Navigating the ISSB's sustainability disclosure standards: practical insights

Introduction

The global sustainability reporting landscape is evolving fast. In 2025, the UK government is expected to consult on new sustainability reporting standards for large and listed companies based on the ISSB's sustainability disclosure standards (ISSB standards).

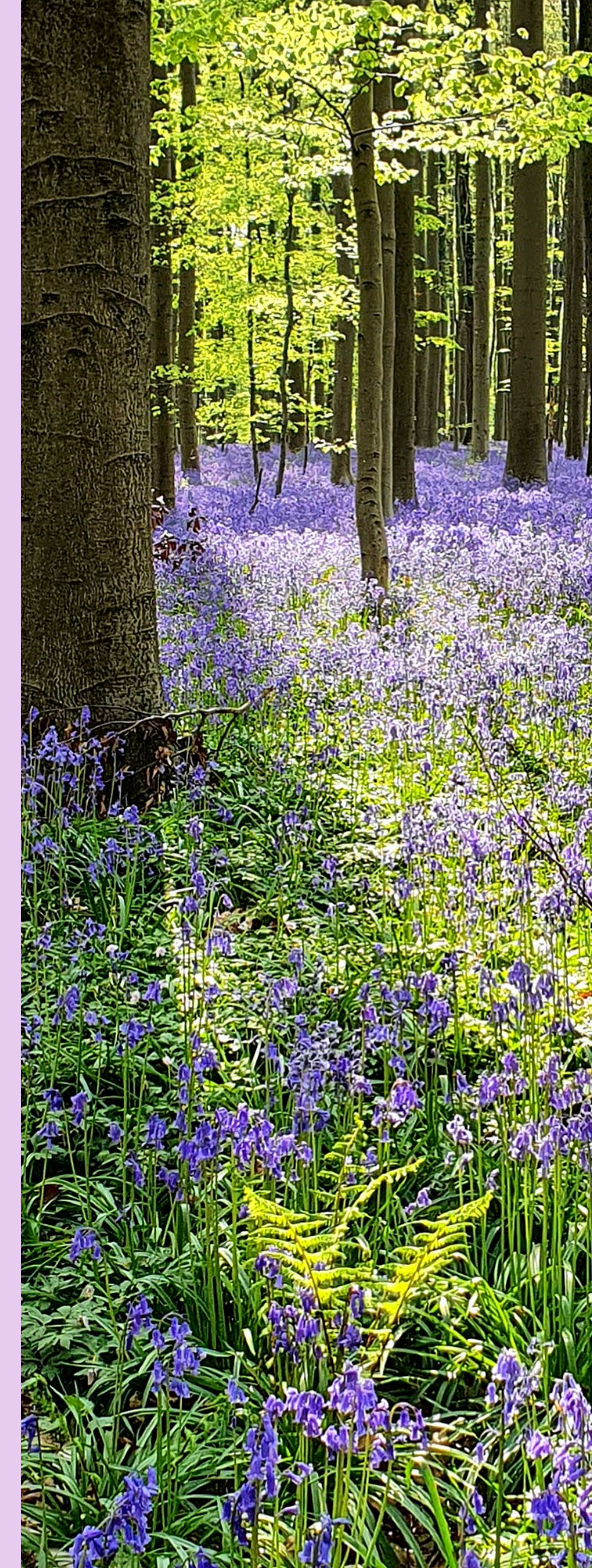
Understanding how to implement new corporate reporting requirements in practice can be challenging and no one business has all the answers. With this in mind, in July 2024 RPC brought together sustainability, legal and corporate reporting specialists from across the retail, consumer and technology sectors to engage in knowledge sharing on the ISSB standards. We were delighted to be joined by Mardi McBrien, Chief of Strategic Affairs & Capacity Building at the IFRS, to share her experience and insights on the ISSB standards.

This group included a mix of organisations – from private UK companies focused solely on complying with UK disclosure rules through to global listed companies who are also navigating disclosure regimes in other countries, including the European Sustainability Reporting Standards (ESRS) under the Corporate Sustainability Reporting Directive (CSRD).

In this article, we unpack the key takeaways and practical insights from the discussion.

Top 5 tips:

1. **'Discoverable part':** ISSB disclosures can be a 'discoverable part' of broader sustainability reporting under other disclosure regimes, including ESRS. Businesses do not need to report the same data twice. Make sure that ISSB disclosures are clearly signposted, or use publicly available 'data books', to help investors identify which disclosures relate to which reporting standards.
2. **Group-wide materiality assessments:** Adopt a group-wide framework for materiality assessments to ensure consistency across the group then flag any key jurisdictional differences in the group report as needed. Materiality assessments should involve stakeholder consultation, peer benchmarking and robust probing of results.
3. **Engaging finance teams:** Bring internal finance teams into the sustainability reporting process and get them comfortable by highlighting the many similarities with traditional financial reporting (eg shared language and concepts).
4. **Transparent disclosures:** Ensure transparency when drafting sustainability disclosures by including information about any methodologies and assumptions made and ensuring statements are accurate, drafted clearly and include detail about any caveats, contingencies or dependencies affecting their meaning.
5. **Pilot:** Consider doing an initial 'pilot' now to test the business's internal sustainability reporting processes and iron out any issues before the new UK sustainability reporting standards come into force.

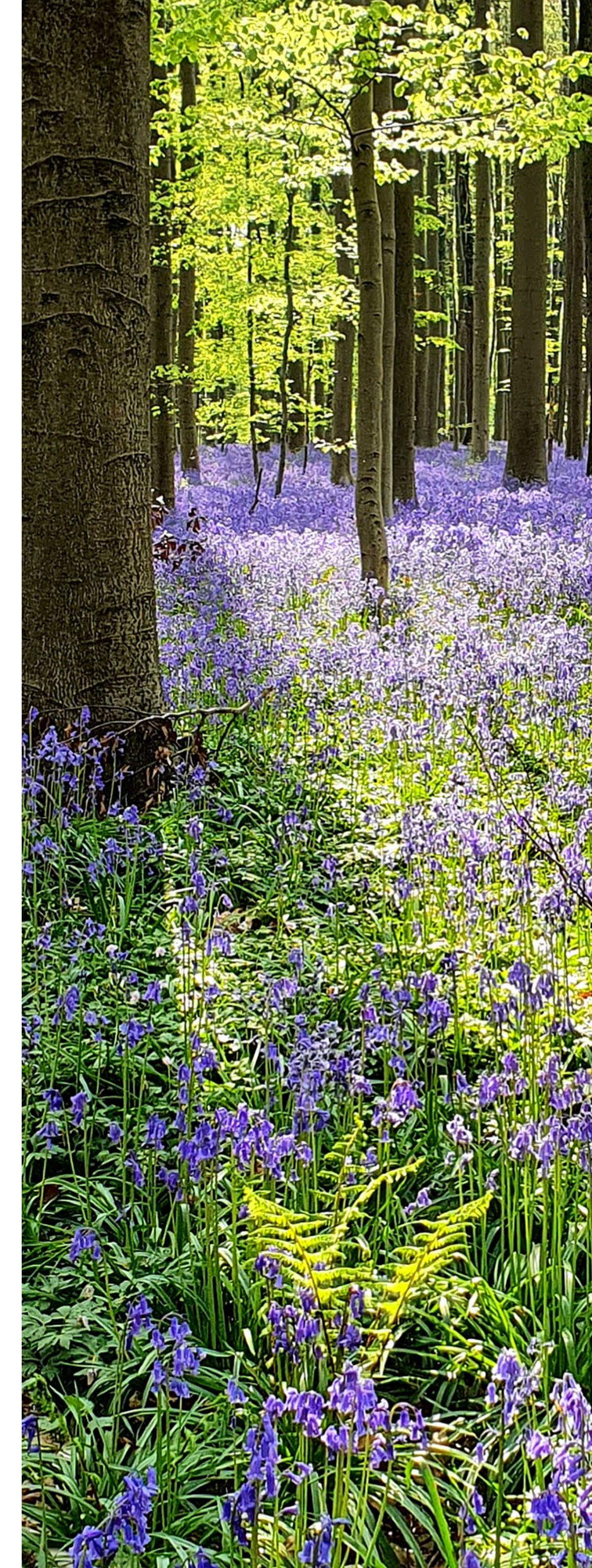


The ISSB sustainability disclosure standards

The ISSB sustainability disclosure standards, IFRS S1 and IFRS S2, set a new global baseline for reporting sustainability-related financial risks and opportunities as part of companies' annual reporting. Whilst the standards are currently voluntary, many governments, including in the UK, have indicated they will make them mandatory by introducing national reporting legislation. The ISSB standards go further than existing disclosure rules in the UK – once they are in force they will require more extensive climate reporting particularly around 'scope 3' greenhouse gas emissions under IFRS S2, and they will also require more comprehensive reporting beyond climate on other sustainability matters under IFRS S1.

On top of this, global businesses that also have large or listed group companies in the EU, or UK parent companies with a large EU branch, may also have to comply with separate reporting obligations in the EU under the CSRD. Reporting by large or listed EU group companies meeting the relevant thresholds applies over the coming three years, with obligations applying to the largest entities from 2025. Reporting by UK parent companies in respect of their EU branches will apply from 2029. Given this, many global businesses will already be preparing their ESRS disclosures and so will need to map the required ISSB disclosures on top of this in due course.

	TCFD	ISSB	ESRS
Applies to	Set at national level UK → large UK companies and LLPs (>500 employees and >£500m net turnover) and listed companies (Main Market of LSE)	Set at national level	EU and non-EU companies meeting certain thresholds
Topics for disclosure	Climate-related risks and opportunities	Sustainability-related risks and opportunities (IFRS S1) Climate-related risks and opportunities (IFRS S2)	Sustainability-related risks, opportunities and impacts
Materiality	Single	Single	Double
Location	Annual financial filings UK → Strategic report	General purpose financial reports	Sustainability statement in management report
Assurance	Not required	Set at national level	Limited assurance



Interoperability between the ISSB standards and the ESRS

Close alignment

Multinational businesses need to navigate disclosure regimes across different jurisdictions and are leading calls for greater alignment of disclosure requirements. The ISSB standards seek to provide a global base line for sustainability disclosure and there is already considerable alignment between the ISSB and other disclosure standards, including the ESRS, which businesses can benefit from, as indicated below.
The ISSB has also taken over responsibility for monitoring the progress of companies' climate-related disclosures from the Taskforce on Climate-Related Financial Disclosures (TCFD) with TCFD disclosures now effectively folded into IFRS S2.

Climate disclosures

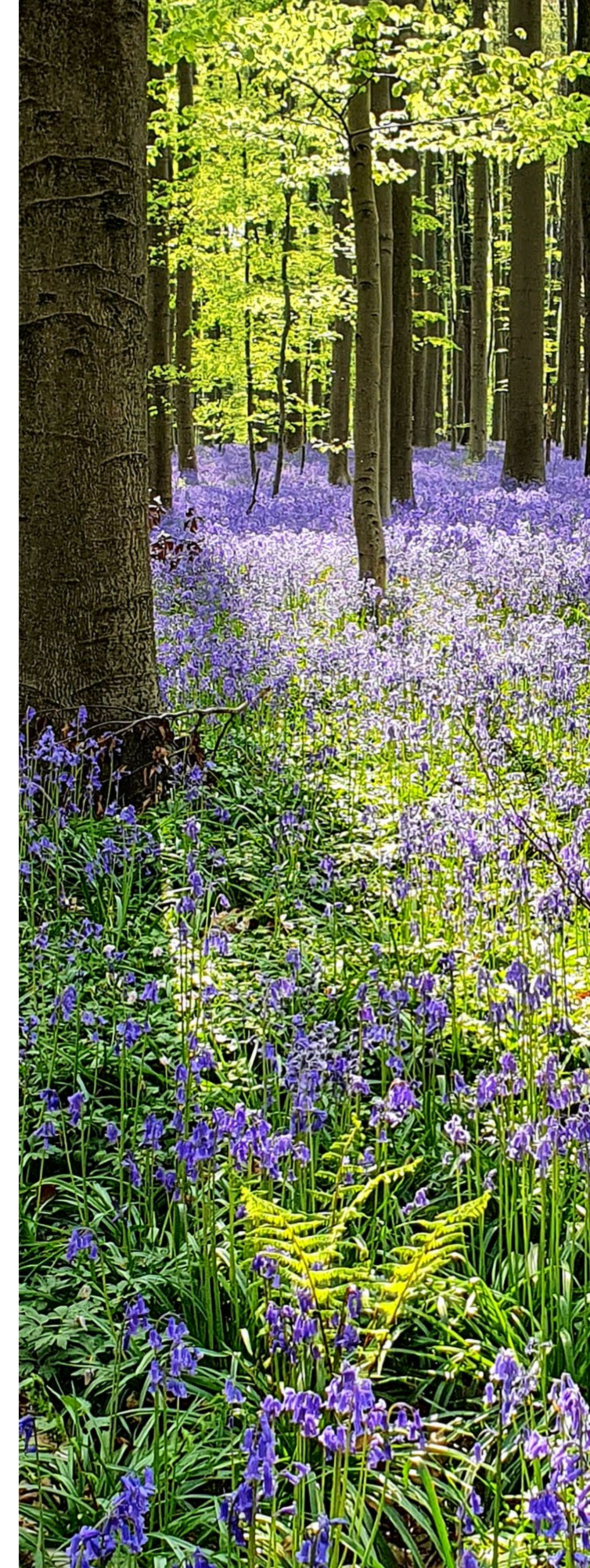
The ISSB's climate-related disclosures (IFRS S2) are generally narrower than those in the ESRS (E1). This means that businesses currently working to comply with the ESRS will likely find they are already most of the way towards complying with the ISSB's climate standards. However, businesses should cross-check against the IFRS-EFRAG interoperability guidance for any additional disclosures required (although these are likely to be minimal).

Non-climate disclosures

The ISSB's general requirements (IFRS S1) set a framework for reporting broader sustainability matters beyond climate and allow businesses to use the ESRS to help them identify and disclose material sustainability-related risks and opportunities relevant to their business. Businesses that are already preparing to report on their material sustainability-related financial risks and opportunities under ESRS can therefore lean heavily on their ESRS work when considering which disclosures to make under the ISSB standards. In due course, the ISSB may publish further disclosure standards on additional sustainability topics, in addition to the climate standards in IFRS S2, such as biodiversity and ecosystems. Further interoperability guidance is also planned to help businesses leverage the synergies and alignment with ESRS on these additional sustainability topics.

'Discoverable part'

While there are differences between the disclosures required under the ESRS and ISSB standards, businesses will not need to report the same data twice in separate reports. Instead, their ISSB disclosures can be a 'discoverable part' of their broader ESRS reporting. Businesses may opt for different approaches to this – such as making their ISSB disclosures 'discoverable' through clear signposting or labelling in their annual report, or by putting their ISSB disclosures upfront in a distinct sub-section of its sustainability disclosures. Some businesses are also using separate schedules to their reports, or publicly available 'data books' (eg on their websites) to help investors identify the applicable frameworks and standards that have been used (eg ISSB, ESRS, GRI, SASB standards), the underlying data, and where the relevant disclosures can be found in the annual report.



Materiality

Materiality

The definitions of financial materiality under ESRS and ISSB are aligned, so businesses can use the same financial materiality assessment when applying these standards. However, the ESRS go further by applying a "double materiality" test that requires businesses to also report on sustainability impacts (in addition to financial materiality). For businesses in scope of both the ISSB and ESRS, their ISSB disclosures will in effect form a subset of their broader reporting under ESRS.

Focus on what matters

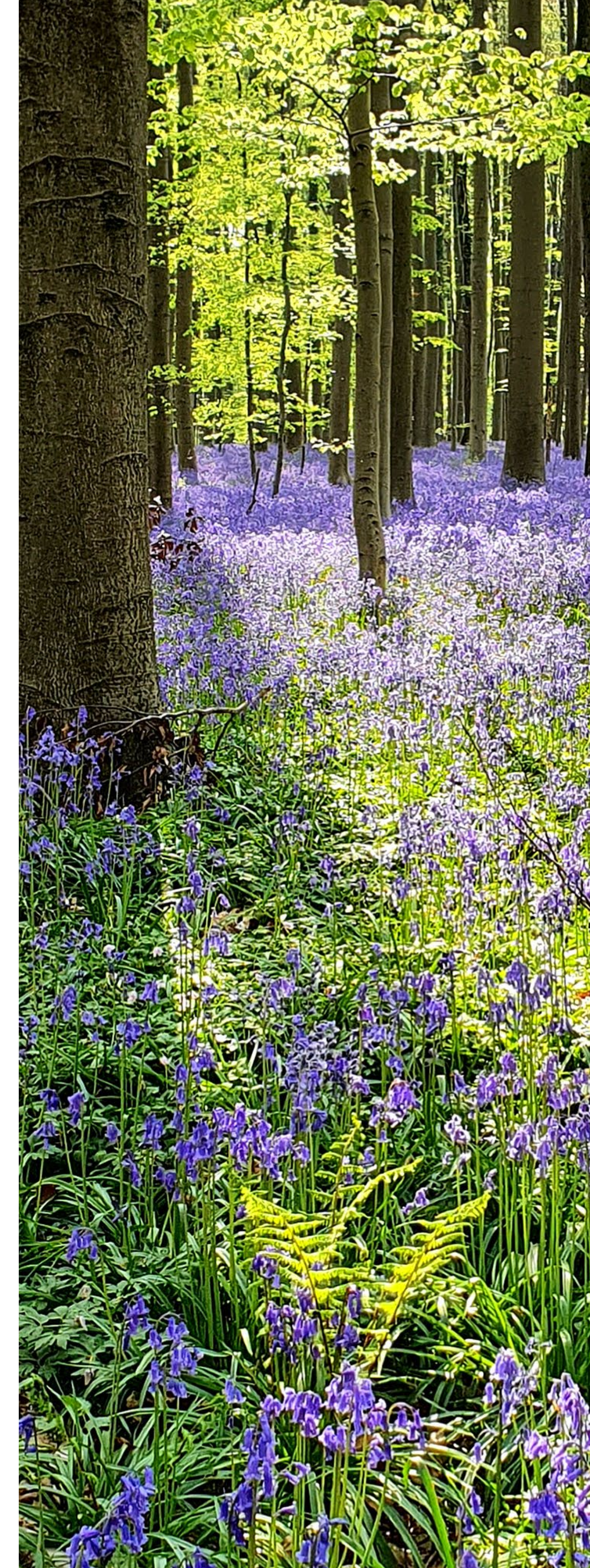
Remember that businesses don't have to report on everything – the ISSB standards only require businesses to report on 'material' sustainability risks and opportunities, ie the most important sustainability issues impacting the business. Businesses should already have a good sense of these given their strategic importance, however undertaking a formal materiality assessment process as outlined in IFRS S1 is an important step to avoid missing anything.

Group-wide materiality frameworks

For multinational businesses, determining which sustainability issues are 'material' for the purposes of reporting can vary from jurisdiction to jurisdiction. Due to local markets and regulations, what is deemed to be material by teams in one country of operation might differ greatly from what is deemed material by teams in another. This can make group reporting complicated. To overcome this, businesses should aim to adopt a group-wide framework for risk management and materiality assessments in relation to sustainability matters to ensure consistency. Group reports can then include additional detail, split out by region, to explore any key differences if that is helpful for investors.

Materiality assessments

When conducting materiality assessments, stakeholder consultation is important. Consider setting up a cross-organisation materiality 'working group' with representatives from across finance, operations, sustainability, HR, commercial and procurement to help identify sustainability issues that are material to the business. Consultation with external stakeholders, particularly investors, is also key – for example through investor relations teams or dedicated sustainability investor roadshows. Also remember to challenge the results of any materiality assessment – benchmark these against peers and check they are consistent with the business's own data, risk registers, internal budgets and external communications.



Supply chains

A proportionate approach to supply chain data

Both the ISSB standards and ESRS require reporting of sustainability information from across the businesses' supply chain. Mapping and getting hold of this information can be particularly challenging where supply chains are global, continually shifting, and involve smaller businesses with fewer resources or capacity to provide the relevant sustainability data. These challenges are also reflected in EFRAG's recent report on implementation of ESRS.

The ISSB and ESRS standards' in-built proportionality measures seek to address this by only requiring businesses to report information that is available to them "without undue cost or effort". In practice this requires businesses to balance the costs and effort of obtaining the information against the benefits to investors of having the relevant data. Investors and other report users are unlikely to expect businesses to be perfect straight away – complying with these new sustainability disclosure standards will be an iterative process, with improved disclosures provided as more and better data become available over time.

Collaboration

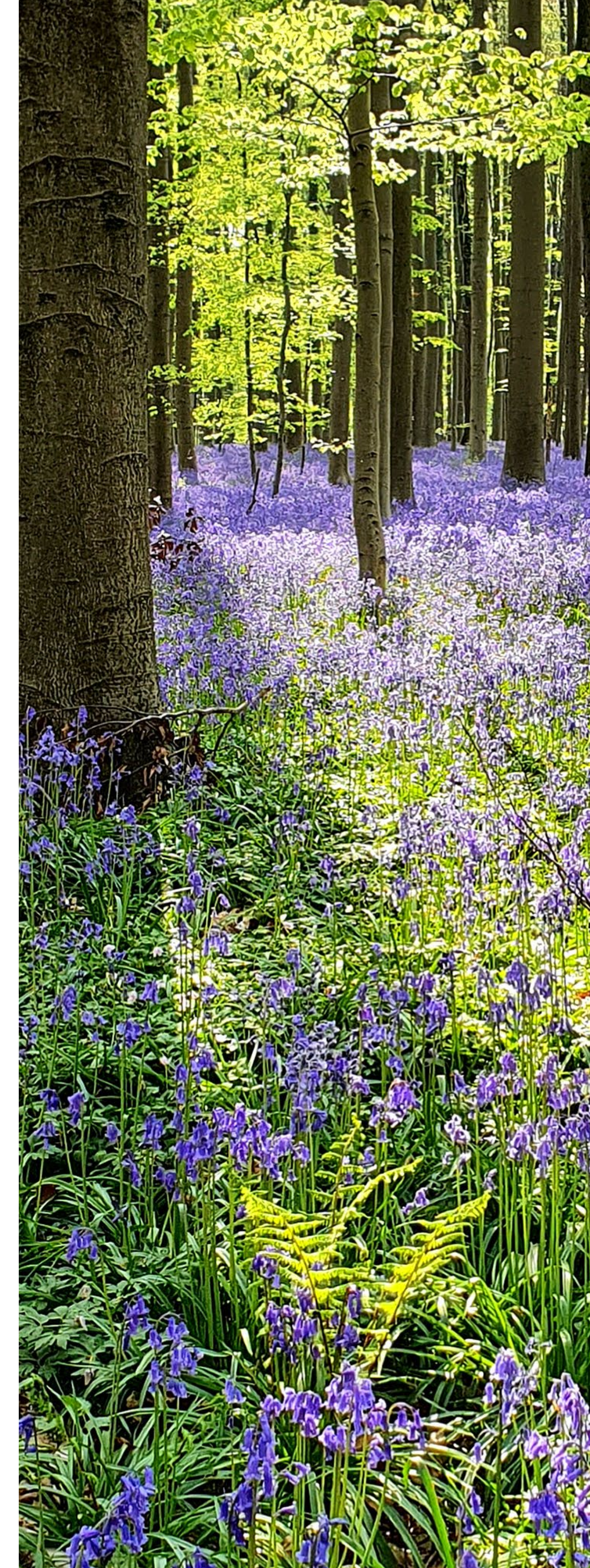
Collaborating with others in the supply chain and with industry peers will be key to getting the right data and driving improved sustainability measures. Businesses that share similar supply chains should consider setting up a joint industry taskforce to share learning and to support their joint suppliers to collect the required sustainability data (within the limits of any antitrust considerations). This could include agreeing consistent methodologies for collecting data or providing technical support to smaller businesses. The UK's Competition and Markets Authority has provided helpful guidance to businesses on the application of UK competition law to environmental sustainability collaborations to help them avoid anti-trust pitfalls.

Internal governance

Ownership of sustainability reporting

Effective internal governance for sustainability reporting under the ISSB standards requires a central business owner (ideally the finance team) supported by a cross-functional working group and oversight from the board of directors. Whilst climate reporting under TCFD has generally been seen as the responsibility of finance teams within businesses, the expansion to broader sustainability reporting, which many finance teams don't instinctively recognise as within their remit, may face resistance.

To help to engage finance teams on sustainability reporting, focus on the language, concepts and constructs from the ISSB standards (eg around materiality and assurance) which are taken from the IFRS accounting standards and will be familiar to them. Presenting sustainability reporting as an evolution of traditional financial reporting can help get better traction with internal finance teams and ensure the business has the appropriate expertise and teams involved.



Avoiding 'greenwashing' in sustainability disclosures

Brand narrative

It can be challenging to draft sustainability disclosures in a way that meets the ISSB standards while still allowing the business to tell its positive brand story around its sustainability efforts. Businesses must tread the line carefully so they can showcase their sustainability progress while also avoiding 'greenwashing' by making misleading or unsubstantiated claims.

Transparency is key

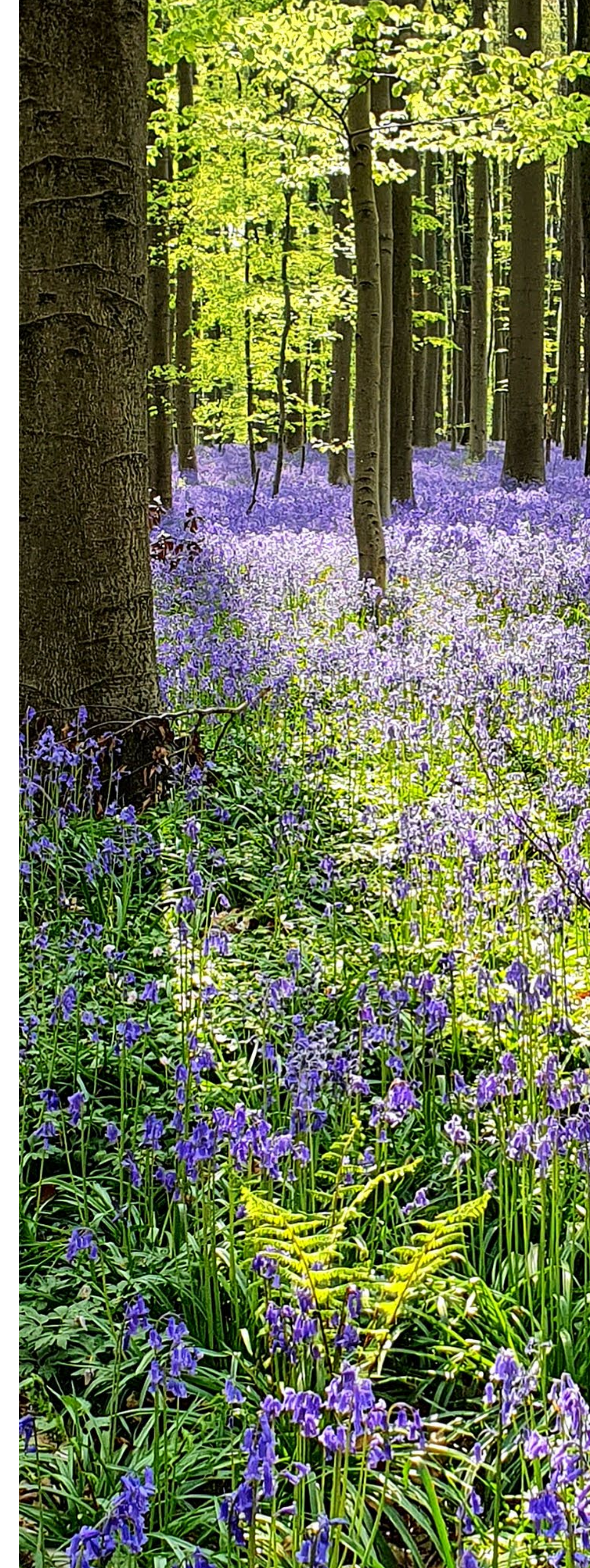
When drafting sustainability disclosures, transparency is key. In practice this includes:

- not 'cherry-picking' only positive sustainability information but also disclosing ongoing and forward-looking risks and challenges
- being transparent about any methodologies and assumptions used in preparing sustainability disclosures – for example, explaining how materiality has been assessed, what data the business is relying on (primary or secondary) and what assumptions have been made about that data and why
- ensuring statements are drafted carefully and clearly by including key contingencies, caveats or dependencies which impact the accuracy of the statement and considering if it could be open to interpretation. Stakeholder feedback on draft reports can be helpful to assess how disclosures are being interpreted by investors and others.

Internal processes

Robust internal processes are key to ensure all disclosures are accurate and can be evidenced. Support from the legal team is essential for this – both for asking the right questions and challenging assumptions, and also advising on the legal risks relating to specific disclosures.

It is also important to record the business's decision-making and have a paper trail. Keep a separate (confidential and privileged) record of all advice and any risk assessments conducted for specific sustainability claims/disclosures. This information can serve as a refresher and inform any discussions the business has with regulators, investors or other stakeholders should a claim be challenged further down the line.



Assurance

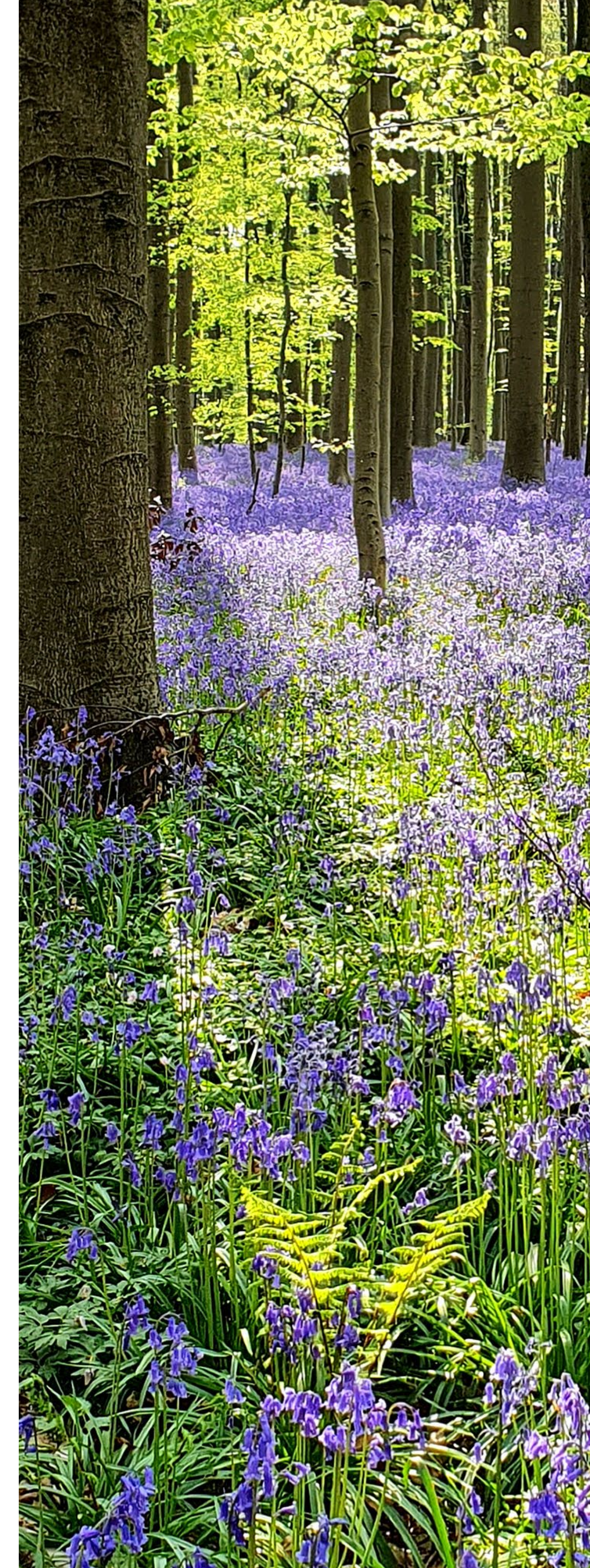
Road-testing disclosures with auditors

Whilst compliance with the ISSB standards does not require an independent third-party review of disclosures ('assurance'), businesses may want to involve their auditors in the sustainability reporting process for additional comfort. This is particularly the case as local requirements in certain jurisdictions may evolve in the future to require assurance for sustainability disclosures, either on a "limited assurance" basis (as in the case of the ESRS) or potentially in the longer term applying the more extensive and rigorous audit processes required for "reasonable assurance". In September 2024, the International Auditing and Assurance Standards Board approved the International Standard on Sustainability Assurance (ISSA 5000) which is intended to provide a global framework for the assurance of sustainability standards. Given this is a new area, early engagement with the business's auditors will be important. Businesses may want to consider early 'pilot' reporting against the ISSB standards on a voluntary basis before they are made mandatory to test out their processes and iron out any issues ahead of time. The ISSB has published a useful guide on voluntarily applying ISSB Standards.

ESG rating agencies

Responding to information requests

Sustainability reporting under the ISSB standards and ESRS fits into a broader disclosure ecosystem which also involves businesses having to respond to (often onerous) information requests and questionnaires from ESG rating agencies. Unlike mandatory sustainability reporting, which is typically limited to reporting of 'material' issues only, ESG rating agencies often request more comprehensive information on other topics which are not material. However, initiatives are being proposed that could ease this burden over time – such as digital reporting taxonomies that will enable ESG rating agencies to access data directly from annual reports so that businesses will not need to respond to multiple questionnaires. Other initiatives, such as the Net-Zero Data Public Utility, aim to make access to sustainability data free and publicly available online, which may cut out some of the process for ratings agencies.



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Connor specialises in addressing complex legal and regulatory challenges faced by listed and private businesses. As the head of RPC's Public Companies practice, Connor leverages his deep legal expertise and practical experience to provide clear, actionable advice on corporate transactions and corporate governance matters. Connor's focus also includes climate-related and sustainability disclosures, ensuring that clients meet evolving reporting requirements and navigate intricate regulatory landscapes with confidence and foresight.

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Sophie leads RPC's Environment and Climate Change practice, advising clients on a broad mix of environmental, regulatory, commercial and consumer matters, with a particular focus on environmental sustainability. She works with a wide range of clients across the tech, retail and consumer brands sectors advising on issues such as compliance with environmental regulations; greenwashing risk and liability; supply chain sustainability; and corporate sustainability reporting. With a Masters in Environmental Law and Policy, Sophie is an emerging voice in the ESG space. She is regularly quoted in the press on sustainability legal issues including in The Times, BBC News and Bloomberg. With extensive in-house experience, including at Google, Frasers Group and Ceres Power (a green tech start-up), Sophie acts as a true extension of clients' in-house teams, supporting in-house counsel, business leaders and sustainability teams to drive progress on their organisations' sustainability strategies.

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