In the loop

September 2022
(updated April 2023)

Navigating the ESG landscape

Comparison of the "big three" disclosure proposals

We responded to capital market and G20 demand for a common language of investor focused sustainability-related disclosure, working diligently to deliver standards that fulfil the global baseline.

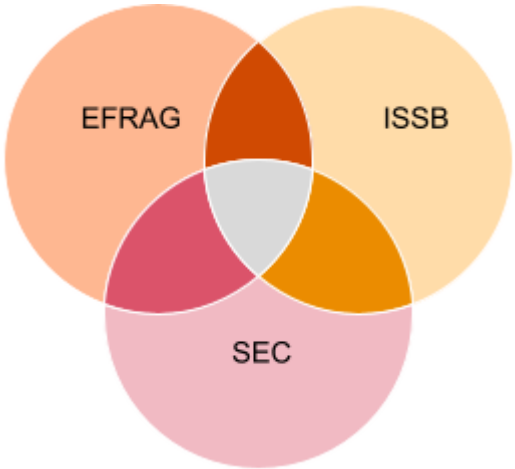
ISSB Chair Emmanuel Faber
February 17, 2023

This *In the loop* was updated as of April 4, 2023 and highlights current developments related to the big three disclosure proposals, including deliberations at the International Sustainability Standards Board as well as important status updates related to the Corporate Sustainability Reporting Directive.

After years of increasingly vocal demand for enhanced transparency about ESG matters from investors and other stakeholders, regulators and standard setters in various jurisdictions issued definitive proposals to transform ESG reporting in 2022. The year brought proposed ESG disclosures from the European Union (EU) as part of the Corporate Sustainability Reporting Directive (CSRD), internationally by the International Sustainability Standards Board (ISSB), and in the United States (US) by the Securities and Exchange Commission (SEC). These "big three" proposals would each require expansive sustainability disclosures — although their proposed scopes and other details vary. All three proposals were subject to public comment periods that have now closed, although mid-April 2023 will bring additional opportunity to comment on the EU proposed standards.

Given the geographic reach of the proposals and their potential to encompass a broad spectrum of value chain contributors, most companies are expected to be impacted in some way. Proactive companies are in the process of assessing the scope and applicability of the proposals so that the appropriate planning can begin now.

An SEC registrant that has a subsidiary listed in the EU and a subsidiary in a jurisdiction that requires ISSB reporting, for example, may be subject to the requirements in all three proposals. With equivalency — that is, whether disclosures for one reporting framework can satisfy some or all of the requirements of another — not yet determined, companies captured in multiple reporting regimes have a vested interest in understanding which reporting applies.



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Further, understanding where the frameworks align and diverge will help companies develop the requisite reporting strategy, data gathering processes, and related controls, providing for a streamlined process and effective deployment of resources.

This publication compares and contrasts key provisions among the three proposals. We offer our perspectives on the proposals, including some of the suggestions we have made to each regulator or standard setter to enhance operability. By understanding the requirements of the different proposals, preparers can develop the appropriate reporting strategy, one designed to capture the right data the first time.

Background

Each of the proposals recognizes that enhanced sustainability disclosures are good for the capital markets. The transparency and accountability engendered by the new disclosures may — and in the case of the CSRD proposal are intended to — influence behavior, and so may be good for the planet, too.

EU regulations and disclosure proposal

> Our goal has been to strike the right balance between a game-changing step forward and a pragmatic implementation and to foster global sustainability reporting progress while taking full account of the feedback received through our public consultation and deliberations.
> Former EFRAG Acting Sustainability Reporting Board Chair, Kerstin Lopatta
> November 23, 2022

The European Commission, the European Parliament, and the Council of the European Union have made strides to ensure that sustainability regulations under the Corporate Sustainability Reporting Directive will be a reality. The CSRD was driven, in part, by the European Green Deal, a December 2019 European Commission package of policy initiatives designed to achieve climate neutrality by 2050 and protect Europe's natural habitat.

Although the EU's current Non-Financial Reporting Directive (NFRD) has imposed some requirements to disclose environmental and social impacts since 2017, the CSRD would result in more companies being included in scope and more detailed requirements. The CSRD was adopted by the European Parliament and the Council of the European Union in November 2022. The CSRD was effective on January 5, 2023; EU Member States now have 18 months to incorporate the CSRD's provisions into national law.

The scope of the CSRD will include EU subsidiaries of non-EU parent companies, including US companies and other global multinational companies. For these companies, the CSRD may be applicable at the global consolidated level in addition to the subsidiary level. It would apply to all companies listed on EU-regulated markets and to "large" — as defined in the directive — unlisted companies or groups in the EU. In addition, for companies potentially subject to more than one disclosure regime, CSRD provides more specific disclosure requirements than the ISSB and SEC.

The CSRD resulted in the development of the European Sustainability Reporting Standards (ESRS), as proposed by the European Financial Reporting Advisory Group (EFRAG). Thirteen ESRS exposure drafts (EDs) were published in April 2022: two cross-cutting general standards, five environmental standards, four social standards, and two governance standards. In November 2022, EFRAG submitted the draft standards to the European Commission, after incorporating feedback received during the public consultation process. Changes included "a reduction by nearly half of the disclosure requirements compared to the EDs" as well as removal of one of the governance standards, primarily to reduce redundancy with the general standards.[1] The European Commission's process includes consulting with EU regulatory authorities, expert groups, and Member States on the draft standards as well as an additional 30-day public comment period — expected to launch in mid-April — before the planned adoption of the standards in June 2023. After completion of this milestone, the standards will face scrutiny from the European Parliament and Council of the European Union before going into effect.

[1] Draft ESRS Cover letter dated 22 November 2022

Following submission of the ESRS to the European Commission, EFRAG announced its planned focus on sector standards, including ten sector standards in development (e.g., agriculture, coal mining, food/beverages).[2] In March 2023, however, EFRAG indicated that it intends to focus its efforts on putting in place an "ESRS implementation support function," following a request from the European Commission to prioritize implementation support over development of sector standards. Notwithstanding the focus on implementation guidance, EFRAG indicated that the sector standards remain on its agenda as a "key task."[3]

Refer to our publications, *What's CSRD? It's important to know* and *EFRAG submits draft European Sustainability Reporting Standards to the European Commission*, for more information about the CSRD and the proposed ESRS.

ISSB proposal

We are working collaboratively towards the implementation of effective sustainability disclosures for capital markets, which will empower market participants with the right information to support better economic and investment decision making.

ISSB Chair Emmanuel Faber
November 8, 2022

The ISSB sits alongside the International Accounting Standards Board (IASB), with both boards overseen by the IFRS Foundation. The formation of the ISSB was announced at COP26 — the United Nations global summit to address climate change — in November 2021. The IFRS Foundation trustees acknowledged the importance of collaborating with organizations that have already developed sustainability reporting standards and building upon that foundation. Their commitment to leveraging past efforts is demonstrated by the consolidation of the Climate Disclosure Standards Board and the Value Reporting Foundation (VRF) into the IFRS Foundation in 2022. The VRF was formed in 2021 by the merger of the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council.

Similar to the IASB's effectuation of standard setting through the issuance of International Financial Reporting Standards (IFRS), the ISSB will issue sustainability reporting standards with an objective of delivering a global baseline of sustainability disclosures that satisfy capital market needs.

The ISSB published two exposure drafts in March 2022: one on climate-related disclosure requirements (IFRS S2) and one on general disclosure requirements addressing governance and other sustainability matters (IFRS S1). More thematic standards will be developed in due course. In the meantime, the ISSB tentatively decided that companies may refer to the Global Reporting Initiative (GRI) standards and ESRS standards for guidance on identifying disclosures, including metrics, about sustainability-related risks and opportunities.

Comments on the exposure drafts closed in late July 2022. The ISSB held public meetings to discuss the comments received and has made several tentative decisions. It concluded the technical deliberations at its February 2023 meeting, with future meetings planned to focus on due process. The summaries included herein are based on the original exposure drafts, although we also highlight certain changes and areas that may be impacted by the ISSB's tentative decisions.

The final standards are currently expected to be published in June 2023 and will be effective for periods beginning on or after January 1, 2024. This could mean reporting as early as 2025. In April 2023, however, the ISSB decided to provide transition relief, requiring only climate-related disclosures in the first year of reporting. Thus, companies would be required to provide disclosures in accordance with IFRS S2, as well as the general disclosures under IFRS S1 only to the extent they relate to climate risks and opportunities. In addition, no comparative information would be required in the first year of adoption.[4]

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[2] EFRAG delivers the first set of draft ESRS to the European Commission
[3] European Commission calls on EFRAG to prioritise implementation support for the first Set of ESRS
[4] ISSB decides to prioritise climate-related disclosures to support initial application

Individual jurisdictions will determine if application of the ISSB standards are required or permitted as a basis for sustainability reporting, akin to the process for adopting IFRS for financial reporting. For example, the African Finance Ministers announced their support of the standards, with the Financial Reporting Council of Nigeria the first to formally announce its intent to adopt them. In March 2023, the United Kingdom (UK) Government also announced its continued support of the ISSB and further stated that it "will set up a framework to assess these standards for their suitability for adoption in the UK as soon as the final standards are published."[5]

Refer to our In depth, *What you need to know about the ISSB Exposure Drafts,* and our podcast, *Talking ESG: Recap of the ISSB's fast-paced deliberations*, for more information.

Today's proposal would help issuers more efficiently and effectively disclose [climate] risks and meet investor demand, as many issuers already seek to do... I believe the SEC has a role to play when there's this level of demand for consistent and comparable information that may affect financial performance.

SEC Chair Gary Gensler
March 21, 2022

SEC proposal

In a 2010 interpretive release, the SEC outlined how existing SEC disclosure requirements apply to climate change matters. It addressed how the rules governing the Management's Discussion and Analysis and Risk factors sections in a registrant's Form 10-K, for example, could reasonably be expected to include references to material exposures or impacts of climate change. At the time, the SEC noted that "climate change has become a topic of intense public discussion in recent years."

That intensity has continued to increase exponentially. The enforcement of existing rules was only going to move the disclosure needle so far. In March 2021, the SEC reiterated the importance of the 2010 interpretive guidance and in a public statement, then Acting SEC Chair Allison Lee issued a request for input on the need for climate-related disclosures. After evaluating the admittedly mixed responses to the request for input — with strong opinions in both support and opposition — the SEC issued a proposal in March 2022 that would significantly enhance climate-related disclosures in annual filings and registration statements.

The SEC's proposal focuses specifically on how climate risks are identified, assessed, managed, and disclosed; the financial impact of severe weather and other natural events as well as transition activities; and greenhouse gas (GHG) emissions. A final rule was initially expected in late 2022, but is now expected sometime in 2023, as is a proposal for enhanced human capital disclosures.

Refer to our publication, *The SEC wants me to disclose* what?*,* for more information on the climate proposal.

[5] HM Government, Mobilising Green Investment, 2023 Green Finance Strategy, page 9, paragraph 10b

General features of the proposals

One of the foundational points of alignment among the three proposals is the incorporation of elements based on the Task Force on Climate-related Financial Disclosures (TCFD) framework. Leveraging this popular framework provides a point of continuity with voluntary reporting and unites the three proposals through key themes, including required disclosure of the broad impacts of sustainability-related risks as well as governance and oversight of the related risks and opportunities. Connectivity between sustainability information and financial information echoes throughout the proposals, with each asserting its importance for investor decision making.

Theme	EFRAG	ISSB	SEC
Topics in scope	Proposed standards span a broad list of environmental, social, and governance topics, including one dedicated to climate disclosures	Proposed standards address climate and other sustainability risks Additional thematic standards are expected in the future	Proposed rule addresses climate-related risks A rule addressing human capital is expected in the future
Industry standards	Ten sector-specific standards have been announced and are in development	Industry-based climate metrics based on the SASB's standards would be required*	Industry-specific disclosures are not required
Location of disclosures	Disclosure would be included within a dedicated section of the management report No financial statement footnote disclosure would be required	Disclosure would be included as part of general purpose financial reporting — such as in management commentary No financial statement footnote disclosure would currently be required	Disclosure would be included in a separate section of the annual report or registration statement A financial statement footnote would include disclosure of the impact of severe weather and transition-related activities

* This proposed guidance from the EDs has been a topic of discussion in ISSB redeliberations.

Observations

One striking difference among the proposals is the breadth of topics in scope, although there may be further alignment if the SEC and ISSB issue further guidance as expected. Industry standards are another point of potential future alignment. The ISSB reiterated its support for required industry disclosures in its deliberations in October and November 2022. Further, in November 2022, EFRAG announced its planned focus on sector standards, including ten sector standards in development. Although EFRAG indicated in March 2023 that it intends to turn its attention to implementation guidance as requested by the European Commission, it also stated that development of sector standards remains a "key task."[6]

Another key difference among the proposals is the SEC's requirement to include specified disclosures in the notes to the financial statements, a proposal which sparked strong stakeholder feedback on both sides of the debate. We support standardized climate-related disclosures in the footnotes to the financial statements because we believe this information would aid investors in better understanding the impact of climate risks on the financial statements (although as discussed in the "Materiality" section, we do not agree with the SEC's proposed 1% disclosure threshold).

The ISSB and EFRAG proposals both refer to the importance of interconnectedness between sustainability disclosures and general purpose financial reporting. The IASB and FASB have each released guidance emphasizing the current accounting standards that could reasonably be expected to elicit disclosures about the impact of climate events and risks.[7] In addition, in March 2023, the IASB decided to undertake a project to evaluate stakeholder concerns about disclosures of climate-related risks in the financial statements.[8]

[6] European Commission calls on EFRAG to prioritise implementation support for the first Set of ESRS
[7] IFRS Foundation, Effects of climate-related matters on financial statements; FASB Staff Educational Paper: Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards
[8] Connectivity in practice: the IASB's new project on Climate-related Risks in the Financial Statements

Materiality

As in traditional financial reporting, sustainability disclosures will be driven, in large part, by an assessment of what's material. The approach to materiality, however, is one of the key differences among the proposals. The SEC and ISSB proposals consider the impact of sustainability on the company through an investor lens, requiring information about how it could impact financial performance. In contrast, the proposed ESRS widen the definition of materiality to also require a company to consider how it has impacted, or will impact, people or the environment (including impacts in relation to environmental, social, and governance matters).

Theme	EFRAG	ISSB	SEC
Materiality	Materiality would be assessed based on "double materiality," consisting of "financial materiality" (an outside in perspective) and "impact materiality" (an inside out perspective) Climate disclosures are mandated regardless of materiality	Materiality would be assessed based on factors that could reasonably be expected to influence the primary users' assessments of a company's enterprise value*	Materiality would be assessed based on the definition of materiality in existing securities laws / Supreme Court precedent A 1% bright-line threshold would be applied for financial statement footnote quantitative disclosures
Time horizons for specific disclosures	Time horizons of short, medium, and long term are prescribed, although the definitions vary depending on the standard	Time horizons for disclosure of risks and opportunities over the short, medium, and long term are not defined	Time horizons for disclosure of risks and opportunities over the short, medium, and long term are not defined

* This proposed guidance from the EDs has been a topic of discussion in ISSB redeliberations.

Observations

Each of the proposals requires companies to consider risks that may occur over the short, medium, and long term, which requires an assessment of materiality over these time periods. Today, materiality is typically considered in the context of a company's current financial condition and may not explicitly consider future periods, especially periods that extend as far into the future as many potential climate-related impacts. We believe additional guidance in this area — such as specifying that time horizons should be limited to those periods when the impact on future cash flows could have a material effect on investors, or in the case of double materiality, a material effect on stakeholders — would be helpful to ensure consistency and comparability.

We also believe that investor-focused materiality will assist in achieving comparability of reporting. While the SEC and ISSB have largely leveraged the definition of materiality used in today's financial reporting, there may be uncertainty as to how traditional concepts of materiality would translate to climate and GHG emissions reporting. In addition, there are questions about whether the application of the different definitions of materiality used in the proposals will actually result in significant differences, particularly as practice evolves. Recent developments may also impact application; the ISSB, for example, discussed its definition of materiality and tentatively decided to align to the concept of materiality used in financial reporting. And, the proposed ESRS submitted in November 2022 specify that "a sustainability matter is material from a financial perspective if it triggers or may trigger material financial effects." The due process note goes on to state that this change "promotes alignment with the latest ISSB tentative decisions."[9] The November 2022 ESRS also mandate climate change disclosures in all cases, regardless of materiality.

SEC "bright-line" threshold

In our view — which is shared by numerous other commenters — the SEC's current proposed financial statement footnote disclosure threshold of 1% would not provide the type of meaningful information that investors are demanding and would be difficult for registrants to implement. Applying the traditional concepts of materiality would result in more cohesive disclosures and greater focus on the information that would be important to investors.

[9] Draft ESRS, *Due process note,* paragraph 139(h)(ii), page 18

Targets, transition plans, and resilience

The proposals all include required disclosure of a company's targets or goals, how it intends to meet its targets and goals, and related progress toward applicable milestones. A key difference among the proposals, however, is the CSRD requirement for companies to set emission target values as of prescribed dates and for transition plans aimed at "the limiting of global warming to 1.5°C," with an intent to drive behavioral change.[10] The SEC and ISSB proposals do not prescribe specific targets or dates, instead requiring disclosure of any targets set by the company.

Theme	EFRAG	ISSB	SEC
Targets and transition plans	Commitment to and disclosure of GHG emissions reduction targets would be required in five-year rolling periods, including target values for at least 2030 and, if available, 2050 Disclosure about the transition plan's compatibility with the Paris Agreement (or updated international agreement on climate change) would also be required	Disclosure would be required of any climate-related targets set by the company Such targets would need to be compared to the "latest international agreement on climate change" (currently the Paris Agreement)*	Disclosure would be required of any climate-related targets or goals set by the company Such targets or goals would include those set in response to regulatory requirements or climate-related treaty or law
Use of scenario analysis	The use of scenario analysis would be required to assess resilience Explanation is required of whether and how scenario analysis is consistent with the Paris Agreement and limiting climate change to 1.5°C	The use of scenario analysis would be required to assess resilience Disclosure of whether a scenario aligns with the "latest international agreement on climate change" would be required An alternative means of assessing resilience would be permitted if unable to perform scenario analysis*	Any means could be used to assess resilience Additional disclosures would be required if scenario analysis is used The proposal does not require consideration of specific scenarios

* This proposed guidance from the EDs has been a topic of discussion in ISSB redeliberations.

Observations

The disclosure of targets or goals is an important element of each proposal. These disclosures provide a degree of accountability, both with regard to behavioral changes and also to help alleviate greenwashing. The flexibility afforded by the ISSB and SEC proposals regarding scenario analysis and the nature of selected scenarios allows management to choose the variables most impactful to its business, or alternatively, choose widely accepted scenarios, such as those detailed in the Paris Agreement. The fundamental ambition of the Paris Agreement is to limit global warming to well-below 2°C above pre-industrial levels by the end of this century, and to pursue efforts to limit global warming even further to 1.5°C. In its fall 2022 meetings, the ISSB tentatively agreed to expand its disclosure requirements, concluding that companies should also disclose targets made in accordance with local legislation.

Instead of choosing company-specific scenarios, some argue that adopting targets, models, and calculation methods that are universally applied will enhance comparability, consistency, and reliability of the reported disclosures. For example, the ESRS definition of "net zero" is consistent with the Science Based Targets initiative (SBTi). The SBTi also provides criteria and guidelines to companies in line with the latest climate science as a pathway towards meeting the goals of the Paris Agreement.

[10] Proposal for a Directive of the European Parliament and of the Council, amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting, pages 49 and 50

GHG emissions — general

All three proposals would require GHG emissions disclosures and reference the Greenhouse Gas Protocol, although use of the GHG Protocol is not required by the SEC. One notable difference among the three proposals is with respect to the required organizational boundary (i.e., the scope of entities included in the GHG disclosures). The SEC proposal would require alignment with the financial statements, whereas the ISSB provides the flexibility allowed by the GHG Protocol. The original EFRAG proposal would also have required organizational boundaries consistent with the financial statements; however, the draft ESRS issued in November 2022 provide alternative guidance for associates, joint ventures, and other unconsolidated arrangements. The presentation of GHG emissions for these entities would depend on whether the company has operational control.

Theme	EFRAG	ISSB	SEC
GHG Protocol	Consideration of the GHG Protocol and GRI 305 is required[11] The "organizational environmental footprint method" proposed by the European Commission may also be considered	Use of the GHG Protocol would be required	Use of the GHG Protocol would not be required, although the proposed requirements are based on its concepts
GHG emissions organiza-tional boundaries	Emissions of the parent and consolidated subsidiaries would follow the organizational boundaries of the consolidated financial statements Emissions of associates, joint ventures, and other unconsolidated arrangements would be presented based on operational control	Emissions would be reported using either a control or equity share approach (consistent with optionality described in the GHG Protocol)	Emissions would be reported following the organizational boundaries of the consolidated financial statements

Observations

We support the use of a set of globally accepted standards for the measurement of greenhouse gases to provide enhanced comparability and usefulness of company-specific data. We recommend that ESG standard setters and regulators work together to ensure that key elements that support high quality standards are more formally incorporated into the maintenance and ongoing development of the GHG Protocol, such as establishing formal due process, amending for the impact of current accounting standards, and implementing a continuous update process. More formal processes would also help to ensure that its principles keep pace with developments in greenhouse gas measurement.

To this end, in March 2022, the World Resource Institute announced its intention to assess the need for incremental guidance, a key focus of which would be alignment with accounting rules.[12] For example, the GHG Protocol predates US GAAP and IFRS changes to lease and consolidation accounting. And, on November 23, 2022, the GHG Protocol launched four surveys on potential updates to its corporate standards and guidance. Comments were due March 14, 2023.[13]

Although all three proposals leverage the GHG Protocol, only the SEC proposal would mandate organizational boundaries aligned with the financial statements for emissions metrics. We support this alignment because it would ensure consistent presentation of financial and *all* sustainability-related information. Further, investors understand the concept of consolidated financial statements, and they rely on the knowledge that all information reported in an annual report is reported on the same basis, for the same group of entities. In addition, a potential difference in the alignment of reporting periods may arise since the ISSB proposed a conditional relief for GHG emissions to be reported for a different reporting period than that of the company.

[11] Global Reporting Initiative Reporting Standard No. 305, an emissions-specific standard that forms part of the GRI's interrelated standards on reporting impacts on society, the environment, and the economy
[12] GHG Protocol to assess the need for additional guidance building on existing corporate standards
[13] Greenhouse Gas Protocol opens surveys on standards and guidance

GHG emissions — scope 1 and scope 2 disclosures

All three proposals include requirements to disclose scope 1 and scope 2 GHG emissions in carbon dioxide equivalent (CO_2e) tons and to present one or more intensity metrics (a ratio of emissions to specific financial statement measures), excluding the impact of purchased or generated offsets. All three proposals also scope in the same seven gases — which are consistent with those included in most major reduction schemes — although only the SEC proposal would require disclosure of scope 1 and scope 2 emissions by each gas on a disaggregated basis. The draft ESRS issued in November 2022 modified the proposed disclosure of scope 1 and scope 2 GHG emissions from associates, joint ventures, and unconsolidated subsidiaries. These would be presented together with the parent scope 1 and scope 2 emissions only if the entity has operational control.

Theme	EFRAG	ISSB	SEC
Scope 1 and scope 2 GHG emissions	Proposed disclosure of gross scope 1 and scope 2 emissions for the parent and consolidated subsidiaries as well as entities over which it has operational control The percentage of scope 1 emissions under regulated emission trading schemes would be separately disclosed Scope 2 emissions would be separately disclosed using both the location-based and market-based methods No requirement to disaggregate emissions by type of GHG	Proposed disclosure of gross scope 1 and scope 2 GHG emissions for the consolidated group and separately for its associates and joint ventures Scope 2 emissions would be separately disclosed using both the location-based and market-based methods* No requirement to disaggregate emissions by type of GHG	Proposed disclosure of gross scope 1 and scope 2 GHG emissions for the consolidated group, including equity method investments Scope 2 emissions would be disclosed using either the location-based or market-based method (or a combination) Would require emissions to be disaggregated by type of GHG
GHG emissions intensity	Disclosure of total GHG emissions per net revenue would be required	Disclosure of scope 1 and scope 2 GHG emissions per unit of physical or economic output would be required*	Disclosure of total scope 1 and scope 2 GHG emissions per unit of total revenue and per unit of production (or an alternative, if not available) would be required

* This proposed guidance from the EDs has been a topic of discussion in ISSB redeliberations.

Observations

GHG emissions are among the most common disclosures provided by companies that issue voluntary sustainability reporting. We support the SEC's proposed requirement to require disaggregated information about the type of greenhouse gases emitted by a registrant because this would be meaningful information for investors given the differing levels of global warming potential among the different gases. Disaggregated data may also aid investors in understanding a company's risk profile because different gases may be subject to varying regulations. In addition, as the science and methodology for monitoring and measuring greenhouse gases continue to evolve, we support flexibility to allow for the expansion of reported gases to keep pace with broader scientific and societal developments.

We acknowledge that a GHG emissions intensity measure is a widely used metric. In the context of a net zero or other substantial greenhouse gas reduction commitment, however, the absolute quantity of GHG emissions released into the atmosphere — and progress toward the goal — is more meaningful than a GHG intensity measure. Further, an intensity metric may mask emissions growth: for example, if a company is increasing revenue by raising prices, its revenue-based intensity metric may show a decline even if emissions have increased for the same number of units sold. Therefore, we believe that intensity metrics should not be mandated in all cases. Separately, the ISSB tentatively decided in the December 2022 meeting to remove the requirement for disclosing intensity metrics.

GHG emissions — scope 3 disclosures

Scope 3 emissions include a company's upstream and downstream activities, which the GHG Protocol classifies into 15 categories based on the activities giving rise to the emissions. All three proposals include specific requirements to disclose scope 3 GHG emissions, although smaller reporting companies would be exempt from the SEC's proposed scope 3 requirements. In accordance with the November 2022 ESRS, the reporting entity's scope 3 emissions would include the scope 3 emissions from associates, joint ventures, and unconsolidated subsidiaries over which it has operational control. Its scope 3 emissions would also include the scope 1, scope 2, and scope 3 emissions of those associates, joint ventures, and unconsolidated subsidiaries (a) in its value chain *and* (b) over which it does not have operational control. The draft ESRS provide a specific format that is to be followed for disclosure of all GHG emissions and related targets and goals.[14]

Further, in its recent deliberations, the ISSB discussed the data availability and quality challenges associated with scope 3 emissions and considered potential relief, including tentative approval of a one year delay on reporting. Further refinement of requirements for financed emissions in the financial sector is expected.

Theme	EFRAG	ISSB	SEC
Scope 3 GHG emissions	Scope 3 emissions would be disclosed in total for the parent and consolidated subsidiaries as well as entities over which it has operational control, including significant scope 3 categories (i.e., those that are a priority for the undertaking) Scope 3 emissions would include scope 1, scope 2, and scope 3 emissions of associates, joint ventures, and unconsolidated subsidiaries in its value chain over which it does not have operational control	Scope 3 emissions would be disclosed in total, including component categories	Scope 3 emissions would be disclosed in total, including component categories if (1) they are material or (2) the company has set an emissions reduction target or goal that includes scope 3 emissions Emissions related to significant scope 3 categories would also be disclosed (if scope 3 disclosures are required)
GHG emissions intensity	Disclosure of total GHG emissions per net revenue would be required	Disclosure of scope 3 GHG emissions per unit of physical or economic output would be required*	Disclosure of scope 3 GHG emissions per unit of total revenue and per unit of production (or an alternative if not available) would be required if scope 3 disclosures are required

* This proposed guidance from the EDs has been a topic of discussion in ISSB redeliberations.

Observations

Investors are interested in scope 3 emissions data, particularly in circumstances when a company's upstream or downstream activities are emissions intensive. Reporting of scope 3 emissions, however, may be challenging for many companies, given their reliance on upstream and downstream entities for the underlying data. Further, the disparate sources of information, as well as level of estimation required, may create challenges in developing the scope 3 amounts in a reliable and timely manner.

We believe the needs of investors should be balanced against the potential difficulties for preparers in producing reliable, timely information. For example, when there is a related announced target or goal that includes scope 3 emissions, disclosure may be relevant to investors because of the accountability it creates. In the absence of a target or goal related to scope 3 emissions, we believe allowing alternative approaches that may balance investor needs against preparer challenges would be helpful.

[14] Draft ESRS E1, *Climate change*, paragraph AR 46, page 35

Assurance

Confidence in the information disclosed by registrants is a critical component of efficient capital markets. Providing investors with comparable confidence in both sustainability and financial information is a driver of the assurance requirements in the EFRAG and SEC proposals, although there are key differences in the scope of the proposed standards. Whether similar assurance will be required for those applying the ISSB's proposed standards will be decided by the jurisdictions adopting the standards.

Both the EFRAG and SEC proposals include a phased assurance approach, beginning with limited assurance and increasing to reasonable assurance at a later date. Limited assurance is a negative form of assurance stating that no matter has been identified by the auditor to conclude that the subject matter is materially misstated (a review). Reasonable assurance will require more extensive procedures, including consideration of a company's internal controls (an audit).

Theme	EFRAG	ISSB	SEC
Assurance, excluding GHG emissions	Sustainability information would initially be subject to limited assurance, transitioning to reasonable assurance at an unspecified date	Sustainability information would be subject to assurance based on the rules of the jurisdictions adopting the standards	Footnote disclosure would be subject to assurance through the financial statement audit and internal control over financial reporting attestation requirements Outside of the footnotes, only scope 1 and scope 2 GHG emissions would be subject to required assurance
Assurance on GHG emissions	GHG emissions would be subject to the same assurance as other sustainability information	GHG emissions would be subject to assurance based on the rules of the jurisdictions adopting the standards	Scope 1 and scope 2 emissions would be subject to limited assurance in year two and three for large accelerated and accelerated filers, transitioning to reasonable assurance beginning in year four

Observations

In our global investor survey completed in fall 2022, we found that investors value assurance as a way to give them confidence in corporate reporting on sustainability. Top of their list is reasonable assurance, which is the same level as the financial statement audit; 75% of respondents report more confidence in ESG information if it has been subject to reasonable assurance. Investors also want to know that a company has actually done what it says it has done (79%), as well as that the reporting is in line with a recognized reporting framework (77%).[15]

Further, we believe that certain aspects of the attestation standards may require clarification to enable assurance on the entirety of the sustainability information as envisioned by the EFRAG proposal. Reporting on, and assurance of, compatibility with global or territory goals may be particularly complex as there are multiple future factors to be considered which are not under the control of a reporting entity. Setting specific scenarios, models, and/or calculation methods to use (e.g., Science Based Targets initiative for climate change) would enhance comparability, consistency, and reliability of the reporting and increase the likelihood of reasonable assurance being achievable.

[15] PwC's Global Investor Survey 2022: The ESG execution gap

Effective dates and transition

If adopted in their current form, the final rules and standards would introduce a new era of reporting by requiring sustainability-related information to be issued together with annual financial statement reporting. The ISSB tentatively decided to provide short-term transition relief which would allow more time to file sustainability information. The final EFRAG and ISSB standards are expected in June 2023; the SEC rule is also expected in 2023, although timing is uncertain. Effective dates will quickly follow with the earliest CSRD reports required for 2024; a similar effective date is expected for the largest SEC filers.

Theme	EFRAG	ISSB	SEC
Timing of application	Timing is established by the CSRD and would be phased by type of entity Disclosure requirements would be applicable in 2024 (filing in 2025) for a "large undertaking," as defined, that has securities listed on an EU-regulated market and more than 500 employees	Timing will depend on how standards are implemented in each jurisdiction*	Timing is expected to be phased by type of filer, with disclosure requirements applicable as early as 2024 (filing in 2025) for large accelerated filers Scope 3 disclosures would be required a year after other disclosures
Comparative information	Comparative information would not be required in the first year of adoption, but required thereafter	Comparative information would not be required in the first year of adoption, but required thereafter	Comparative information would be required for all periods presented Information that is not reasonably available could be omitted under existing SEC guidance[16]

* This proposed guidance from the EDs has been a topic of discussion in ISSB redeliberations.

Observations

The expected timing of adoption of the CSRD and SEC proposals is aggressive, and would provide minimal time for companies to prepare for sweeping changes in the scope of reporting. The ISSB tentatively decided on an effective date for periods beginning on or after January 1, 2024, although adoption is dependent on the individual jurisdictions adopting the standards. In addition, in April 2023, the ISSB decided to expand its transitional relief, allowing companies to report on only climate-related risks and opportunities in the first year of application, delaying the reporting of other sustainability risks and opportunities by a year. Given the demand for sustainability information from investors, as well as the EU's intention to make meaningful progress on the Green Deal in the near term, we understand the appeal of rapid implementation. We also, however, understand that companies need time before initial adoption to develop the new systems, processes, and controls necessary to produce information of the scope required by the proposed disclosures at a level of quality commensurate with that needed in regulatory filings. Many commenters, including PwC, advocated for more lead time in their comment letters.

While EFRAG and the ISSB acknowledged the challenges in preparing comparative information in the initial year of adoption, and provided for prospective application, as proposed, SEC registrants would be required to provide comparative information for all years presented (unless they qualify for the accommodations provided in the SEC rules). In our response to the SEC, we recommend omitting comparatives in the first year, consistent with the approach proposed by EFRAG and ISSB.

[16] Securities and Exchange Commission, Proposed rule, The Enhancement and Standardization of Climate-Related Disclosures for Investors, page 113,"A registrant, however, would not need to provide a corresponding historical metric for a fiscal year preceding its current reporting fiscal year if it is eligible to take advantage of the accommodation in 17 CFR 230.409 ('Rule 409') or 17 CFR 240.12b-21 ('Rule 12b-21')"

Final thoughts

The ISSB and SEC are currently considering potential changes in response to comments received on their proposals, even as EFRAG seeks final approval on its updated draft standards. Respondents to all three sets of proposals frequently highlighted the practical need for international collaboration and consistency, including equivalency determinations when appropriate. Recent developments at the ISSB and EFRAG emphasize interoperability and suggest that they may find further alignment as the standards are finalized. Whether the final standards will provide equivalence or other similar relief — despite their differing objectives — will become apparent once the final rule and standards are issued over the coming months.

Stakeholders should continue to monitor developments, including proposals for sustainability-related disclosures beyond climate expected from the ISSB and SEC. Other standard setters are also entering the conversation; for example, the Global Reporting Initiative released proposed revisions to its standard on biodiversity in December 2022.[17] And, additional climate-related rules continue to be announced, such as the US federal government's November 2022 release of proposed disclosure requirements for certain federal contractors.[18]

Preparing for the new reporting requirements may span a year or more, depending on current readiness and the number of reporting regimes that will be applicable. And, with the proposed effective dates looming for some companies, now is the time to focus on understanding the scope and potential impact of the rules.

Where to find more resources

Our publications, comment letters, and podcasts offer additional information and insight into the three proposals.

Publications	PwC comment letters
What's CSRD? It's important to know	*PwC comments on ESRS exposure drafts*
What you need to know about the ISSB Exposure Drafts	*PwC comments on ISSB exposure drafts*
The SEC wants me to disclose what?	*PwC comments on SEC proposal on climate disclosures*
ESG reporting: Preparing for tomorrow's rules today	*PwC Global proposed updates to the GHG Protocol's standards*
EFRAG submits draft European Sustainability Reporting Standards to the European Commission	

Podcasts	
Beyond the SEC, global bodies are moving fast on ESG	*IFRS Talks: Sustainability related reporting - what's next?*
Diving deeper into the ISSB's ESG reporting proposal	*IFRS Talks: European Sustainability Reporting Standards*
PwC: Our comments on the SEC's climate disclosure proposal	*SEC climate disclosure proposal: What did respondents say?*
IFRS Talks: Taking stock of sustainability reporting	*Audio: ESG reporting: Preparing for tomorrow's rules today*
Talking ESG: FAQs on the SEC climate disclosure proposal	*Talking ESG: Recap of the ISSB's fast-paced deliberations*

For more PwC accounting and reporting content specific to ESG matters, visit our Environmental, Social and Governance (ESG) page at viewpoint.pwc.com.

[17] The exposure draft for the revised GRI Biodiversity standard was released on December 5, 2022. Comments were due February 28, 2023.

[18] PwC *In brief*, GHG and climate risk disclosures proposed for federal contractors. The proposed rule was released on November 10, 2022; comments were due on February 13, 2023.

International clients: To have a deeper discussion, contact your local PwC ESG specialist or:

Scott Bandura	Peter Flick	Andreas Ohl
Partner	Partner	Partner
scott.bandura@pwc.com	peter.flick@pwc.com	andreas.ohl@pwc.com

US clients: To have a deeper discussion, contact:

Heather Horn	Soné Beyers	Valerie Wieman
Partner	Director	Partner
heather.horn@pwc.com	sone.b.beyers@pwc.com	valerie.wieman@pwc.com