In the loop

National Office

Navigating the ESG landscape

Comparison of the "big three" sustainability frameworks

Updated March 2024

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.

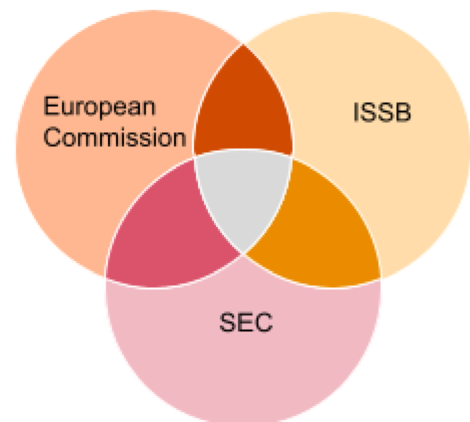
ISSB Chair Emmanuel Faber
February 17, 2023

This *In the loop* was updated in March 2024 to reflect the issuance of the final SEC climate disclosure rules and end of the public feedback period on EFRAG's proposed ESRS implementation guidance.

After years of increasingly vocal demand for enhanced transparency about ESG matters from investors and other stakeholders, sustainability reporting frameworks in 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) - the "big three" disclosure frameworks — are all now final. While each requires expansive sustainability disclosure requirements, their scopes and other details vary. Further, reporting entities need to continue to consider developments in other jurisdictions, including new laws enacted in October 2023 in California which have broad applicability.

Given the geographic reach of these new requirements, and their potential to encompass a wide spectrum of value chain contributors, most companies are expected to be impacted in some way. Proactive companies are in the process of assessing the applicability so that they are prepared to meet potentially short reporting deadlines.

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 all three requirements, plus the new California bills. Standard setters and regulators have indicated a focus on interoperability among the standards and rules to enable companies subject to reporting in more than one jurisdiction to benefit from similar reporting requirements. None of the requirements to date, however, have specifically allowed equivalency — that is, permitting disclosures for one reporting framework to satisfy some or all of the requirements of another. Thus, companies operating in multiple jurisdictions have a vested interest in understanding differences among the reporting requirements.



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 European Sustainability Reporting Standards (ESRS), the standards issued by the ISSB, and the final SEC climate rules. It also provides select commentary on the California climate disclosure bills. By understanding the different requirements, preparers can develop a reporting strategy designed to capture the right data the first time.

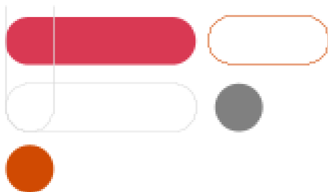
pwc

Background

Each of the frameworks 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 are intended to — influence behavior, and so may be good for the planet, too.

The standards we have adopted today are ambitious and are an important tool underpinning the EU's sustainable finance agenda. They strike the right balance between limiting the burden on reporting companies while at the same time enabling companies to show the efforts they are making to meet the Green Deal Agenda, and accordingly have access to sustainable finance.

Mairead McGuinness
Commissioner for Financial Services, Financial Stability and Capital Markets Union
July 31, 2023



EU regulations and disclosure framework

The EU Corporate Sustainability Reporting Directive 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, more companies are required to report under the CSRD and it includes significantly expanded disclosures. The CSRD was adopted by the European Parliament and the Council of the European Union in November 2022 and became effective on 5 January 2023; EU Member States have until July 2024 to transpose CSRDinto national law.

The scope of the CSRD includes EU subsidiaries of non-EU parent companies, including US and other global multinational companies. For these companies, the CSRD may require reporting at the global consolidated level in addition to reporting by EU subsidiaries. It applies 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 SEC climate rules, the California climate laws, or the standards issued by the ISSB.

The CSRD resulted in the development of the ESRS, as initially proposed by EFRAG (formerly the European Financial Reporting Advisory Group). In November 2022, EFRAG submitted the first set of draft standards to the European Commission for review. Following an extensive consultation process and an additional public feedback period, the European Commission adopted final standards on 31 July 2023. A two-month period of scrutiny from the European Parliament and Council of the European Union ended on 21 October 2023 and the ESRS became law on 22 December 2023 when they were published in the Official Journal of the European Union.[1] In 2022, 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 shifted its focus to developing an "ESRS implementation support function," following a request from the European Commission to prioritize implementation support over development of sector standards. In October 2023, the European Commission published a proposal to delay the issuance of the sector standards, as well as the dedicated standards for non-EU companies, from 2024 to 2026.[3] In February 2024, the Council of the European Union and the European Parliament reached a provisional agreement on the proposal.[4] Both parties will now have to formally approve the proposal through their ordinary legislative procedure. Although the non-EU dedicated standards may be delayed, there is no proposed change in the required reporting dates; initial global consolidated reporting for a non-EU parent company will still be required in 2029 on 2028 information.

---

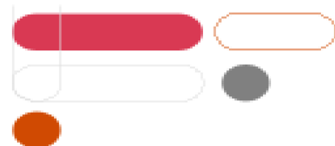
[1] EC, Commission Delegated Directive (EU) 2023/2772 as published on 22 December 2023 in the Official Journal of the European Union.
[2] EFRAG delivers the first set of draft ESRS to the European Commission.
[3] EC, Proposal for a Decision of the European Parliament and of the Council amending Directive 2013/34/EU as regards to the time limits for the adoption of sustainability reporting standards for certain sectors and for certain third-country undertakings.
[4] Council and Parliament agree to delay sustainability reporting for certain sectors and third-country companies by two years.

In meetings in the second half of 2023, EFRAG discussed: (1) its draft implementation guidance related to the value chain and materiality assessment, (2) a centralized process for addressing implementation questions starting in October 2023, and (3) a complete listing of data point requirements.[5] Drafts of the implementation guidance and listing of data point requirements were released on 22 December 2023. The public comment period ended on 2 February 2024 and the final guidance is expected to be issued in 2024. The final implementation guidance would be non-authoritative and would not introduce new provisions to the ESRS.[6]

Refer to our publications, *Worldwide impact of CSRD – are you ready?*, *Take the next step - decide how to report under CSRD*, and *Final European Sustainability Reporting Standards have been adopted*, for more information about the CSRD and the ESRS.

The ISSB Standards have been designed to help companies tell their sustainability story in a robust, comparable and verifiable manner. We have consulted closely with the market to ensure the Standards are proportionate and will result in disclosures that are relevant for investment decision-making.

ISSB Chair Emmanuel Faber
June 26, 2023



IFRS Sustainability Disclosure Standards

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 said it "will work with jurisdictions globally to deliver a 'comprehensive global baseline' of sustainability disclosures for the capital markets."[7] Adding to its responsibilities, it was announced in July 2023 that the IFRS Foundation will take over monitoring climate-related disclosure for progress against the recommendations of the Task Force on Climate-Related Disclosures (TCFD) beginning in 2024.[8] The TCFD officially disbanded in October 2023.

The ISSB published its first two final standards in June 2023: one on climate-related disclosure requirements (IFRS S2) and one on general disclosure requirements addressing other sustainability matters (IFRS S1). More thematic standards will be developed in due course. The ISSB agenda completed an agenda consultation on 1 September 2023 focused on four potential priorities: research projects on sustainability-related risks and opportunities associated with biodiversity, ecosystems, and ecosystem services; human capital; and human rights, as well as a potential research project on the integration of financial reporting and sustainability reporting.[9] The ISSB board members discussed themes from the comment letters in December 2023,[10] and we expect further discussions in 2024.

In the meantime, IFRS S1 requires companies to "refer to and consider" the applicability of the disclosure topics and related metrics in the industry-based standards issued by the Sustainability Accounting Standards Board (SASB), as amended by the ISSB in December 2023 for enhanced international applicability.[11] Other sources, such as the Climate Disclosure Standards Board Framework, pronouncements from other standard setting bodies, and the ESRS and Global Reporting Initiative (GRI) standards may also be considered. The ISSB published educational material in December 2023 to assist preparers in considering nature and social impacts that intersect with climate-related risks and opportunities as they

---

[5] EFRAG update, August 2023, page 10. EFRAG update, September 2023, page 13. EFRAG update, October 2023, page 14. EFRAG update, November 2023, page 11. Sustainability Reporting Board meetings 13 December 2023 and 15 December 2023.
[6] Publication of the 3 draft EFRAG ESRS IG documents.
[7] The need for a global baseline for capital markets
[8] IFRS Foundation, IFRS Foundation welcomes culmination of TCFD work and transfer of TCFD monitoring responsibilities to ISSB from 2024
[9] IFRS Foundation, ISSB Consultation on Agenda Priorities
[10] IFRS Foundation, International Sustainability Standards Board meeting December 2023.
[11] IFRS Foundation, ISSB publishes targeted amendments to enhance the international applicability of the SASB Standards.

provide climate-related disclosures.[12] The material explains how an entity might apply the requirements but is not intended to provide interpretative guidance.

IFRS S1 and IFRS S2 are effective for periods beginning on or after 1 January 2024, which could mean reporting as early as 2025. The ISSB provided transition relief, however, 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.[13]

Individual jurisdictions will determine if application of the IFRS Sustainability Disclosure Standards is required or permitted as a basis for sustainability reporting, akin to the process for adopting IFRS Accounting Standards for financial reporting. In July 2023, the International Organization of Securities Commissions (IOSCO) announced its endorsement of the standards, and has called on its 130 member jurisdictions, regulating more than 95% of the world's financial markets, to consider ways in which they might adopt, apply, or otherwise be informed by the ISSB standards in their jurisdictions.[14] Numerous jurisdictions have announced support for the standards or are in the process of adoption. For example, in October 2023, it was announced that the standards will be incorporated into the Brazilian regulatory framework, progressing from voluntary application in 2024 to mandatory application in 2026.[15] We expect announcements around the world to continue to accelerate.

Refer to *IFRS Sustainability Disclosure Standards – Guidance, insights and where to begin*, *Navigating sustainability reporting: Practical application and analysis*, and *Talking ESG: Inside look at the ISSB's launch of final standards*, for more information.

The rules will provide investors with consistent, comparable, and decision-useful information, and issuers with clear reporting requirements. Further, they will provide specificity on what companies must disclose, which will produce more useful information than what investors see today.

SEC Chair Gary Gensler
March 6, 2024

SEC climate disclosure rules

In a 2010 interpretive release, the SEC outlined how its existing disclosure requirements apply to climate change matters. The release addresses 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 reference 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. 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 to significantly enhance climate-related disclosures in annual filings and registration statements. The SEC adopted final rules on March 6, 2024 that — although scaled back from the proposal — still advances climate reporting in the United States. The new rules require disclosure of how climate risks are identified, assessed, and managed, including the related governance and risk management as well as greenhouse gas (GHG) emissions for certain registrants. In addition, registrants will need to provide footnote disclosure of the financial impact of severe weather and other natural conditions based on a bright line threshold.

Refer to our publication, *Navigating the SEC climate-related disclosure requirements*.

---

[12] IFRS Foundation, Educational material: Nature and social aspects of climate-related risks and opportunities.
[13] IFRS Foundation, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, paragraph E5, page 44.
[14] International Organization of Securities Commissions, IOSCO endorses the ISSB's Sustainability-related Financial Disclosures Standards.
[15] IFRS Foundation, Brazil adopts ISSB global baseline, as IFRS Foundation Trustees meet in Latin America.

California climate disclosure bills

On 7 October 2023, the California Governor signed into law landmark climate legislation that will require (1) GHG emissions reporting in compliance with the Greenhouse Gas Protocol (GHG Protocol), (2) climate-related financial risk reporting in line with the recommendations of the TCFD, and (3) information about certain emissions claims and the sale and use of carbon offsets.[16] Over 10,000 US companies — including both public and private companies as well as subsidiaries of non-US headquartered companies — are expected to be impacted by the climate disclosure requirements in the near term.

	AB 1305 — Voluntary carbon market disclosures	SB 253 — Climate Corporate Data Accountability Act	SB 261 — Greenhouse gases: climate-related financial risk
Primary disclosure topic	(1) Emissions claims, (2) use of carbon offsets, and (3) sale of carbon offsets	Scope 1, scope 2, and scope 3 greenhouse gas emissions	(1) Climate-related financial risks and (2) the measures a company has adopted to reduce and adapt to such risks
Framework	Not applicable	GHG Protocol	TCFD
Scope	Entities that (1) operate and make emissions claims within California, (2) buy or sell carbon offsets in California	Business entities* with annual revenue over $1 billion that do business in California	Business entities* with annual revenue over $500 million that do business in California
Where filed	Publicly available on company's website	Publicly available digital platform	Publicly available on company's website
Assurance	No, although certain disclosures are required about any independent third-party verification obtained	Yes, phased requirements beginning with limited assurance	No
Compliance date	1 January 2024, with information updated at least annually	Annual reporting of scope 1 and scope 2 in 2026 (on prior fiscal year information); scope 3 starting in 2027	On or before 1 January 2026 and biennially thereafter

* A partnership, corporation, limited liability company, or other business entity formed under the laws of California, the laws of any other state of the United States or the District of Columbia, or under an act of the Congress of the United States.

The bills are brief — only a few pages each — and lack answers to some questions regarding how and when to apply the requirements. Further, the governor's approvals of SB 253 and SB 261 were accompanied by signing messages indicating that he plans to work with the California Legislature in 2024 to address certain concerns, including the implementation deadlines.[17] Because there can be no certainty about extended timing, we recommend that companies evaluate applicability and reporting requirements based on what is currently written into the laws.

Refer to our publication, *California's not waiting for the SEC's climate disclosure rules*, for more information on the bills.

[16] Senate Bill (SB) 253, Climate Corporate Data Accountability Act, SB 261, Greenhouse gases: climate-related financial risk, and Assembly Bill (AB) 1305, Voluntary carbon market disclosures.

[17] California Governor Newsom 7 October 2023 signing messages on SB 253 and SB 261.

General features of the proposals

One of the foundational points of alignment among the three frameworks is the incorporation of elements based on the Task Force on Climate-related Financial Disclosures framework. Leveraging this popular framework provides a point of continuity with voluntary reporting and unites the disclosure frameworks 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. California SB 261 also requires reporting using the TCFD framework. Connectivity between sustainability information and financial information also echoes throughout the frameworks.

Theme	European Commission	ISSB	SEC
Topics in scope	Standards span a broad list of environmental, social, and governance topics, including one dedicated to climate disclosures	Standards address climate and other sustainability risks Additional thematic standards are expected in the future	Final rules address climate-related risks and the financial effects of severe weather events and other natural conditions
Industry standards	Ten sector-specific standards have been announced and are in development	A company is required to "refer to and consider" the applicability of the disclosure topics in the SASB standards[18]	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	Disclosures 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, or other relevant sections Financial statement footnote disclosure includes the impact of severe weather events and other natural conditions

Observations

One striking difference among the frameworks is the breadth of topics in scope, although there may be further alignment in the future if the ISSB issues further guidance as expected. Industry standards are another point of potential future alignment. Industry is already an explicit focus of the IFRS Sustainability Disclosure Standards; IFRS S1 requires a company to consider the applicability of the SASB standards when identifying sustainability-related risks and opportunities. And, although proposed to be delayed from 2024 to 2026, ESRS will also include sector standards.[19]

Another key difference among the frameworks is the SEC's requirement to include specified disclosures in the notes to the financial statements. While the severity or frequency of some weather events may be impacted by climate change, disclosure is not limited to, and does not require an assessment of, whether the event was caused by climate change. The final ESRS and ISSB standards 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.[20] They are also both considering additional standard setting with an IASB project on stakeholder concerns about disclosure and FASB project to improve the accounting for environmental credit programs.[21]

---

[18] IFRS Foundation, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, para 55, page 17.
[19] European Commission: Proposal for a Decision of the European Parliament and of the Council amending Directive 2013/34/EU.
[20] 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
[21] IASB Chair Dr Andreas Barckow, Connectivity in practice: the IASB's new project on Climate-related Risks in the Financial Statements; FASB, Accounting for Environmental Credit Programs

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 three disclosure frameworks. The IFRS Sustainability Disclosure Standards and SEC rules consider the impact of sustainability on the company through an investor lens, requiring information about how it could impact financial performance. In contrast, CSRD widens the definition to also include how a company has impacted or will impact its environment (including impacts in relation to environmental, social, and governance matters).

Theme	European Commission	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)	Materiality would be assessed based on factors that could reasonably be expected to influence decisions that the primary users make based on that information	Materiality would be assessed based on the definition of materiality in existing securities laws / Supreme Court precedent A 1% bright-line and de minimis thresholds 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 entity may adapt the periods; the definition of long term in the climate standard may be applied differently	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 term (i.e., 12 months) and long term (i.e., more than 12 months)

Observations

The final ESRS and ISSB frameworks require companies to consider risks that may occur over the short, medium, and long term — which requires an assessment of materiality over these time periods. The SEC rules require a similar assessment over the short and long term. 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.

While the SEC and ISSB have 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 will actually result in significant differences, particularly as practice evolves. Recent developments may also impact application; the final ESRS specify that "a sustainability matter is material from a financial perspective if it triggers or could reasonably be expected to trigger material financial effects."[22] The ESRS also require additional disclosures if the company concludes that climate change is not material, including forward-looking analysis of the factors that could lead to climate change becoming material to the company in the future.

[22] EC, Commission Delegated Directive (EU) 2023/2772, ESRS 1, *General Requirements*, paragraph 49, page 11.

Targets, transition plans, and resilience

The frameworks all include required disclosure of a company's targets or goals, how it intends to meet its targets and goals, and related progress. They do not prescribe specific targets or dates, instead requiring disclosure of material targets set by the company. California SB 261 also requires additional disclosures related to the measures a company has adopted to reduce and adapt to the disclosed climate-related financial risks. And, although the bill includes transition provisions for companies unable to fully comply with TCFD reporting in the first year, there is no similar relief given for this requirement.

Theme	European Commission	ISSB	SEC
Targets and transition plans	Disclosure of material 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 of material climate-related targets set by the company, including how such targets were informed by the "latest international agreement on climate change" (currently the Paris Agreement) Such targets or goals would include those set in response to regulatory requirements or climate-related treaty or law	Disclosure of climate-related targets or goals reasonably likely to materially affect the company's business, results of operations, or financial condition Disclosure of a transition plan would be required if the company adopted a plan to manage a material transition risk
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 the company used a scenario that aligns with the "latest international agreement on climate change" would be required	Disclosure would be required if scenario analysis is used and it identifies a climate risk that is, or is reasonably likely to be, material on its business, results of operations, or financial condition Does not require consideration of specific scenarios

Observations

The disclosure of targets or goals is an important element of the disclosure requirements. 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 regarding scenario analysis 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.

Instead of choosing company-specific scenarios, some argue that adopting targets, models, and calculation methods that are universally applied would 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.

GHG emissions – general

All three frameworks as well as California SB 253 would require GHG emissions disclosures and reference the Greenhouse Gas Protocol, although use of the GHG Protocol is not required by the SEC, and the ISSB allows for other methods to be used if they are required by an exchange or jurisdictional authority.

The organizational boundaries applied in the calculation of GHG emissions may have a significant impact on reported amounts. The ESRS specify the organizational boundary to be applied while both the ISSB Sustainability Disclosure Standards and the California climate disclosure bills provide the flexibility allowed by the GHG Protocol. The SEC allows greater flexibility, although we would generally expect most companies to look to similar standards and frameworks, such as the GHG Protocol, in determining their organizational boundaries. Management will also be required to disclose the method used to determine the organizational boundaries and briefly disclose material differences from those included in the financial statements, if any. SB 253 is the only one of the frameworks that mandates full compliance with the GHG Protocol.

Theme	European Commission	ISSB	SEC
GHG Protocol	Consideration of the GHG Protocol is required The environmental footprint methods proposed by the EC or the framework for GHG accounting stipulated in International Organization for Standardization (ISO) 14064 may also be considered[23]	Use of the GHG Protocol would be required, unless a different method is required by a jurisdictional authority or exchange	Use of the GHG Protocol is not required Disclosure of the protocol or standard used for measurement and references the GHG Protocol, the U.S. Environmental Protection Agency, ISO 14064-1, or other standards[24] is required
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)	Disclosure of the organizational boundaries, the method used to determine them, and a brief explanation if they are materially different than the scope of entities and operations included in 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 — such as establishing formal due process, amending for the impact of current accounting standards, and implementing a continuous update process — are more formally incorporated into the maintenance and ongoing development of the GHG Protocol. To this end, in March 2022, the World Resource Institute announced its intention to assess the need for incremental guidance.[25] The GHG Protocol is currently analyzing responses to four surveys on potential updates to its corporate standards and guidance which were completed on 14 March 2023.[26]

[23] Commission Delegated Directive (EU) 2023/2772, ESRS E1, *Climate Change*, paragraph AR 39, page 97.
[24] SEC, Final climate disclosure rules, page 253-254.
[25] GHG Protocol to assess the need for additional guidance building on existing corporate standards
[26] Greenhouse Gas Protocol opens surveys on standards and guidance

GHG emissions — scope 1 and scope 2 disclosures

All three disclosure frameworks as well as California SB 253 include requirements to disclose scope 1 and scope 2 GHG emissions in carbon dioxide equivalent (CO_2e) tons, although the SEC only requires disclosure of material scope 1 and scope 2 emissions by certain larger registrants. ESRS also requires entities to present one or more intensity metrics (a ratio of emissions to specific financial statement measures). All frameworks identify the same seven greenhouse gases and exclude the impact of purchased or generated offsets — although only the SEC requires disclosure of the emissions for a specific type of gas, if material. Unlike the other frameworks, California SB 253 requires full compliance with the GHG Protocol, including reporting of both location-based and market-based scope 2 information.

Theme	European Commission	ISSB	SEC
Scope 1 and scope 2 GHG emissions	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	Disclosure of gross scope 1 and scope 2 GHG emissions for the consolidated group and separately for the investees excluded from consolidation, such as its associates and joint ventures Scope 2 emissions would be disclosed using the location-based method No requirement to disaggregate emissions by type of GHG	Disclosure of gross scope 1 and scope 2 GHG emissions for large accelerated and accelerated filers Scope 2 emissions may be disclosed using either the location-based or market-based method (or a combination) Disclosure of emissions related to an individual constituent gas, if material, is required
GHG emissions intensity	Disclosure of total GHG emissions per net revenue would be required	No requirement to disclose GHG emissions intensity	No requirement to disclose GHG emissions intensity

Observations

GHG emissions are among the most common disclosures provided by companies that issue voluntary sustainability reporting. As the regulatory landscape evolves, however, the timing of when such disclosures need to be prepared varies. The ESRS and ISSB require the emissions disclosures to be included with their management report and with financial reporting, respectively. This may give six months or more to companies concerned with gathering the requisite information, and obtaining assurance, although some jurisdictions may require a shorter filing date. The final SEC rules require registrants to provide the emissions disclosures in their annual report on Form 10-K, but also permit additional time, allowing the information to be incorporated by reference from the second fiscal quarter Form 10-Q, with foreign private issuers permitted a similar length of time.

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. The ESRS, the ISSB, and California SB 253 include specific requirements to disclose scope 3 GHG emissions. In accordance with the final 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 ESRS provide a specific format that is to be followed for disclosure of all GHG emissions and related targets and goals.[27]

The ISSB and California SB 253 provide for a one-year delay on reporting of scope 3 emissions for all companies, while the ESRS offer a one-year delay on scope 3 reporting for companies with fewer than 750 employees.

Theme	European Commission	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 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	No requirements to disclose scope 3 emissions
GHG emissions intensity	Disclosure of total GHG emissions per net revenue would be required	No requirement to disclose GHG emissions intensity	No requirement to disclose GHG emissions intensity

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. Even though the SEC does not require the disclosure of scope 3 emissions, material targets based on GHG emissions, including scope 3, would still require disclosure.

[27] Commission Delegated Directive (EU) 2023/2772, ESRS E1, paragraph AR 48, page 100.

Assurance

Confidence in the information disclosed by companies 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 under the CSRD and in the SEC rules, although there are key differences in the scope of the disclosure frameworks. Whether similar assurance will be required for those applying the IFRS Sustainability Disclosure Standards will be decided by the jurisdictions adopting the standards.

The CSRD and California SB 253 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). The SEC rules also include a phased assurance approach, with both large accelerated filers and accelerated files beginning with limited assurance on scope 1 and scope 2 emissions. Large accelerated filers will progress to reasonable assurance four years later.

Theme	European Commission	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 the disclosure of material scope 1 and scope 2 GHG emissions would be subject to required assurance
Assurance on GHG emissions	GHG emissions are subject to the same assurance as other sustainability information	GHG emissions are subject to assurance based on the rules of the jurisdictions adopting the standards	GHG emissions would be subject to limited assurance for fiscal years beginning in 2029 for large accelerated filers and 2031 for certain accelerated filers; large accelerated filers will transition to reasonable assurance for fiscal years beginning in 2033

Observations

In our global investor survey completed in fall 2023, we found that investors value assurance as a way to give them confidence in corporate reporting on sustainability. At the top of their list is reasonable assurance, which is the same level as the financial statement audit; 85% of respondents report more confidence in ESG information if it has been subject to reasonable assurance. Investors also want to see the effect of sustainability risks and opportunities on the financial statements (75%).[28]

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 CSRD.[29] 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.

---

[28] PwC's Global Investor Survey 2023: Trust, tech and transformation: Navigating investor priorities

[29] The International Auditing and Assurance Standards Board is currently undertaking a project to develop international standards on sustainability assurance. An exposure draft was issued on 2 August 2023 and the comment period closed on 1 December 2023. Refer to the announcement, IAASB launches public consultation on landmark proposed global sustainability assurance standard, for more information.

Effective dates and transition

The EU, ISSB, and SEC have introduced a new era of reporting by requiring sustainability-related information to be issued together with annual financial statement reporting. And, companies do not have much time to prepare. One of the California climate laws is already effective, the CSRD is now applicable for the earliest reporters, and the SEC rules are going into effect for fiscal years beginning in 2025 for large accelerated filers even as additional jurisdictions evaluate adoption of the ISSB standards.

Theme	European Commission	ISSB	SEC
Timing of application	Timing is established by the CSRD and 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 Disclosure requirements of IFRS S2 are effective for annual reporting periods beginning on or after 1 January 2024, with early adoption permitted In the first year of reporting, entities are permitted to apply IFRS S1 only to the extent it relates to the disclosure of climate-related information	Timing is phased by type of filer, with disclosure requirements applicable for fiscal years beginning in 2025 for large accelerated filers
Comparative information	Comparative information is not required in the first year of adoption, but required thereafter	Comparative information is not required in the first year of adoption, but required thereafter	Comparative information is only required for information previously included in an SEC filing

Observations

The timing of adoption of the CSRD and California climate bills is aggressive, and provides minimal time for companies to prepare for sweeping changes in the scope of reporting. Responding to concerns around timing, the European Commission provided various transition reliefs in the ESRS (e.g., a two-year delay for some companies to report certain environmental and social disclosures). And for SEC filers, although 2025 may seem far away, timing is also short for large accelerated filers required to apply the rules. Although some companies may be counting on delays in implementation, the outcome of any litigation is unknown. On March 15, 2024, the US Court of Appeals for the Fifth Circuit issued an administrative stay of the final SEC rules. The administrative stay is not a final decision of the rules and it is uncertain whether it would remain in place while a court considers the merits of the position. Thus, we recommend that companies continue to proceed while the legal process unfolds.

Final thoughts

The ESRS, IFRS Sustainability Disclosure Standards, SEC climate rules, and California climate disclosure laws are now final. Comment letter respondents during the exposure processes frequently highlighted the practical need for international collaboration and consistency, including maximizing interoperability and providing equivalency when appropriate. To this objective, the EC, EFRAG, and the ISSB have announced that they are working together on interoperability guidance intended to assist companies that apply both ESRS and IFRS Sustainability Disclosure Standards.[30] Further, in its approving release, the SEC noted that it will "observe how reporting under international climate-related reporting requirements and practices develop before making any determination whether such an approach would result in consistent, reliable, and comparable information for investors."[31] Interaction with the California laws is also important in assessing interoperability and the scope of required reporting — the California climate reporting requirements scope in more companies than the SEC rules and accelerate climate reporting in the US. And, although two of the California bills provide some ability to leverage other disclosures, it is likely separate reporting will be required by many companies, leading to increasing difficulty in managing a company's sustainability reporting obligations worldwide.

Companies should develop processes to monitor developments and should also consider developing reporting processes that enable flexibility to respond to multiple requirements with the same underlying data. The pace of change is expected to continue to accelerate and companies should begin to prepare for what they know now, with the ability to layer in additional proposals as needed. 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 effective dates for several requirements 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.

Publications	
Navigating the SEC climate-related disclosure requirements	*Navigating sustainability reporting: Practical application and analysis*
Worldwide impact of CSRD - are you ready?	*Take the next step - decide how to report under CSRD*
IFRS Sustainability Disclosure Standards – Guidance, insights and where to begin	*California's not waiting for the SEC's climate disclosure rules*

Podcasts	
Decoding the SEC rules' new GHG emissions reporting requirements	*Decoding the SEC rules' new GHG emissions reporting requirements*
SEC climate-related disclosure rules: what you need to know	*CSRD spotlight: Investor perspectives on sustainability disclosures*
CSRD spotlight: Basics of reporting boundaries	*PwC IFRS Talks October 2023: Speaking Sustainability*
ISSB: The latest in global adoption of its standards	

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

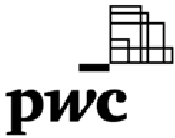
[30] IFRS Foundation, European Commission, EFRAG and ISSB confirm high degree of climate-disclosure alignment
[31] SEC, The Enhancement and Standardization of Climate-Related Disclosures for Investors, page 805.

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

Peter Flick	Andreas Ohl	Mark O’Sullivan
Partner	Partner	Director
peter.flick@pwc.com	andreas.ohl@pwc.com	mark.j.osullivan@pwc.com

US clients: To have a deeper discussion, contact:

Heather Horn	Diana Stoltzfus	Valerie Wieman
Partner	Partner	Partner
heather.horn@pwc.com	diana.stoltzfus@pwc.com	valerie.wieman@pwc.com



© 2024 PwC. All rights reserved. PwC refers to the US member firm or one of its subsidiaries or affiliates, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.