

An aerial photograph showing a wide, shallow river with light-colored water and sandy banks. The river flows from the top left towards the bottom right. On the right side of the river, there is a dense forest of tall, green coniferous trees. The overall scene is captured from a high angle, looking down at the landscape.

ISSB's new sustainability disclosure standards

July 2023



Index

01 | **Regulatory Context**

02 | **Executive Summary**

03 | **IFRS S Detail**

04 | **Why MS?**

A | **Annexes**



01 | Regulatory Context

New sustainability disclosure standards

In June 2023, the ISSB published the official version of the sustainability disclosure standards (S1 on general requirements for sustainability-related financial disclosures and S2 on climate disclosures) with the aim of creating a global framework to ensure that companies provide sustainability-related information alongside financial statements.

ISSB

- The main objective of this new IFRS Foundation body is to **develop high quality corporate sustainability disclosure standards that are widely accepted globally.**
- The creation of the ISSB and the issuance of the Sustainability IFRS is a **response to the need to address certain current concerns in the financial markets:**
 - a. **Addressing climate and sustainability related impacts.**
 - a. **Tailoring ESG reporting to the needs of investors and capital markets, focusing on their specific requirements.**
- IFRS S1 and S2 fully incorporate the TCFD recommendations. Therefore, from 2024 onwards, the **IFRS Foundation will assume the responsibilities of the TCFD.**

Two new standards

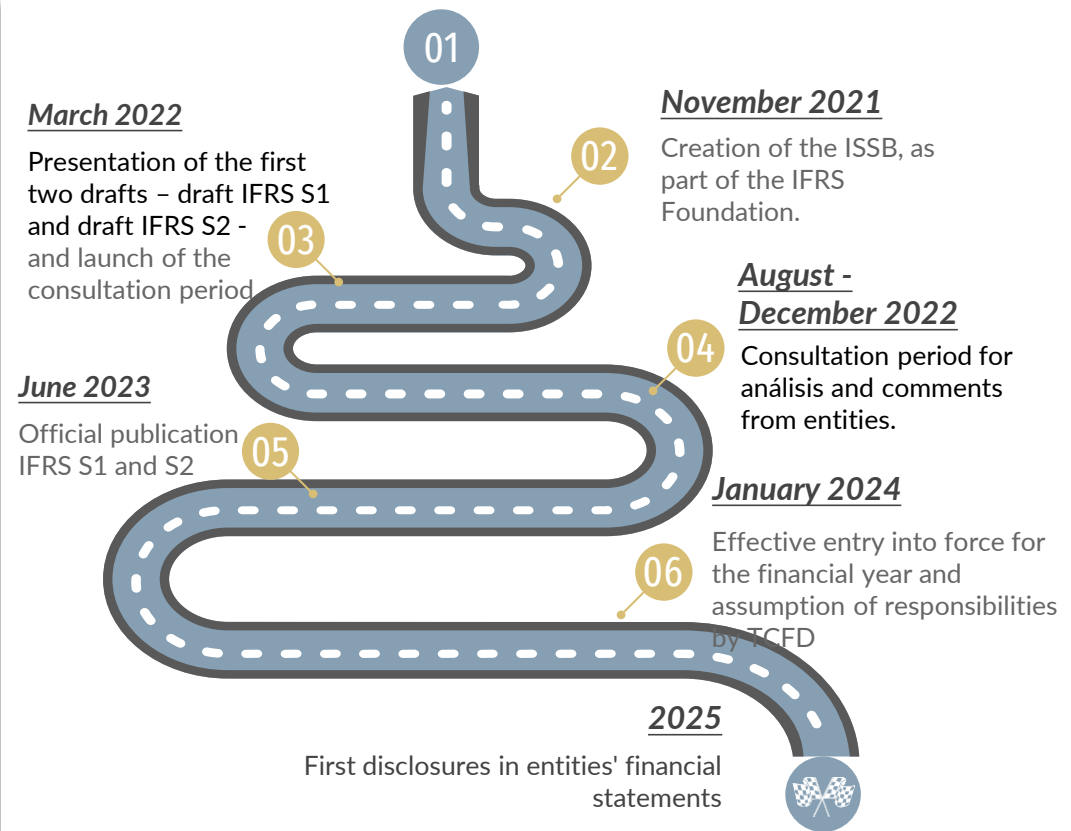
- In June 2023, the ISSB presented its first two IFRS standards, marking a significant milestone towards the standardisation of ESG criteria in financial reporting. To achieve this, it has built on already recognised frameworks, such as the TCFD.

IFRS S1* General requirements for sustainability-related financial disclosures

IFRS S2¹ Dissemination of climate-related information

- IFRS S1 and IFRS S2 are **effective for annual periods beginning on or after 1 January 2024**, which means that investors will start to see information in 2025.

Regulatory roadmap



The first standard (IFRS S1) refers to sustainability-related disclosures while the second standard (IFRS S2) focuses on climate-related disclosures.



Target



General content *



Location



Reporting period

IFRS S1

- Provide a framework of general principles to communicate in a clear and transparent manner relevant information on the significant sustainability-related risks and opportunities faced by entities in the short, medium and long term.
- Enable investors to properly assess the value of organisations.

- Four general pillars on which information should be disclosed:
 - Governance
 - Strategy
 - Risk management
 - Objectives and metrics
- Four blocks of general disclosure requirements.
- Four premises when reporting information: fair presentation, materiality, reporting and connected information.

- Entities should provide sustainability information as part of their overall financial reporting. However, at this stage, where these disclosures should be presented has not yet been defined in the standards; it is left open for each jurisdiction to define.

IFRS S2

- Provide a framework for disclosing information about a company's exposure to significant climate-related risks and opportunities, enabling key stakeholders to assess the impact on the company's financial position, results, cash flows, strategy, business model and value.

- Four general pillars on which information should be disclosed:
 - Governance
 - Strategy
 - Risk management
 - Objectives and metrics

First reference date: Reporting for financial years starting on or after 1 January 2024.

- For the first financial year, sustainability-related information is allowed to be disclosed after the financial statements have been published. However, in applying this exemption, entities are given three different timing options for reporting their sustainability-related information.

- Also, the following exemptions may be applied in the first annual exercise:
 - Maintain the method used for GHG measurement (if different from the "GHG Protocol" methodology) if it was used before implementing the standard.
 - Scope 3 issues are not required to be disclosed if the entity is involved in asset management, commercial banking or insurance.

IFRS S1 requires entities to disclose material information about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

MAIN CONTENT TO BE DISCLOSED

1 Governance



- The governing bodies responsible for oversight of sustainability-related risks and opportunities.
- The role of management in governance control and oversight processes.

2 Strategy



- Risks and opportunities that may affect performance
- The current and anticipated effects on the company's business model, value chain and financial position.
- The effects of the strategy on decision-making.
- Resilience of the strategy and business model.

3 Management risk



- Processes and policies used to identify, assess, prioritise and monitor sustainability-related R&O*.
- The level to which processes and policies are integrated into the company's overall risk management process.

*R&O: Risks and opportunities

4 Metrics and objectives



- For each risk and opportunity identified, it shall disclose:
 - ◆ Metrics required by the IFRS Sustainability Disclosure Standard.
 - ◆ Metrics used for measuring and monitoring

GENERAL REQUIREMENTS

Sources of guidance

In addition to IFRS S1, the applicability of SASB standards, the CDSB Guidelines for water and biodiversity related reporting, or other general disclosure standards such as European Sustainability Reporting (bESRS) should be considered.

Location of information

Sustainability information shall be presented as part of general financial reporting. Exact location open to each jurisdiction's definition e.g. "management report", "management's analysis report", "operational and financial review", "integrated report" or "strategic report".

Reporting period

The information shall be reported at the same time as, and cover the same time period as, the entity's corresponding financial statements.

Declaration of conformity

An entity shall disclose comparative information in respect of the previous period for all amounts disclosed in the reporting period.

Premises

1 Faithful presentation

- The information reported shall give a true and fair view of the entity's position.

2 Materiality

- Material information that may affect the entity in the future shall be disclosed.

3 Reporting

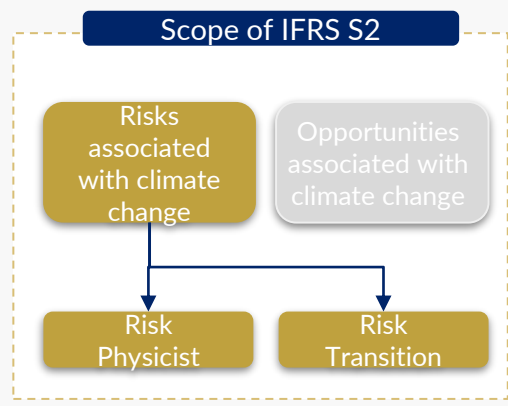
- The information reported shall be the same as that included in the financial statements.

4 Connected information

- Users should be able to understand the connection between:
 - Different sustainability-related information items.
 - The different reports of the entity.

IFRS S2 requires entities to disclose information about climate-related risks and opportunities that may reasonably affect the entity's financial flows, access to funding or cost of capital in the short, medium or long term.

- IFRS S2 is the first IFRS S thematic standard (addressing the "E" of ESG), with a focus on the **environment**.
- Within "E", it focuses on **climate-related risks and opportunities**.
- It is based on the **four pillars** included in IFRS S1: governance, strategy, risk management, and metrics and objectives.
- Its scope can be summarised as shown in the diagram below.



MAIN CONTENT TO BE DISCLOSED

1



GOVERNANCE

- The **governing body** or responsible **person** and how responsibilities regarding climate-related R&O are reflected in the powers and mandates.
- **Role of management** in the governance processes, controls and procedures in place to monitor, manage and oversee climate-related R&O.

2



STRATEGY

- Climate-related R&O* that can reasonably be expected to affect an entity's prospects
- The current and expected impacts of these climate-related R&O on the **business model and the value chain**.
- The effects of these climate-related R&O on **strategy and decision making**
- The impact of these climate-related R&O on the **financial situation**

*R&O: Risks and opportunities

3

RISK
MANAGEMENT

- The **processes** and related **policies** that the entity uses to identify, assess, prioritise and monitor climate-related **risks**.
- The **processes** the entity uses to **identify, assess, prioritise and monitor** climate-related **opportunities**,
- The extent to which and the way in which processes for **identifying, assessing, prioritising and monitoring** climate-related R&O are **integrated into risk management**.

4

METRICS AND
TARGETS

- **Cross-sectoral metrics** (e.g., scope 1,2,3 GHG emissions, number and percentage of assets or business activities vulnerable to climate-related physical or transitional risks).
- **Sectoral metrics** associated with particular business models, activities or other common features that characterise participation in a sector.
- **Targets** set by the entity, and any targets it is required to meet, to mitigate or adapt to climate-related risks or take advantage of climate-related opportunities.

In addition, IFRS S2 includes implementation guidance on the following concepts:

Climate Resilience

Greenhouse Gases (GHG)

Categories of cross-sectoral metrics

Climate-related objectives

04 | Why MS?

Experience and credentials

MS has a working group of experts that supports its clients in the development and implementation of the sustainability and climate risk management framework in each of the 6 defined action lines.



Strategy, governance and culture

- Diagnosis, strategic framework and general plan of action
- Governance (PMO)
- Observatory (Regulation/Market).
- Training



Sustainability self-assessment

- Gap analysis and adaptation for compliance with regulatory requirements.
- Definition of the internal regulatory taxonomy: eligibility criteria and definition of certification processes.
- Implementing the taxonomy: inputs, drivers and outcomes.
- Application of the Equator Principles v4.



Sustainable business development

- Market diagnosis and analysis (depending on the company), including market research, SWOT analysis, etc.
- Product/service definition (sprints).
- Launch and implementation.



Risks

- Risk policies and frameworks.
- Measurement methodologies: portfolio screening, impact assessment (physical and transitional scenarios) and alignment.
- Integration of ESG principles in the admission model.
- Management integration (appetite, rating, collateral, pricing).



Data and technology

- Definition of requirements and ESG model (conceptual, logical and physical).
- Definition of the metrics model and KPI gap analysis.
- Definition of functional and technological architecture.
- Analysis of alternative (vendors/in house).
- Implementation.



Reporting

- Application of requirements (NFRD supplement, CSRD, GRI Standards, etc.) and benchmarking of best practices of peers.
- TCFD: Master plan, reporting, CO2 footprint calculation, physical and transition risk measurement methodologies.
- Regulatory Reporting: ESG Pillar 3, Taxonomy Article 8, EINF Report.



Management Solutions
Making things happen



International
One Firm



Multiscope
Team



Best practice
know-how



Proven
Experience



Maximum
Commitment



Soledad Díaz-Noriega

Partner at Management Solutions

Soledad.Diaz-

Noriega@managementsolutions.com

Ana Isabel Quesada Picón

Partner at Management Solutions

Ana.quesada@managementsolutions.com

Marta Hierro






Partner at Management Solutions

marta.hierro@managementsolutions.com

The financial sector specific guidance lists the functional blocks to be addressed and the corresponding metrics to be disclosed by the financial institution.

Functional blocks

Metrics

 Asset management	Incorporating environmental, social and governance factors into investment management and advice	<ul style="list-style-type: none"> • Number of assets under management per asset class, using ESG and sustainability integration. • Description of the approach to incorporating ESG factors into investment or wealth management processes and strategies. • Description of proxy voting and shareholding policies/proxy voting procedures of investees.
 Commercial banking	Incorporating environmental, social and governance factors into credit analysis	<ul style="list-style-type: none"> • Description of the approach to incorporating ESG factors into credit analysis.
 Insurance	Incorporating environmental, social and governance factors into investment management	<ul style="list-style-type: none"> • Description of the approach used to incorporate ESG factors into investment management processes and strategies.
	Policies designed to encourage responsible behaviour	<ul style="list-style-type: none"> • Net premiums written related to energy efficiency and low carbon emissions. • Analysis of products that encourage health, safety or responsible actions or behaviour.
	Exposure to physical risk	<ul style="list-style-type: none"> • Maximum Probable Loss of insured products due to natural catastrophes. • Total amount of monetary losses attributable to modelled and non-modelled natural catastrophe insurance claims, by type of event and geographical segment. • Description of the approach to incorporating environmental risks into the individual contract underwriting process and risk management at entity level.
 Investment banking	Mainstreaming environmental, social and governance factors into investment banking	<ul style="list-style-type: none"> • Revenues from underwriting, advisory and securitisation transactions incorporating ESG factors. • Number and total value of investments and loans incorporating ESG factors by sector. • Description of the approach to incorporating ESG factors into banking and intermediation activities.
 Mortgages	Environmental risk for mortgaged properties	<ul style="list-style-type: none"> • Number and value of mortgage loans in flood zones over 100 years. • Total expected loss and loss given default (LGD) attributable to default and delinquency on mortgage loans due to weather-related natural catastrophes, by geographic region. • Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting.

Based on the four general pillars on which the information must be disclosed, a series of indicators and sub-indicators are mentioned that must be included in order to comply with the requirements of IFRS S1 and IRFS S2.

	Government		Strategy		Risk management		Objectives and metrics	
IFRS S1	Indicators: <ul style="list-style-type: none"> Governing bodies responsible for oversight of sustainability-related R&O. Management's role in governance control and oversight processes. 	Sub-indic. 5 2	Indicators: <ul style="list-style-type: none"> R&O that may affect results Effects on business model, value chain and financial position Effects on decision-making Resilience of strategy and business model 	Sub-indic. 4 6 3 2	Indicators: <ul style="list-style-type: none"> Processes and related policies to identify, assess, prioritise and monitor R&O, Extent and manner in which these processes are integrated into, and inform, the entity's overall risk management process. 	Sub-indic. 6 N/A	Indicators : <ul style="list-style-type: none"> Metrics required by an applicable IFRS S1 standard. Metrics used to measure and monitor R&O that could reasonably be expected to affect the entity's prospects and performance in relation to that R&O, including progress against any targets (legally binding or set by the entity). 	Sub-indic. .1) 1 11
	Government		Strategy		Risk management		Objectives and metrics	
IFRS S2	Indicators: <ul style="list-style-type: none"> Governing bodies responsible for climate-related R&O oversight. Management's role in governance control and oversight processes. 	Sub-indic. 5 2	Indicators: <ul style="list-style-type: none"> Climatic R&O that may affect the results. Effects on business model, value chain and financial position Effects on decision-making (including transition plans). Resilience of strategy and business model. 	Sub-indic. 4 8 7 6	Indicators: <ul style="list-style-type: none"> Related processes and policies to identify, assess, prioritise and monitor climate R&O, Extent and manner in which these processes are integrated into and inform the entity's overall risk management process. 	Sub-indic. 7 N/A	Indicators : <ul style="list-style-type: none"> Relevant information for cross-sector metrics (e.g., Scope 1,2,3 Emissions) Industry-based metrics (see <i>Industry-based Guidance on Implementing IFRS S2</i>). Targets to mitigate or adapt to climate risks or take advantage of opportunities including metrics to measure progress towards these targets. 	Sub-indic. 14 N/A 17
	Government		Strategy		Risk management		Objectives and metrics	

*Can be merged with IFRS S1