

Sustainability Reporting & Assurance in Canada

Sustainability Reporting and the ISSB

1. What is sustainability reporting?

Economic and investment decisions are increasingly incorporating a wider set of information, including that related to an organization’s environmental and social performance and impacts. Many companies choose to publicly disclose a broad range of sustainability-related information in different forms, including in annual sustainability reports or on company websites. Sustainability reporting, be it for investor or broader multi-stakeholder audiences, is a significant part of disclosure for many large companies with 96% of the world’s leading companies reporting on sustainability matters.¹ Sustainability reporting to date has been largely voluntary but that is changing. Sustainability-related disclosure is now required or soon-to-be-required in a growing number of jurisdictions.

IFRS S1 defines “sustainability-related financial disclosures” as follows:

*A particular form of **general purpose financial reports** that provide information about the **reporting entity’s** sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s cash flows, its access to finance or cost of capital over the short, medium or long term, including information about the entity’s governance, strategy and risk management in relation to those risks and opportunities, and related metrics and targets.*

1 KPMG Survey of Sustainability Reporting 2022

2. What is the International Sustainability Standards Board (ISSB)?

The formation of the ISSB was announced on November 3, 2021 at COP 26 in Glasgow. Responding to the needs of investors for consistent and comparable sustainability-related information, the International Financial Reporting Standards (IFRS) Foundation created the ISSB as a sister board to the International Accounting Standards Board (IASB). The ISSB is responsible for developing IFRS Sustainability Disclosure Standards, to provide a comprehensive global baseline of sustainability disclosures for the capital markets.

3. What is the Canadian Sustainability Standards Board (CSSB)?

The CSSB will work with the ISSB to support the uptake of ISSB standards in Canada, highlight key issues for the Canadian context, and facilitate interoperability between ISSB standards and any forthcoming CSSB standards. The CSSB's December 2022 appointment to the Sustainability Standards Advisory Forum will support these mutual objectives.

In April 2023, the CSSB's first-ever chair and initial members were appointed, setting the stage for an operational board in tandem with the expected release of the ISSB's inaugural standards – IFRS S1 and IFRS S2. For more information, you can visit: [Canadian Sustainability Standards Board \(frascanada.ca\)](https://frascanada.ca)

4. What are the IFRS Sustainability Disclosure Standards?

The standards issued by the ISSB are IFRS Sustainability Disclosure Standards. The first two standards, issued on June 26, 2023 are:

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

IFRS S2 Climate-related Disclosures.

5. What topics are covered by the first standards issued by the ISSB?

IFRS S1 General requirements for Disclosure of Sustainability-related Financial Information

- Sets out general reporting requirements for disclosing sustainability-related financial information (other IFRS Sustainability Disclosure Standards set out specific disclosures on particular sustainability topics)
- Adopts the structure of the Task Force on Climate-related Financial Disclosure (TCFD) recommendations (four pillars of disclosure: governance, strategy, risk management, metrics and targets)

IFRS S2 Climate-related Disclosures

- The standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long-term.
- The standard builds on TCFD recommendations with enhanced guidance around:
 - Transition planning - Emissions targets and use of carbon credits
 - Climate resilience - Resilience of business strategy in multiple scenarios
 - Greenhouse Gas (GHG) emissions disclosures

6. Where will information disclosed based on the requirements of IFRS Sustainability Disclosure Standards be provided?

An entity is required to disclose information required by IFRS Sustainability Disclosure Standards as part of its general-purpose financial reports. An entity might disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. The entity shall ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information.

7. How do the ISSB and the IASB work together?

The ISSB works in close cooperation with the IASB, ensuring connectivity and compatibility between IFRS Accounting Standards and IFRS Sustainability Disclosure Standards. Each board is independent, and their standards complement each other to provide investors and other capital market participants with comprehensive information to meet their needs. The staff of the IASB and the ISSB work in coordination at all times to ensure their standards are compatible.

8. Can both the IFRS Sustainability Disclosure Standards and the Global Reporting Initiative (GRI) standards can be applied by companies?

The IFRS Foundation's focus is on meeting the information needs of investors. The IFRS Sustainability Disclosure Standards provide an investor-focused baseline of sustainability-related information designed to meet the needs of the capital markets. The ISSB works closely with Global Reporting Initiative (GRI), the leading provider of sustainability standards aimed at broader stakeholders. This collaboration aims to ensure compatibility and interconnectivity between the IFRS Sustainability Disclosure Standards and GRI's information intended to serve the needs of a broader range of stakeholders.

EFFECTIVE DATE OF STANDARDS AND REQUIREMENTS FOR USE

9. When are IFRS S1 and IFRS S2 effective?

IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after January 1, 2024. Once issued, the Standards are available for use on a voluntary basis before their effective date to the extent a company applies both Standards.

A transitional relief in IFRS S1 allows an entity to disclose information on only climate-related risks and opportunities (in accordance with IFRS S2) in the first year it applies IFRS S1 and IFRS S2. The entity would be required to provide information about its other sustainability-related risks and opportunities in the second year.

The ISSB has also agreed to provide certain temporary reliefs for entities when adopting the Standards. In addition to the transitional relief noted above, in the first year of reporting, entities do not need to:

- provide comparative information
- provide annual sustainability-related disclosures at the same time as the related financial statements
- disclose Scope 3 greenhouse gas emissions
- use the Greenhouse Gas Protocol to measure emissions, if they are currently using a different method.

10. Will the IFRS Sustainability Disclosure Standards be mandatory in Canada?

The Canadian Securities Administrators (CSA) determine reporting requirements for Canadian reporting issuers. See their most recent [press release](#) (Oct 2022) on the proposed climate-related disclosure rule.

The International Organization of Securities Commissions (IOSCO) supported setting up the ISSB and will perform an independent assessment of the ISSB standards in terms of quality and governance, with a view to completing its review in 2023. IOSCO's endorsement of the final standards would support IOSCO members as they consider how to adopt, apply or be informed by the ISSB standards as the baseline for their own sustainable reporting requirements.

The forthcoming [Canadian Sustainability Standards Board](#) (CSSB) will review final ISSB standards for their suitability for adoption in Canada. For further updates, see the [FRAS Canada website](#).

11. Is a company that applies IFRS Accounting Standards automatically required to comply with IFRS Sustainability Disclosure Standards?

No, IFRS Accounting Standards apply to the financial statements. Even if a jurisdiction requires the application of IFRS Accounting Standards, it will decide whether companies within their jurisdiction will be required to comply with IFRS Sustainability Disclosure Standards.

12. Should an organization wait until required to apply sustainability disclosure standards to start preparing?

The expectations of businesses are shifting with respect to management and transparency of sustainability issues and the regulatory landscape is evolving quickly. It may be prudent for companies to prepare in advance of regulatory action.

13. When are the next ISSB standards expected after S1 and S2?

The ISSB issued a request for information Consultation on Agenda Priorities in May 2023 with a 120-day comment period. The consultation considers potential research projects on sustainability—related risks and opportunities associated with:

- a) biodiversity, ecosystems, and ecosystem services;
- b) human capital; and
- c) human rights

The consultation also considers a potential joint research project on integration in reporting to explore how to integrate information in financial reporting beyond the requirements related to connected information in IFRS S1 and S2.

The consultation relates to the ISSB's work plan for the next two years following the consultation.

SUSTAINABILITY ASSURANCE

14. Is assurance over sustainability-related information required?

The requirement to provide assurance on sustainability-related information is not within the remit of the ISSB but it is on the radar of securities regulators. Independent third-party assurance of sustainability-related information enhances the credibility of the reported information. There is a growing demand among investors and users of sustainability-related information more broadly for assurance. Several jurisdictions, such as the EU have implemented mandatory assurance requirements over sustainability-related information.

15. The IAASB and AASB have a project for a new assurance standard - ISSA 5000. Who will use this?

The International Auditing and Assurance Standards Board (IAASB) is currently working on a project to develop an overarching standard for assurance on sustainability reporting, that can be used globally by all assurance practitioners. It is leveraging its existing assurance standards on non-financial information [International Standard on Assurance Engagements (ISAE) 3000, the equivalent to Canadian Standard on Assurance Engagements (CSAE) 3000], extended external reporting (EER) non-authoritative guidance, and the ISAs. See the [IAASB project page](#) for the status of its activities.

The Exposure Draft for the International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements is expected to be issued for comment by August 1, 2023, for a 120-day comment period.

The Canadian Auditing and Assurance Standards Board (AASB) believes global alignment of sustainability assurance standards in the public interest. As such, in January 2023, they approved a project to adopt the IAASB's ISSA 5000 concurrently in Canada. This decision means the AASB will expose a Canadian equivalent, CSSA 5000, in Canada during the 120-day IAASB comment period. Once ISSA 5000 is finalized, it will be adopted, including aligning the effective date, as CSSA 5000 in Canada with limited Canadian amendments. Like the IAASB's standard, the Canadian standard will be sustainability framework neutral, and available for use by all assurance practitioners. See the [AASB project page](#) for the status of its activities.