New ISSB Standards

And What They Mean for Australian Companies?

In June 2023, the International Sustainability Standards Board ("ISSB") released its inaugural sustainability standards, IFRS S1 and IFRS S2,[1] establishing a global common language for sustainability disclosure.

IFRS S1 and IFRS S2, collectively referred to as the "Standards", will drive a significant increase in ESG reporting by Australian companies. The Standards require mandatory ESG reporting requirements for Australia's largest listed and unlisted companies (more than 500 employees, AUD$500 million+ in revenues and more than AUD$1 billion+ in assets) and financial institutions with annual reporting periods beginning on or after 1 January 2024.[2] It is vital for organisations to fully understand the new requirements and modify existing approaches to ESG reporting and their strategy to be compliant.

With local jurisdiction-specific aspects still to be determined through public consultation on Australia's climate-related financial disclosure, there are opportunities for Australian companies and financial institutions to contribute to decision-making around key determinants. These include implementation timeline, reporting entity size and greenhouse gas emissions accounting.

The following is a quick overview of the new Standards, answering the following questions. What do the Standards include? How is materiality approached? Is there a connection to financial reporting? What are the implications for Australian companies?

What are the Standards?

The ISSB Standards:

- provide common disclosures for reporting on sustainability risks and opportunities.
- are designed for capital markets and investors.
- are connected to the accounting standards and expected to be disclosed alongside financial reporting in the same reporting package.

Which Standards have been released?

IFRS S1 – A set of disclosures for sustainability-related risks and opportunities over short-, medium-, and long-term periods.

IFRS S2 – A set of disclosures for climate-related risks and opportunities, designed to be used with IFRS S1. These Standards fully incorporate recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

How is materiality approached?

- The Standards align the definition on materiality to the one used in the IFRS Accounting Standards, focusing on sustainability risks and opportunities affecting the financial health of a company (including financial position, performance and cash flows): *"information is material if omitting, obscuring or misstating it could be reasonably expected to influence investor decisions."*
- The Standards do not adopt the double materiality concept (adopted in the European legislation for example), where information disclosed has an implication on a company's financial value, and also considers the company's impact on the outside world.

What are the components of the Standards?

The Standards follow the TCFD framework structure, where companies are to provide information about:

- *"Governance—the governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities.*
- *Strategy—the approach the entity uses to manage sustainability-related risks and opportunities.*
- *Risk management—the processes the entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities.*
- *Metrics and targets—the entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation."*

What are the metrics included in the Standards?

- The Standards prescribe an industry-specific set of metrics for reporting, largely aligned to the Sustainability Accounting Standards Board.

When do the Standards take effect?

- The Standards take effect for annual reporting periods beginning on or after 1 January 2024 for large listed and unlisted companies.

Why should Australian companies pay attention?

- The Standards are expected to be adopted globally to ensure investor confidence in sustainability-related disclosure.
- The Australian Treasury has signalled that the mandatory climate-related disclosures for Australian large-listed companies and financial institutions would most likely follow the ISSB Standards.
- The Australian Accounting Standards Board (AASB) is developing sustainability standards for the Australian market, likely to be in close alignment with the ISSB Standards.

What if a company reported to a different standard?

- Companies should evaluate the needs of stakeholders when choosing to report in line with any given standard. The ISSB Standards may not be suitable for all companies, however, those with exposure to capital markets should look to revise reporting in line with ISSB.

How can companies contribute to the development of Australia's reporting landscape?

- The Federal Government has launched a public consultation on Australia's climate-related financial disclosure legislation design, which remains open until 21 July 2023.
- Australian Standards are intended to align as far as practicable with the final Standards developed by the ISSB and the AASB is expected to consult on these in the second half of 2023.
- Australian companies should contribute to the consultation process with regards to critical jurisdiction-specific aspects, including implementation timelines, reporting entity size and emissions accounting.[3]

How FTI Consulting can help

Ultimately, the strength of reporting is inextricably linked to the efforts, ambitions and ESG strategy underpinning it. FTI Consulting partners with clients to identify areas for improved performance as a central part of enhancing reporting.

Navigating the complexities of ESG management under intense scrutiny and mounting expectations for forward-looking strategies clearly demonstrates the need for experienced counsel and a thoughtful, rigorous, and defensible approach to ensure related efforts create value.

Our team of ESG specialists help companies to develop and communicate best-practice sustainability program elements rooted in materiality, stakeholder feedback, and meaningful alignment with business priorities. With the right processes and reporting in place, a robust ESG program can generate significant value for a company, its customers, investors and business partners.

[1] "Ten things to know about the first ISSB Standards", IFRS (June 27, 2023), https://www.ifrs.org/news-and-events/news/2023/06/ten-things-to-know-about-the-first-issb-standards/.

[2] "IFRS S1 General Requirements of Disclosure of Sustainability-related Financial Information", IFRS (last visited June 27, 2023), https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/.

[3] This article leverages information from the IFRS about the new ISSB Standards released on 27 June 2023, summarised in the IFRS article: "Ten things to know about the first ISSB Standards", https://www.ifrs.org/news-and-events/news/2023/06/ten-things-to-know-about-the-first-issb-standards/.

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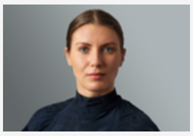

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