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THE NEW DISCLOSURE LANDSCAPE

Comparing sustainability standards and regulations: ESRS, IFRS S1/S2, SEC Climate Rule, and CA SB 253/261

September 2024

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Introduction

Navigating the ever-changing and complex landscape of sustainability-related regulation presents companies with multiple challenges. While compliance is often the primary consideration for many businesses, they also need to consider the operational, commercial, financial, and other aspects and implications of implementing relevant regulations. The need to report to a range of standards and frameworks makes interoperability – compatibility and harmonization between standards – a critical success factor to reduce reporting burdens and their associated costs. Also, as corporations and their respective entities come into scope under phase-in disclosure requirements, any disclosure misalignment presents risks to compliance and therefore business continuity.

This guide offers an updated comparison of several key sustainability-related disclosure regulations and standards. It aims to help companies streamline reporting efforts across these critical frameworks and therefore reduce the resources needed to prepare for compliance. The regulations and standards covered in this report include:

CSRD / ESRS: Corporate Sustainability Reporting Directive and EFRAG's (European Financial Reporting Advisory Group) European Sustainability Reporting Standards

ISSB IFRS S1/S2: The International Sustainability Standards Board's International Financial Reporting Standards S1 (general sustainability) and S2 (climate) standards

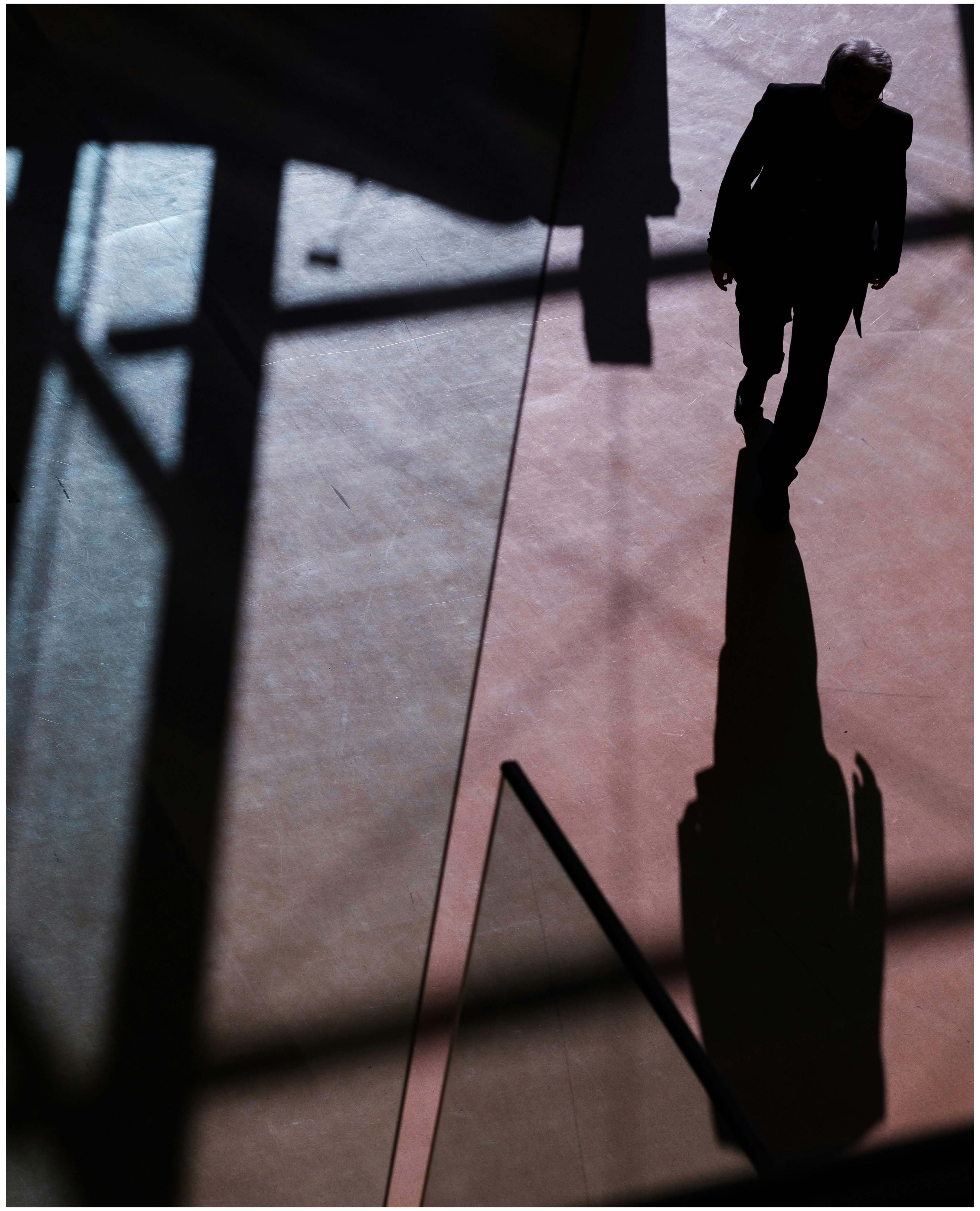
SEC rule: United States Securities and Exchange Commission's Climate-related Disclosure Rule

California SB 253 / 261: California Air Resources Board's (CARB) rules on GHG emissions and climate risk (Note: the climate table also references AB 1305)

Key takeaways

- The proliferation of climate- and sustainability-related disclosure requirements across jurisdictions means companies will likely need to comply with more than one regulatory framework.
- Companies subject to multiple regulations may feel an additional reporting burden as they approach compliance; understanding the similarities and differences between each regulation's requirements may improve disclosure accuracy and efficiency.
- There is considerable overlap across major sustainability-related disclosure regulations, particularly the CSRD/ESRS, IFRS S1/S2, SEC Rule, and CA SB 253/261; alignment with one means at least partial alignment with others. Whether mandatory or voluntary, these frameworks compel companies to communicate ESG-related risks, outline their ESG strategy, disclose their ESG targets and related progress, and strengthen their ESG governance.
- Each aligns with recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD). Companies can reduce their reporting burden by aligning with the TCFD recommendations.
- Sustainability disclosure should be more than a compliance exercise; each of the regulations and standards outlined in this report can and should be leveraged to generate additional business value for the reporting entity.

In 2022, ERM's Sustainability Institute and Persefoni published "The Evolution of Sustainability Disclosure: Comparing the 2022 SEC, ESRS, and ISSB Proposals". The report provided comparative analysis of the U.S. Securities and Exchange Commission (SEC) disclosure rule, The European Financial Reporting Advisory



Group's (EFRAG) CSRD and its associated ESRS, and ISSB's IFRS S1 and S2 standards. At the time of the 2022 report's publication, these regulations and standards were still proposals and drafts. They have each evolved as they were finalized.

Since the report's publication, additional sustainability-related regulations have been proposed or implemented, most notably in California. The recently passed California Senate Bills (SBs) 253 and 261 as well as California Assembly Bill (AB) 1305 represent the state's efforts to enhance transparency and accountability in disclosure of climate-related performance, risks, and opportunities. In some ways, the rules go beyond the federal-level SEC rule; for example, the California rules require companies to disclose their Scope 3 GHG emissions, whereas the SEC does not. Given their requirements and California's economic and political influence, these rules are bound to shape and inform corporate climate-related disclosures in the U.S. and beyond.

While the SEC, EFRAG, and California regulations and ISSB standards cover similar material, they differ in their enforceability, implementation timescales, jurisdictional scope, approach to materiality, and other detailed requirements. This updated comparison report seeks to help companies make sense of the requirements by comparing each on their alignment to primary international climate disclosure frameworks, details of disclosure (i.e., jurisdiction, scope, focus, materiality type, penalties), and timelines for implementation (i.e., phase-in, target audiences).[1]

[1] The contents of this comparison reflect the regulations and standards as of August 2024.

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Part one:
Overview of regulations and standards

CSRD/ESRS:

Passed in late 2022, the CSRD and its detailed European Sustainability Reporting Standards (ESRS) elevate sustainability reporting to the same level of rigor as financial reporting. The CSRD aims to standardize sustainability reporting, driving accountability for and transparency on companies' impacts on the planet and society, as well as sustainability-related risks and opportunities businesses face. The ESRS provide affected companies with structured frameworks and methodologies to help comply with the CSRD, in addition to making sure the information is consistent and comparable. Assurance requirements promote disclosure of high-grade, verifiable data. The ESRS align with global disclosure standards and frameworks, such as the TCFD and the Global Reporting Initiative (GRI).

Together, the CSRD and ESRS are regarded as the most comprehensive sustainability-related disclosure regulations and standards to date. The ESRS is comprised of twelve standards aligned with the three pillars of ESG (environmental, social, and governance) and requires companies to conduct a double materiality assessment (DMA) to determine which of the twelve are material to their business and therefore must be disclosed. Companies must use a dual approach by, on the one hand, assessing the impacts of their actions on natural and human resources (impact materiality) and, on the other hand, how sustainability matters may influence a company's financial performance (financial materiality) across their value chain.

The CSRD and ESRS combine process-related obligations with detailed disclosure requirements and format expectations, including machine-readability and external assurance. They are also set up to enable framework expansion; for example, EFRAG is developing sector-specific standards to provide sector-specific guidance for more robust and meaningful disclosures.

The CSRD will impact companies across the globe. EU-based and non-EU-based companies that meet the applicability requirements will be directly impacted. Supply chain partners or customers of impacted companies may be indirectly impacted through data requests and expectations of improved sustainability performance throughout value chains.

Read more about the CSRD here and at www.erm.com/insights.

ISSB's IFRS S1/S2:

In June 2023, the IFRS issued its inaugural disclosure standards IFRS S1 and IFRS S2. They come after a long consultation from a variety of market participants in response to calls from governments, NGOs, businesses, and investors highlighting the need for increased alignment in sustainability-related disclosures.

Intended to improve the consistency and quality of sustainability reporting, the standards are designed to enable sustainability disclosures on par with financial reporting. Though they were built using IFRS Accounting Standards underpinning concepts, the standards y can be used in conjunction with any accounting requirements and can be applied (voluntarily or via mandate) across various reporting jurisdictions.[i] The ISSB aims for these standards to allow companies to communicate their financially material sustainability-related risks and opportunities transparently, regardless of their location or industry.

IFRS S1 covers general sustainability-related disclosures and ESG topics. IFRS S2 covers climate-related financial risks and opportunities. IFRS S1/S2 reference TCFD, the Sustainability Accounting Standards Board (SASB), and others. By consolidating several frameworks into a single standard, ISSB has enabled greater alignment of financial and non-financial reporting.

IFRS S1/S2 will become mandatory when regulators integrate them into financial reporting frameworks and regulatory requirements. At the time of this report, jurisdictions that comprise more than half of the global economy have proposed or implemented regulations aligned with the ISSB's standards. This includes 20 jurisdictions accounting for 55 percent of global GDP, 40 percent of global market capitalization, and more than half of global greenhouse gas (GHG) emissions.[ii] Even more jurisdictions are signaling intent to adopt these standards, further aligning global disclosure requirements to a consistent baseline.

Read more about the ISSB IFRS S1/S2 here and at www.erm.com/insights.

U.S. SEC Climate Disclosure Rule:

The Climate Disclosure Rule was adopted by U.S. SEC in March 2024 and requires companies to disclose actual and potential material impacts of climate change on a company's operations. The implementation of this regulation will apply depending on registrant type, with the large, accelerated filers required to be the first to report on 2025 information in 2026. New required disclosures include climate-related risk management; governance of climate-related risks; financial impacts from severe weather and natural conditions; and Scope 1 and Scope 2 GHG emissions information from larger registrants (which will be subject to assurance requirements following an additional transition period). The rules aim to provide investors with consistent, comparable, and reliable information about the financial effects of climate-related risks, along with disclosures on how the registrant manages those risks.

The final rule is significantly pared down from the version proposed in March 2022. For example, companies are no longer required to disclose their Scope 3 GHG emissions. These changes have made the rule less comprehensive than the CSRD, ISSB, and California's requirements.

The political landscape has not been favorable to sustainability- and ESG-related progress in the U.S., with 83 percent of North American sustainability professionals saying there is backlash against the sustainability agenda.[iii] Driven in part by this backlash, the SEC's disclosure rule has been met with serious legal challenges. The rule is pending judicial review, and it remains to be seen if the final rule will be implemented, which components may survive negotiations, and when it may come into effect.

Read more about the SEC Climate Disclosure Rule here and at www.erm.com/insights.

California regulations SB 253 / 261 and AB 1305:

In October 2023, California Governor Gavin Newsom signed three landmark climate disclosure bills into law: The Climate Corporate Data Accountability Act (SB 253) and the Climate-related Financial Risk Act (SB 261), along with the Voluntary Carbon Market Disclosures Act (AB 1305). These laws are the first of their kind to go into effect in the U.S.. The regulations apply to private and public companies "doing business in California".[2]

SB 253 requires in-scope companies to disclose their total operational GHG emissions. With requirements to report on Scope 3 emissions, the impact of the bills extends beyond California. Affected organizations will be required to obtain climate data from all their suppliers, irrespective of size or location around the world.

SB 261 requires companies to biennially report on climate-related financial risks in line with TCFD recommendations. In-scope companies will be required to publish their climate-related risk report (consisting of both physical and transition risks, measures to reduce and adapt to identified risks, and strategy/ steps to address gaps) on their company website and be prepared to provide evidence to the California Air Resources Board (CARB).

AB 1305 was implemented in response to scrutiny of the voluntary carbon market (VCM) and the reliability of carbon credits. The law requires both sellers and purchasers to disclose information about carbon credits, including location, durability, verification, and emissions reductions or removal protocol used. The law also outlines requirements for companies to disclose information about any claims of being carbon neutral, net zero, or other similar claims.

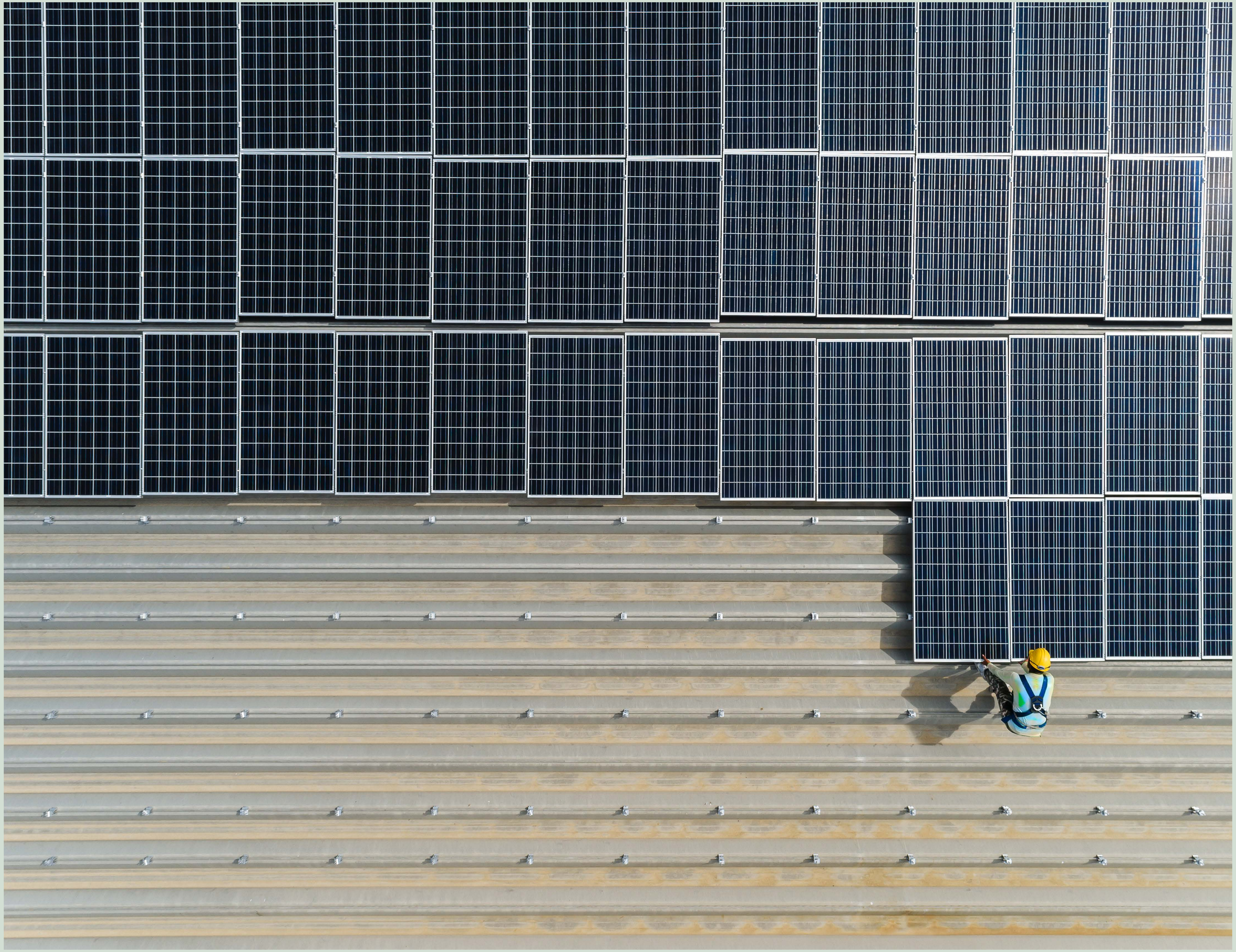
Because the rules apply to companies doing business in California, many companies also subject to the SEC's Climate-related Disclosure Rule are likely to be within scope. Given that the CA bills are more comprehensive than the SEC's rule in scope and reach, SB-253/261 represent the most extensive climate-related disclosure rules in the U.S. thus far. Companies that align their emissions disclosure activities with SB 253/261 may thus be well suited to comply with the SEC's rule when it is implemented.

Read more about California's newest climate-related regulations here and at www.erm.com/insights.

[2] The California revenue and taxation code's definition of 'doing business in California' applies to those businesses which:
- Engage in any transaction for the purpose of financial gain within in California
- Are organized or commercially domiciled in California
- Have California sales property or payroll exceeding $690,144 and $69,015 respectively.

Upcoming developments

- **CA:** The California Air Resources Board (CARB) is expected to provide more detailed guidance on SB 253 and 263 in regulations required to be issued prior to January 1, 2025. In early September 2024, the state legislature passed SB 219 which will make modest changes to SB 253 and SB 261. The changes include a six-month delay in the issuance of regulations, pushing the deadline from January 1, 2025, to July 1, 2025. S.B. 219 also allows companies to use consolidated reporting at the parent company level, rather than requiring entity-by-entity reports, aligning S.B. 253 with S.B. 261. It also grants CARB flexibility in setting the timing for Scope 3 emissions disclosures.
- **CSRD:** The European Financial Reporting Advisory Group (EFRAG) is tasked with developing sector-specific standards that will address unique sustainability challenges and opportunities of different industries, providing more detailed and relevant reporting guidelines.
- **ISSB:** The ISSB is working with various jurisdictions to support the adoption and implementation of the standards. The ISSB also intends to develop sector-specific guidance to complement the general and climate-specific standards, addressing unique sustainability challenges and disclosure requirements of different industries.
- **SEC:** Plans for the Climate Disclosure Rule include finalizing enhanced requirements for climate-related financial disclosures, mandating detailed reporting on greenhouse gas emissions, governance processes, and risk management strategies, while aiming for interoperability with global standards, providing guidance, and ensuring robust enforcement to improve transparency and support sustainable investment decisions.



Timeline of key sustainability regulations and standards

2021

ISSB
ISSB established

CSRD/ESRS
Publication of CSRD Proposal by EU Commission

2022

CSRD/ESRS
Adoption of CSRD Proposal by EU Parliament and Council

ISSB
IFRS S1 / S2 drafts released for public opinion

SEC
SEC released proposed rules for comment

2023

SEC
SEC updates proposed rules; finalization of rules delayed to 2024

ISSB
ISSB issues IFRS S1 / S2 for implementation

CSRD/ESRS
Adoption of first set of standards by EU Commission; CSRD enters into force

CA SBs
Measures signed into law

2024

CSRD/ESRS
Deadline for Member States to transpose the CSRD into national law

ISSB
Standards effective for reporting periods on or after January 1, 2024

SEC*
SEC finalizes and implements rule; Rule stayed indefinitely

2025

CA SBs
CARB must develop and pass regulation for disclosure

AB 1305: Disclosure requirements on information about marketing/sale or purchase/use of carbon offsets begin

ISSB
Ongoing consultation for additional standards to be developed over time.

CSRD/ESRS
Undertakings already in scope for the Non-financial Reporting Directive (NFRD) report in 2025 on 2024 data

2026

CSRD/ESRS
Large undertakings not in scope for the NFRD report on 2025 data

Expected adoption of limited assurance standards by Commission

SEC*
Large, accelerated filers (LAF): Fiscal Year (FY) 2025 climate-related risk disclosures (S-K, S-X)

CA SBs
SB 253: Disclose prior FY Scope 1 and 2 GHG emissions with 3rd party assurance (annually thereafter)

SB 261: Disclose climate-related financial risk report (biennially thereafter)

2027

CA SBs
SB 253: Disclose prior FY Scope 3 GHG emissions (annually thereafter)

SEC*
LAF: Disclose FY2026 Items 1502(d)(2), 1052(e)(2), 1504(c)(2); Item 1505 Scopes 1 and 2 emissions; XBRL tagging

Accelerated filers (AF): FY2026 S-K, S-X; XBRL tagging

CSRD/ESRS
Listed small and medium enterprises (SMEs) report on 2026 data

2028

CSRD/ESRS
Expected adoption of reasonable assurance standards by the Commission

SEC*
AF: Disclose FY2027 Items 1502(d)(2), 1052(e)(2), 1504(c)(2); Item 1505 Scopes 1 and 2 emissions

Smaller reporting companies (SRC): FY2027 S-K, S-X; XBRL tagging

2029

SEC*
AF: Disclose FY2028 Item 1505 Scopes 1 and 2 emissions

SRC: Disclose FY2028 Items 1502(d)(2), 1052(e)(2), 1504(c)(2); Item 1505 Scopes 1 and 2 emissions

CSRD/ESRS
In-scope third-country undertakings report on 2028 data

2030

SEC*
LAF: Limited assurance required for FY2029 disclosures (Reasonable assurance for FY2033)

CA SBs
SB 253: 3rd party assurance level increased for Scope 1 and 2 emissions (from limited to reasonable);
3rd party assurance required for prior FY Scope 3 emissions

*Pending

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Part two:
Comparison of key elements

Comparison of key elements

The regulations and standards covered in this report have each been updated since 2022. They may continue to change as priorities shift, legal challenges are addressed, and as the sustainability-related disclosures landscape evolves. The regulations and standards align on several requirements given the global movement towards more consistent and comparable sustainability-related disclosures.

Regarding scope and applicability, the frameworks differ notably. The CSRD's ESRS targets large companies and listed companies in the EU, impacting global companies with significant EU activities, while ISSB S1 and S2 are applicable for broad, international use. The SEC Climate Disclosure Rule focuses on the U.S.'s largest publicly traded companies, whereas California's climate disclosure bills (SB 253 and SB 261) target large companies operating in California, affecting both public and private entities. Enforcement mechanisms vary, with EU authorities, global jurisdictions, the SEC, and California regulators overseeing compliance and often requiring third-party assurance or imposing penalties for non-compliance.

The table below represents comparison of the most important elements of the ESRS, the ISSB's IFRS S1 and S2, the SEC's Climate-related Disclosure Rule, and California's SB 253 and SB 261 as of July 2024.

	CSRD/ESRS	ISSB IFRS S1/S2	SEC Climate Disclosure Rule	California SB 253 / SB 261 / AB 1305
Governing authority	EU Commission (with input from the European Financial Reporting Advisory Group [EFRAG]) Enacted as an EU law but requires transposition by each EU member state	International Sustainability Standards Board (ISSB)	U.S. Securities and Exchange Commission (SEC)	State of California; overseen by the California Air Resources Board (CARB)
Link to rule or standard	Directive - 2022/2464 - EN - CSRD Directive - EUR-Lex (europa.eu) Delegated regulation - EU - 2023/2772 - EN - EUR-Lex (europa.eu)	IFRS S1: IFRS - General Sustainability-related Disclosures IFRS S2: IFRS - IFRS S2 Climate-related Disclosures	Final rule: Final rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors (sec.gov) In SEC text, referred to as "Item 1505"	SB 253: Climate Corporate Data Accountability Act SB 261: Greenhouse Gases: Climate-related Financial Risk Act AB 1305: Voluntary Carbon Market Disclosures Act
Jurisdiction	Companies headquartered in or doing business at scale in the European Union.	ISSB standards will be considered for voluntary adoption by individual jurisdictions. Examples include regulations proposed or implemented in Japan, Canada, the United Kingdom, and Australia.. IFRS S1/S2 are GAAP-agnostic, meaning they can be applied (voluntarily or via mandate) in IFRS and non-IFRS reporting jurisdictions.	Public companies, securities markets, and securities offerings	Companies that do business in California. See page 5 and the California revenue and taxation code for the definition of 'doing business in California'.
In-scope entities	Entities subject to the CSRD include: • Large undertakings • Companies listed on EU-regulated markets (excluding micro-enterprises) • SMEs • Non-EU headquartered companies operating in the region at scale • Subsidiaries of covered companies Read more about CSRD scope here.	Voluntary disclosures until adopted by regulatory agency, in which case scope will vary depending on jurisdictional transposition.	All publicly reporting companies under the SEC's jurisdiction in the United States except for Canadian issuers filing annual reports on Form 40-F, and asset-backed issuers. Requirements vary by Registrant Type (LAF, Emerging Growth Company (EGC), etc.).	SB 253: Publicly traded and private entities with total annual revenue of at least $1 billion. SB 261: Publicly traded and private entities with total annual revenue of at least $500 million. AB 1305: Any entity selling or purchasing / using carbon offsets, or making net zero / carbon neutral claims.
Date finalized	January 5, 2023	June 26, 2023 (jurisdictions will apply their own reporting deadlines)	March 6, 2024* **Pending judicial review*	October 7, 2023

	CSRD/ESRS	ISSB IFRS S1/S2	SEC Climate Disclosure Rule	California SB 253 / SB 261 / AB 1305
Phase-in /time to implementation (see Figure 1 for comparative timeline)	First disclosures required FY2025 using 2024 data; Full implementation by FY29.	Disclosure requirements and phase-in subject to jurisdiction-specific requirements	First disclosures required in 2026 for fiscal year beginning (FYB) 2025 disclosures for LAFs Full implementation by 2034 for FY2033 disclosures	SB 253: 2026 disclosure of 2025 Scope 1 and 2 GHG emissions (annual thereafter); 2027 disclosure of 2026 Scope 3 GHG emissions (annual thereafter). SB 261: Climate-related financial risk report and disclosure of adopted risk measures required by January 1, 2026, and biennially thereafter. AB 1305: First annual disclosures are required to be posted by January 1, 2025
Target audience of disclosure[iv]	Investors, consumers, and other stakeholders	Investors	Investors	Investors and consumers
Focus	Sustainability & ESG (subject to double materiality assessment results)	General sustainability (S1) & climate (S2), with more topics forthcoming	Climate	Climate
Non-compliance penalties	The CSRD puts non-compliance penalties on the same level as for financial reporting . Specific penalties may vary by the EU Member State in which non-compliance occurs. Thus far, non-compliance penalties fall under two main categories: (1) fine or imprisonment for directors and (2) fines for the undertaking.	Non-compliance penalties will vary depending on the regulatory agency. These include administrative fines, market discipline, and reputational incentives.	May result in SEC enforcement action such as fines or other legal ramifications. The SEC has the authority to impose fines and initiate legal actions against companies that fail to report in line with the new rules. Legal and reputational costs related to SEC inquiries can lead to financial implications for companies, impacting their ability to leverage capital and expand operations at will.	SB 253: Administrative penalties of no more than $500,000 per year per reporting entity for non-compliance, late filing, or otherwise violating the regulation SB 261: Administrative penalties of no more than $50,000 per year per reporting entity for failing to publish or publishing inadequate information AB 1305: Penalties up to USD $2,500 per day per violation, not exceeding USD $500,000
Materiality type and definition (see footnotes)	Financial and/or Impact (i.e., Double Materiality)[3] No materiality threshold prescribed by the Taxonomy Regulation, but breakdown into separate economic activities expected	Financial[4]	Financial[5]	Financial[6]

	CSRD/ESRS	ISSB IFRS S1/S2	SEC Climate Disclosure Rule	California SB 253 / SB 261 / AB 1305
Reporting requirements (content)	Companies must include disclosures aligned with each ESRS deemed to be material through the DMA. EU Taxonomy reporting informs another deep dive into environmental topics while establishing minimum safeguards on social/ governance topics. It requires reporting categorized by economic activity and linked to associated turnover, CapEx and OpEx.	Entities must disclose sustainability-related risks and opportunities about the governance processes, sustainability strategy, processes to identify risks and opportunities, and overall sustainability performance.[v]	Companies must disclose the actual and potential impacts of climate change on operations including, but not limited to, climate-related risks and risk management, financial impacts from severe weather and natural conditions, and GHG emissions.	SB 253: Calculation, reporting, and assurance of enterprise-wide Scopes 1, 2, and 3 GHG emissions. SB 261: Biennial preparation and disclosure of financial risk reports covering climate-related risks aligned with the TCFD recommendations. AB 1305: Sellers must disclose information on carbon credits such as emissions reductions or removal estimation protocol, location, accountability measures, etc. Buyers / users must disclose seller name, project information such as ID, location, type, etc., estimation protocol, and verification status. Companies making net zero / carbon neutral claims must disclose how claim was or will be accomplished, progress towards goals, and third-party verification, if any.
Reporting requirements (location)	Disclosures must be made in the management report alongside financial disclosures. Companies must include disclosures aligned with each ESRS deemed to be material through the double materiality assessment.[vi]	IRFS climate-related disclosures can be reported in an entity's management commentary or similar report.[vii]	Companies must file climate-related disclosures in registration statements and Exchange Act annual reports filed with the SEC. Provide Regulation S-K mandated disclosures either in a separate section of registration statement or annual report, or in another appropriate section of the filing.[x]	SB 253: CARB is required to contract an emissions reporting organization by January 1, 2025, to build a digital platform for housing annual disclosures of in-scope entities. Disclosures on this platform will be publicly accessible. SB 261: In-scope entities must publicly disclose climate-related risks and mitigation & adaptation measures on their websites. AB 1305: Information must be publicly disclosed on an entity's website.
Reporting requirements (format)	Disclosures must be made using a digital, machine-readable format in accordance with the European Single Electronic Format (ESEF).[viii]	An entity may 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	Filers must electronically tag climate-related disclosures in Inline XBRL.[x]	SB 253: The format of the emissions reporting organization's digital platform has not yet been determined. SB 261: Reports must be publicly available on the disclosing entity's website. AB 1305: Information must be publicly disclosed on an entity's website.

	CSRD/ESRS	ISSB IFRS S1/S2	SEC Climate Disclosure Rule	California SB 253 / SB 261 / AB 1305
Assurance requirements[ii]	Limited assurance is required for all implementation phases; entities must obtain limited assurance in the first year of reporting onwards. The European Commission may propose moving to reasonable assurance at a later, unspecified date.	Assurance requirements will be determined by jurisdiction.	Limited assurance followed by reasonable assurance (Scopes 1 and 2) depending on filer type. Read more here. Voluntary third-party assurance requires companies to provide disclosure related to assurance, identifying assurance provider, standard used, description of scope and results, and any material relationship between the company and the assurance provider.	SB 253: Third-party limited assurance on Scopes 1 and 2 disclosures beginning in 2026 (FY25 data), third-party reasonable assurance in 2030 (FY29 data). Third-party limited assurance on Scope 3 disclosures beginning in 2030 (FY29 data). AB 1305: Disclosure of any third-party verification of carbon offsets and net-zero / carbon neutral claims
Acceptance of alternative or substituted reporting	The rule requires the use of the ESRS, but other frameworks can be used to supplement disclosures. Undertakings can make and/or add entity-specific disclosures outside of ESRS disclosure requirements. Read more here.	IFRS does not allow alternative or substituted reporting in jurisdictions where IFRS standards are required.	The rule does not recognize the use of alternative or substituted reporting, but the SEC has indicated it will explore the option in the future.	SB 253: The rule does not allow alternative or substituted reporting, as disclosures will be made using a digital emissions reporting platform to be established/maintained by CARB.
Exemption and transition reliefs	Phased-in disclosure requirements (ESRS 1, Appendix C). Companies may report on a "comply or explain" basis in the first three years of reporting if information is unavailable. Companies may also omit or limit value chain disclosures within the first three years of reporting if information is not available or only available in the public domain. Omissions of sensitive information may be permitted.	The following transition reliefs are provided for the first year of disclosure alignment, but must be completed in the second year onwards:[ix] • Entities can report to only the climate-related components of IFRS S1. • Entities do not need to provide comparative information for sustainability-related risks and opportunities on non-climate topics. • Disclosure of Scope 3 GHG emissions is not required.	GHG emissions disclosures are not required for SRCs, EGCs, or non-accelerated filers (NAFs). The final rule does not provide exemptions or transitional reliefs for registrants who are in an initial public offering.	No transition reliefs

	CSRD/ESRS	ISSB IFRS S1/S2	SEC Climate Disclosure Rule	California SB 253 / SB 261 / AB 1305
Safe harbor provisions	No known safe harbor provisions.	Safe harbor provisions may be implemented by the regulating agency.	The Private Securities Litigation Reform Act (PSLRA) safe harbors apply to forward-looking statements such as transition plans, the use of internal carbon price, targets and goals, scenario analysis, etc. GHG emissions disclosures are not covered by the PSLRA safe harbor provision.	SB 253: Penalties for Scope 3 disclosures will only be exacted for non-filing between 2027-2030; no penalties for misstatements of Scope 3 emissions during this time if disclosures are made with a reasonable basis and in good faith.

[3] EFRAG defines double materiality as: "Double materiality is a concept which provides criteria for determination of whether a sustainability topic or information has to be included in the undertaking's sustainability report. Double materiality is the union (in mathematical terms, i.e. union of two sets, not intersection) of impact materiality and financial materiality. A sustainability topic or information meets therefore the criteria of double materiality if it is material from the impact perspective or from the financial perspective or from both of these two perspectives."

[4] IFRS defines materiality as: "In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity."

[5] The SEC defines financial materiality as: "A matter is material if there is a substantial likelihood that a reasonable investor would consider it important when determining whether to buy or sell securities or how to vote or such a reasonable investor would view omission of the disclosure as having significantly altered the total mix of information made available."

[6] SB-253 and SB-261 do not provide a specific definition of materiality. SB-261 requires businesses to report on climate-related financial risks aligned with the TCFD recommendations, which approach materiality from a financial perspective.

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Part three:

Overview of climate-related disclosures

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Overview of climate-related disclosures

All regulations in this report emphasize the importance of disclosing climate-related information. The below table, designed to complement information in the preceding chapter, presents a comparison of the climate-specific requirements.

	CSRD/ESRS	ISSB IFRS S1/S2	SEC Climate Disclosure Rule	California SB 253/261
Scopes 1 & 2 required	Yes	Yes	Yes	Yes
Scope 3 required	Yes Companies that employ less than 750 people can omit Scope 3 within the first year of reporting.	Yes	No Disclosure is required if Scope 3 emissions are determined to be material or if the company has set emissions reduction targets that include Scope 3.	Yes Note: CARB will set a specific Scope 3 emissions reporting deadline.
Climate risk/ opportunities	If climate change is assessed as material in the double materiality assessment, then companies must disclose material sustainability impacts, risks, and opportunities (sector-agnostic/specific and sometimes entity-specific). Required disclosure of potential financial effects from material transition and physical risks & opportunities.	Impacts of climate-related risks and opportunities on business model; strategy; cash flow; financing/cost of capital; short-, medium-, and long-term risks; and physical vs. transition risks. Effects of significant climate-related risks and opportunities on business model & value chain, strategy & decision making, and financial position/performance.	How any identified climate-related risks have had or are likely to have a material impact, affect business model/strategy, and impact financial statements. Should include both physical and transition risks. Companies are not required to disclose material climate-related opportunities but may do so if they choose.	SB 261: U.S. companies must biannually prepare and submit financial risk reports that cover climate-related financial risks consistent with recommendations from the TCFD framework.
Scenario analysis	Scenario analysis can be used to identify in-scope climate-related risks.	Use of scenario analysis to describe climate resilience of its strategy, including business model, to significant physical risks and transition risks: results of the climate-related scenario analysis, how the analysis was conducted, and which scenarios were considered.	Scenario analysis is required by the SEC only if an organization identifies a climate-related risk as having a material impact on the business.	SB 261 requires companies to conduct scenario analysis to test climate-related risk strategy.
Position on offsets/ Renewable Energy Certificates (RECs)	Gross emissions must be reported separately from the impact of offsets/RECs. Companies must separately disclose use of offsets/RECs along with relevant details including GHG removals from a company's own operations and its upstream/ downstream value chain.	Does not require companies to disclose the use of carbon credits.	Gross emissions must be reported separately from the impact of offsets/RECs. Companies must separately disclose use of offsets/RECs along with relevant details such as amount of carbon reduction represented or information about the underlying projects from which a credit was sourced.	SB 253: Gross emissions must be reported separately from the impact of offsets/RECs. AB 1305: companies making claims about carbon neutrality or net-zero emissions are required to disclose information about offset purchases and use.

	CSRD/ESRS	ISSB IFRS S1/S2	SEC Climate Disclosure Rule	California SB 253/261
Climate governance[7]	Alignment with ESRS 2 General Disclosures is required for all in-scope entities regardless of materiality. ESRS 2 includes general sustainability governance components, which broadly cover climate-related governance	Disclosure of climate-related governance is required under IFRS in all cases.	Disclosure of board and management oversight of climate-related risks	SB 261 requires alignment with the TCFD recommendations, which include governance as a pillar.
Targets	Disclosure of measurable targets required, including target scope, level of ambition, absolute vs. relative targets, etc. Entities must provide the baseline for measuring progress, the timeframe to achieve the target, and milestones or interim targets.	Climate-related targets including metrics used to assess progress, absolute vs. intensity, objective of target, comparison to last international climate agreement, timeframe/ base period, and whether derived using sectoral decarbonization approach	The registrant's climate-related targets or goals, if any. Companies must also disclose board oversight of these targets or goals.	SB 261: Companies are required to disclose the targets used to assess material climate-related risks and opportunities.
Metrics	Details required for material topics, such as energy consumption and mix, timetables for targets, and detailed emissions information. Read more here	Entities must disclose metrics used to measure, monitor, and manage climate-related risks and opportunities.	GHG emissions metrics for Scope 1, 2, and 3 (if applicable); other metrics used to assess risks and opportunities are optional	SB 261: Companies must disclose the metrics used to assess material climate-related risks and opportunities, and GHG emissions, in accordance with GHG Protocol. This includes Scope 3 reporting.
Ambition level[8]	High Scope 3 implementation required in 2024 as well as TCFD alignment (with exceptions).	Medium Scope 3, climate governance disclosure, and full TCFD alignment are required. However, IFRS does not require disclosure of carbon credits.	Low Scope 3 is not required, and TCFD alignment is partial. Implementation is not until 2033.	Medium Scope 3 is required, but climate governance is not.

[7] As described by TCFD recommendations, climate-related governance disclosures include a) describing the board's oversight of climate-related risks and opportunities, and b) describing management's role in assessing and managing climate-related risks and opportunities. Read more here: FINAL-2017-TCFD-Report.pdf (bbhub.io)

[8] Criteria: full TCFD alignment, carbon offsets disclosure required, and Scope 3 required; Low (0/3 or 1/3), Medium (2/3), High (3/3)

Moving toward interoperability

The sustainability reporting landscape today presents many challenges as companies grapple with communicating their sustainability practices in a way that satisfies regulatory requirements and outside stakeholder pressures. To remedy this challenge, standard setting bodies have been working in tandem to promote interoperability guides drawing from similar best practices, to support companies in navigating their unique reporting demands.

While CSRD's ESRS, ISSB S1/S2, the SEC climate disclosure rule, and California's climate regulations have varying scopes and jurisdictions, they share a common goal of enhancing transparency, accountability, and consistency in climate-related and sustainability reporting. CSRD and ISSB both require companies to disclose material information that can be determined through a comprehensive double materiality assessment. They align with TCFD recommendations and require that reported information is verified by a third-party. In addition, they all either require or strongly encourage the reporting of forward-looking statements such as climate-related targets and goals, demonstrating a need for a proactive approach to sustainability and transparency in corporate practices.

EFRAG's and the ISSB's recently-published interoperability guidance is the most comprehensive material to date detailing the compatibility between outputs from a materiality assessment , value chain mapping, and other activities to support compliance to ISSB IFRS S1 and S2.

Recommended actions for multinational companies navigating CSRD, ISSB, SEC Climate Disclosure Rule, and CA Bill 253, etc.

1. Understand your requirements and conduct a gap analysis

Begin by thoroughly understanding the relevant standards. Conduct entity mapping to understand your exposure. Review how the relevant regulations align with or differ from existing frameworks your business may already be using, such as TCFD, GRI (Global Reporting Initiative), or SASB. Assess your current sustainability reporting practices to identify gaps and areas for improvement.

2. Develop and implement a roadmap

Based on your gap analysis, prioritize actions and create a detailed plan for transitioning to meet the relevant standards, including timelines, milestones, and responsibilities. This plan should outline the steps needed to close any identified gaps and ensure compliance by the required deadlines.

At this stage, we recommend including estimated budget needs for each step of the roadmap.

3. Establish a sustainability governance structure

Create a dedicated sustainability or ESG (Environmental, Social, Governance) committee at the board level. Appoint senior executives responsible for sustainability and compliance with reporting requirements. Form a team that includes members from various departments such as finance, sustainability, legal, risk management, and operations. This team will be responsible for driving the integration of the ISSB standards into the business.

4. Conduct a Double Materiality Assessment

Align assessment process with the requirements of CSRD and ISSB as well as the SEC Climate Disclosure Rule and SB 253 and SB 261. Ensure that the assessment assesses financial materiality, value chain mapping, and stakeholder engagement (see "Engage with External Stakeholders").

5. Engage with external stakeholders

Maintain open communication with investors, regulators, customers, and other stakeholders regarding sustainability efforts and compliance. Transparency in your approach will build trust and demonstrate your commitment to sustainability. Seek feedback to improve reporting practices and address stakeholder concerns continually.

6. Develop comprehensive data collection systems

Invest in robust data collection and reporting systems that can handle the increased complexity and volume of sustainability data. Ensure that your processes can produce accurate, reliable, and timely information.
It is important to note that much of the data will be required to be independently assured. Utilize reporting technologies and software for precise and efficient data collection and reporting.

7. Train and educate leadership and employees

Invest in training and development for employees on sustainability reporting standards and requirements. Provide training and education to employees at all levels of the organization to ensure they understand the importance of the ISSB standards and their role in the reporting process. This will help embed a culture of sustainability throughout the business.

8. Focus on continuous improvement

Regularly review and update sustainability strategies to reflect evolving regulations and best practices. Regularly review your progress against the transition plan and adjust, as necessary. This ongoing monitoring will help ensure that you stay on track and can address any challenges that arise promptly. Sustainability reporting is an evolving field. Stay informed about updates to the standards and other relevant frameworks, and continuously seek ways to improve your reporting practices and sustainability performance.

Explore innovative solutions for enhancing sustainability performance and disclosure.

By following these recommended actions, companies can effectively navigate the complex landscape of sustainability disclosure requirements and ensure compliance with the regulations and standards discussed in this briefing.

Conclusion

Overall, the increase in sustainability-related data is expected to elevate global best practices in disclosure, enabling more efficient and effective communication of sustainability performance to stakeholders such as investors and consumers. Each of these regulations is likely to foster sustainable business practices as the coming increase in publicly reported sustainability data improves visibility into best practices.

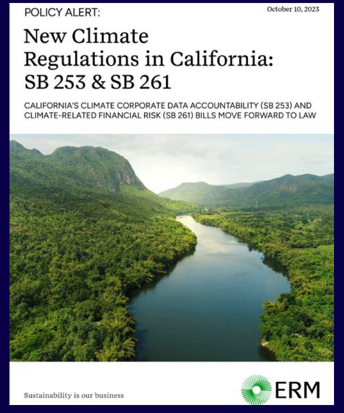
Soon it will be difficult to find a large, global organization that is not impacted by at least one or several of these disclosures and standards.

Now is the time to progress the value creation potential of disclosure-related sustainability measures. Alongside the need to meet mandatory and voluntary disclosure requirements, and align with investor and customer demands, companies can and should treat robust sustainability disclosure as the business intelligence that it is.

Companies can unlock potential by understanding their exposure and gaps, prioritizing high quality assurance ready data, investing in expertise, engaging external stakeholders, and focusing on continuous improvement in sustainability performance. By doing so, companies can capture premiums currently available in the market, enhance operational efficiency, attract conscious customers, foster sustainable innovation, and make progress towards goals (e.g., Net Zero). These actions will strengthen companies' position in a marketplace increasingly focused on sustainability and allow them to prepare for the era of mandatory sustainability disclosure.

Related ERM and ERM Sustainability Institute publications

ERM's subject matter experts have published policy updates relevant to the ESG-related disclosure landscape and the regulations covered in this report:

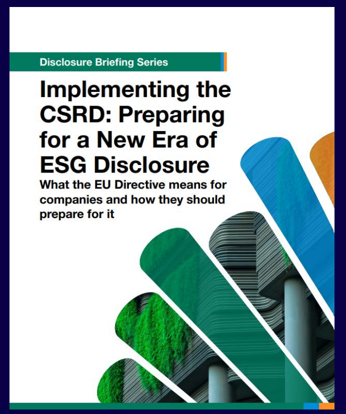


In October 2023, ERM experts released a policy update titled "Climate Corporate Data Accountability (SB 253) and Climate-Related Financial Risk (SB 261) Move Forward to Law". The update covers California's recent climate-related disclosures and outlines their implications for businesses, including coverage outside of California.

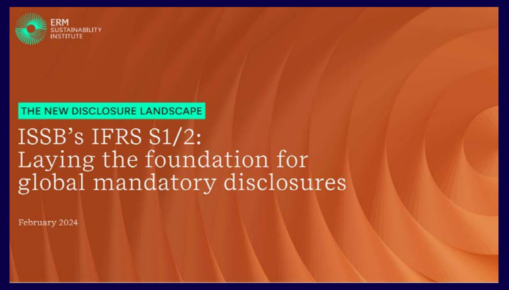
In March 2024, ERM experts issued the "Overview of the U.S. Securities and Exchange Commission climate rule" policy alert, highlighting the rule's requirements and impacts. The alert emphasizes the rule's goal of enhancing transparency and helping investors make informed decisions while providing direction for companies on how to comply.

In May 2024, ERM experts released a policy alert titled "CSRD applicability for North American companies" providing in-depth guidance for companies headquartered in North America that may be subject to the CSRD's requirements. The alert provides a comprehensive 10-step plan for companies to navigate the CSRD with confidence.

The ERM Sustainability Institute has published several related reports through our Disclosure Briefing Series.



In June 2023, the Institute published "Implementing the CSRD: Preparing for a New Era of ESG Disclosure." Specifically, the report focused on the overall background of CSRD, a deep dive into the provisions of CSRD, and how companies can prepare for and leverage CSRD compliance.



In February 2024, the Institute issued "ISSB's IFRS S1/2: Laying the foundation for global mandatory disclosure" discussing progress towards the implementation of the, how ISSB will influence financial and sustainability disclosures, and the benefits of reporting using IFRS S1/S2.

Additional resources

IFRS Knowledge Hub: The IFRS Knowledge Hub is a dedicated resource designed to support the understanding and application of the ISSB's IFRS S1 and S2 standards. The hub provides comprehensive guidance on IFRS S1 and S2 standards as well as webinars, online courses, and practical tools to aid in the implementation of IFRS S1 and S2.

EFRAG ESRS Q&A Platform: The ESRS Q&A platform aims to collect and answer technical questions that remain unresolved after thorough analysis by stakeholders to support the implementation of European Sustainability Reporting Standards (ESRS).

ERM Insights: ERM and its Sustainability Institute develop thought leadership aimed at decoding the complexities of the disclosure landscape. These actionable insights cover a wide range of sustainability- and ESG-related topics and provide businesses with guidance on how to leverage alignment with ESG-related disclosure regulation to derive business value. Related insights from ERM and the Sustainability Institute include, but are not limited to:

- Implementing the CSRD: Preparing for a New Era of ESG Disclosure (erm.com)
- ISSB's IFRS S1/S2: Laying the foundation for global mandatory disclosures (erm.com)
- Overview of the U.S. Securities and Exchange Commission climate rules (erm.com)
- New Climate Regulations in California: SB 253 & SB 261 (erm.com)
- CSRD applicability for North American companies (erm.com)
- Preparing for ISSB: 10 Essential Steps for APAC Businesses (erm.com)
- The Global Regulations Radar (erm.com)
- CSRD (Corporate Sustainability Reporting Directive) (erm.com)

Endnotes

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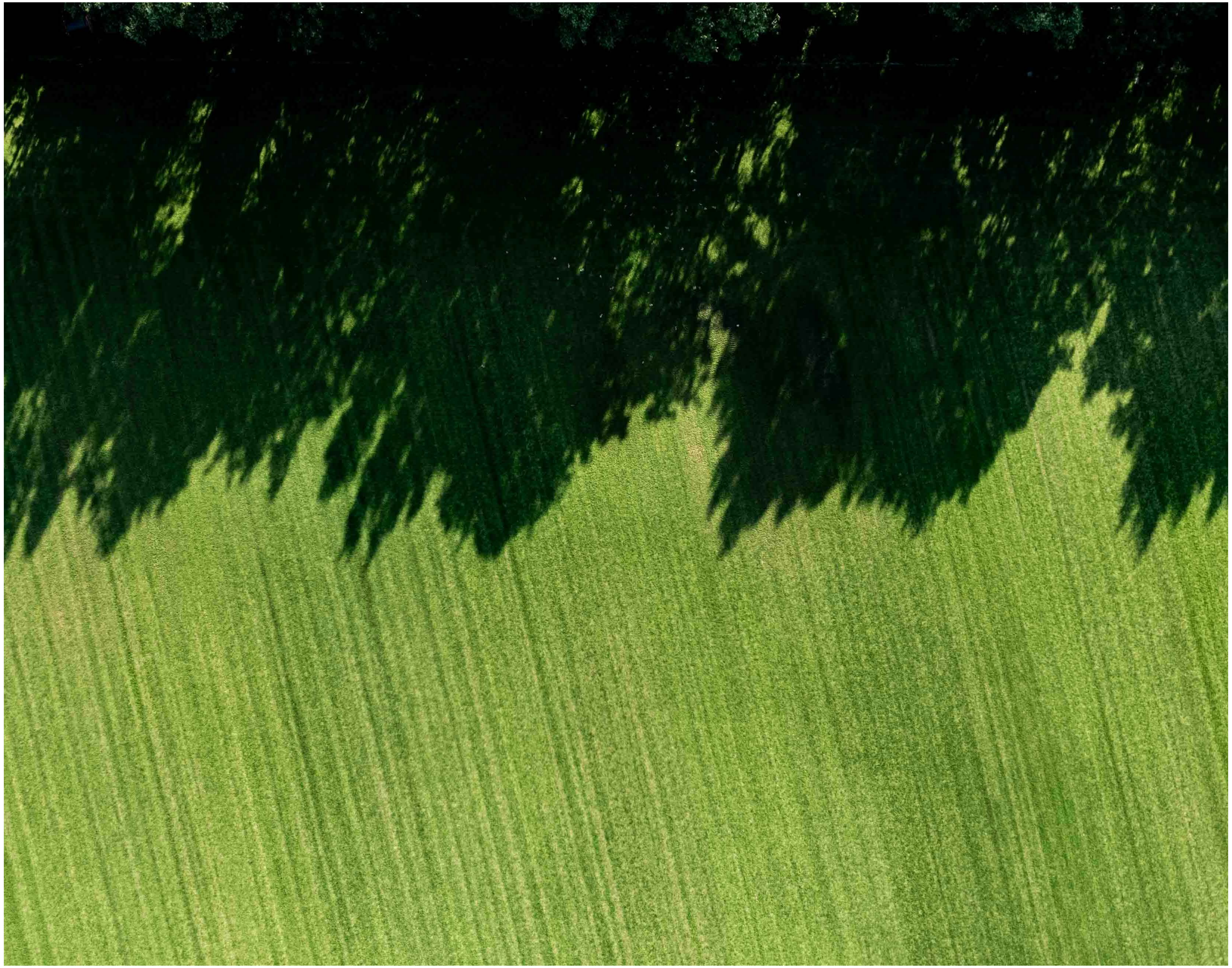

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The ERM Sustainability Institute

The ERM Sustainability Institute is ERM's primary platform for thought leadership on sustainability. The purpose of the Institute is to define, accelerate, and scale sustainability performance by developing actionable insight for business. We provide an independent and authoritative voice to decode complexities. The Institute identifies innovative solutions to global sustainability challenges built on ERM's experience, expertise, and commitment to transformational change.

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