)	Experience relevant to the sectors, products and geographic locations of the undertaking. Leverage of collective expertise through access to experts or training. How skills and expertise relate to material matters.
ESRS 2.22(c)(ii)	IFRS S1.27(b)(i)–(ii) IFRS S2.6(b)(i)–(ii)	Information about reporting lines to the administrative, management and supervisory bodies (AMSB).
ESRS 2.26(a)	IFRS S1.27(a)(iii) IFRS S2.6(a)(iii)	Whether and by whom the AMSB are informed as well as describing the AMSB being informed about additional items.
ESRS 2.26(c)	IFRS S1.26–27 IFRS S2.5–6	Material IROs addressed during the reporting period.
ESRS 2.29(a)–(e) and AR7	NA	Details of incentive schemes.
ESRS 2.30–33 and AR8–AR10	NA	Due diligence mapping.
ESRS 2.34–36	NA	Risk management and internal controls over sustainability reporting.

Items highlighted in grey refer to incremental datapoints in ESRS beyond those identified as common disclosure requirements.



Thank you