



ISSB ISSUES GLOBAL CLIMATE AND FINANCIAL SUSTAINABILITY DISCLOSURE STANDARDS

The International Sustainability Standards Board (ISSB), an independent board established by the IFRS Foundation, issued its highly anticipated uniform global standards for financial- and climate-related disclosures on June 26. The release marks a watershed moment in environmental, social, and governance (ESG) and sustainability reporting.

The comprehensive standards are designed to provide a globally recognized and accepted baseline to help organizations create reports on sustainability-related risks and opportunities, which will allow capital markets and investors to make better informed decisions. For the first time, the standards create a common language for organizations to disclose the effect of climate-related risks and opportunities.

The ISSB issued two standards:

- The *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) provides a set of disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium and long term. It sets out the core content for a complete set of sustainability-related financial disclosures, establishing a comprehensive baseline of sustainability-related financial information to meet the needs of global capital markets.
- The *Climate-related Disclosures* (IFRS S2) sets out specific climate-related disclosures and is designed to be used with IFRS S1. The new climate-related standard integrates the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and requires the disclosure of information about both cross-industry and industry-specific climate-related risks and opportunities.

IIA President and CEO Anthony J. Pugliese, CIA, CPA, CGMA, CITP said, "The ISSB Standards represent a significant milestone in sustainability reporting. By establishing a common language for climate-related disclosures, these standards empower companies to communicate their sustainability story in a comparable and verifiable manner. For internal auditors, they provide an opportunity to deliver independent assurance on ESG and sustainability risk management, build trust in disclosures, ensure effective control environments, and offer advisory services for establishing strong ESG internal control strategies and frameworks. Internal auditors will play a pivotal role in driving sustainable practices and contributing to long-term organizational success, and embracing these standards is a significant step toward achieving that."

Background

The new standards are the result of two decades of evolving sustainability and integrated thinking practices, which urge organizations to take a holistic view of their outcomes and impacts on a wide array of issues, such as climate change,

diversity, community involvement, and social justice. A more comprehensive understanding of these issues and the organization's relationship with them can create significant value for the organization, its stakeholders, and broader society.

While many organizations have embraced sustainability practices and issued integrated and/or sustainability reports, the lack of a uniform global reporting standard led to inconsistencies in what was reported and how it was measured. Several reporting frameworks evolved over that time, including those created by the Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), Sustainability Accounting Standards Board (SASB), Climate Disclosure Standards Board (CDSB), Task Force on Climate-related Financial Disclosures (TCFD), and others. The dizzying array of reporting frameworks and standards created confusion and resulted in inconsistencies among sustainability reports.

The ISSB was created by the IFRS Foundation largely to address that confusion. In announcing the new board, IFRS also acquired CDSB and the Value Reporting Foundation (which previously merged the IIRC and SASB organizations). In addition, the IFRS Foundation and GRI announced in March 2022 a collaboration agreement under which their respective standard-setting boards — the ISSB and the Global Sustainability Standards Board (GSSB) — would seek to coordinate their work programs and standard-setting activities.

In April 2022, the ISSB issued drafts of proposed general and climate-related standards and sought public comments both through direct comment letters and responses to two surveys.

What's next?

The ISSB will work with jurisdictions and companies to support adoption of both new standards. It plans to create a Transition Implementation Group to support companies that apply the standards and launch capacity-building initiatives to support effective implementation.

What's more, "The ISSB will also continue to work with jurisdictions wishing to require incremental disclosures beyond the global baseline and with GRI to support efficient and effective reporting when the ISSB Standards are applied in combination with other reporting standards," according to its June 26 news release.

Some considerations for assessing and possibly implementing the new standards include:

- Evaluating internal systems and processes for collecting, aggregating, and validating sustainability-related information across the company and its value chain.
- Considering the sustainability-related risks and opportunities that affect the business.
- Getting familiar with the fundamental concepts within IFRS S1.

Importantly, reporting processes and controls used for financial reporting are a relevant basis for establishing necessary practices to apply the ISSB Standards.

What the proposed standards mean for:

Organizations

Organizations that have established ESG internal controls and processes may need to improve or adjust their current sustainability reporting practices to meet the latest guidance. They also need to look at their data governance practices around ESG and sustainability information to ensure they are well-designed and operating effectively and help to build

trust and confidence in related disclosures. Organizations that have not delved into ESG or sustainability reporting will need to establish effective internal controls around measuring, collecting, and reporting relevant information.

Regulators

Regulators will have new assessment criteria to ensure sustainability risks are properly identified, assessed, and reported. For example, the U.S. Securities and Exchange Commission will likely take into consideration the new ISSB Standards when reaching a final version of its own proposed climate-disclosure rules.

Internal auditors

Internal auditors should be prepared to evaluate the data points defined by their organizations as relating to sustainability, as well as assess current quantitative and qualitative measurement methodologies against the newly issued standards. They also should provide fundamental independent assurance by examining whether internal assurance over ESG and sustainability risk management is reliable, the internal control environment is effective, and disclosures are trustworthy. In organizations where sustainability reporting is new, internal audit can provide internal advisory services to management on building an effective ESG internal control environment.

Questions internal auditors should be prepared to address:

1. What is my organization's ESG control environment? Are roles for key participants, including internal audit, clearly delineated as outlined in The IIA's Three Lines Model?
2. Does my organization have in place established ESG or sustainability reporting internal control processes?
3. What is my organization's ESG governance structure (ESG committee, center of excellence), and how is it operating?
4. How are sustainability-related data points identified, collected, classified, and managed and by whom?
5. What metrics are in place or proposed to monitor sustainability data points and reporting?
6. What activities have been (or will be) implemented to map new sustainability requirements against current sustainability activities?

IIA RESOURCES



The Institute of
Internal Auditors

- [The ESG Risk Landscape Part 1: Understanding ESG Reporting Standards in 2022 and Beyond](#)
- [The ESG Risk Landscape Part 2: Implementation, Reporting, and Internal Audit's Role](#)
- [The ESG Risk Landscape Part 3: Evaluating ESG Risk](#)

Internal Auditor Magazine

- [Greenwashing](#)
- [The Corporate Commitment](#)

Internal Audit Foundation

- [Prioritizing ESG: Exploring Internal Audit's Role as a Critical Collaborator](#)

IIA Training & Certificates

- [WEBINAR - Emerging ESG Guidance: Unpacking the New ISSB Standards \(Aug. 15\)](#)
- [ESG Certificate: Internal Auditing for Sustainable Organizations](#)
- [ESG for Capital Markets](#)

Other Resources

- [Enterprise Risk Management: Applying Enterprise Risk Management to Environmental, Social and Governance-related Risks \(PDF\)](#)
 - [ESG Reporting and Attestation: A Roadmap for Audit Practitioners](#)
 - [GRI Standards by language](#)
 - [SASB Standards](#)
 - [TCFD Implementation Guide - English](#)
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About The IIA

The Institute of Internal Auditors (IIA) is a nonprofit international professional association that serves more than 235,000 global members and has awarded more than 190,000 Certified Internal Auditor (CIA) certifications worldwide. Established in 1941, The IIA is recognized throughout the world as the internal audit profession's leader in standards, certifications, education, research, and technical guidance. For more information, visit theiia.org.

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