

## IFRS Sustainability Developments

# Interoperability guidance published on ESRS and ISSB Standards

### What you need to know

- ▶ The material provides interoperability guidance focused on climate-related sustainability disclosures under ESRS and ISSB Standards. The content is educational in nature and does not override or adjust the requirements of ESRS or ISSB Standards.
- ▶ Whilst there are many aligned requirements of ESRS and ISSB Standards, there are differences that entities must address to claim compliance with both.
- ▶ A multi-national entity may need to comply with both sets of standards if it has reporting entities in jurisdictions that require compliance with ESRS, and reporting entities in jurisdictions that require compliance with ISSB Standards.
- ▶ The definition of materiality in IFRS S1, focused on what is decision-useful to investors, is aligned with the definition of financial materiality in ESRS. But ESRS requires a double materiality assessment, considering what is decision-useful information to investors and other stakeholders.

### Overview

On 2 May 2024, the IFRS Foundation and the European Financial Reporting Advisory Group (EFRAG) together published guidance material on the alignment between the IFRS Sustainability Disclosure Standards (ISSB Standards) and the European Sustainability Reporting Standards (ESRS).

The guidance material focuses on climate-related disclosures, so it mainly covers the requirements of IFRS S2 *Climate-related Disclosures* (IFRS S2), and, where relevant, the requirements of IFRS S1 *General requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1).

Note that the content of the guidance material is educational in nature and does not override or adjust the requirements of ESRS or ISSB Standards. Whether a specific disclosure requirement must be provided by any specific entity will be subject to that entity's facts and circumstances and is subject to materiality.

### Which entities is the guidance material relevant for?

There are situations where an entity or its subsidiaries will need to (or choose to) comply with both ESRS and the ISSB Standards, for example, a multi-national entity may need to comply with both sets of standards if it has reporting entities in jurisdictions that require compliance with ESRS, and reporting entities in jurisdictions that require compliance with ISSB Standards. The ISSB Standards require adoption by authorities in local jurisdictions before compliance would be mandatory, so the timelines for adoption will vary. So far, Brazil and Turkey have announced that the ISSB Standards will be required, and an increasing number of jurisdictions have indicated they expect to require the adoption of the ISSB Standards, or similar standards based on the ISSB Standards.

Entities that meet the criteria for the Corporate Sustainability Reporting Directive (CSRD) will be required to comply with ESRS (the timeline for compliance will depend on which scope category an entity falls into).

The guidance material describes the alignment of disclosure requirements between ESRS and ISSB Standards, as well as information that an entity starting with either set of standards needs to know to enable it to claim compliance with both sets of standards. The guidance material states, “regardless of whether it starts with ESRS or ISSB Standards, an entity can comply with the climate requirements of both sets of standards by following the content of this interoperability guidance”.

The guidance material contains four sections:

1. Comments on general requirements in ESRS and ISSB Standards
2. Common climate-related disclosures
3. Comparison of ESRS to IFRS S2 - information that an entity starting with ESRS needs to know when also applying ISSB Standards to enable compliance with both sets of standards
4. Comparison of IFRS S2 to ESRS - information that an entity starting with ISSB Standards needs to know when also applying ESRS to enable compliance with both sets of standards.

## **Main points to note from the interoperability guidance material**

### **Materiality**

The definition of materiality in IFRS S1 is aligned with the definition of financial materiality in ESRS. Both sets of standards rely on the criterion of decision-usefulness to identify material information to disclose. However, the double materiality assessment under ESRS considers what is decision-useful information to both investors and other stakeholders, whereas the ISSB Standards focus on what is decision-useful only to investors.

### **Presentation**

IFRS S1 allows for the presentation of disclosures in various locations as long as the information is included in the entity’s general purpose financial reports. ESRS require sustainability information to be presented in a sustainability statement, identified as a dedicated section of the management report. In principle, the required location for the disclosures in ESRS is aligned with that in IFRS S1. It will, however, be important for entities to ensure that any additional information disclosed under ESRS does not obscure information required to be disclosed under ISSB Standards.

### **Disclosures for sustainability topics other than climate**

ESRS 1 and ESRS 2 require, like IFRS S1, disclosure of information related to those sustainability topics assessed as material. ESRS has dedicated reporting standards for ten different sustainability topics including climate, while the ISSB Standards only have a topic-specific reporting standard on climate so far (IFRS S2).

In the absence of an ISSB Standard that specifically applies to a sustainability-related risk or opportunity, IFRS S1 sets out the sources that an entity should use to identify sustainability matters that should be reported on. IFRS S1 requires entities to consider the applicability of the metrics associated with the disclosure topics in the SASB Standards in the first instance, but states that entities may also refer to and consider ESRS as a source of guidance, provided that the objectives of IFRS S1 are still met.

## **Reliefs**

Both sets of standards offer relief clauses (covered in the Annex to the guidance material). However, the guidance material advises entities to check the standards carefully if they want to claim compliance with both sets of standards and are also applying a relief, as the relief may not meet the requirements in both sets of standards.

## **Common climate-related disclosures between the two sets of standards**

Section 2 in the guidance material covers common requirements for climate-related disclosures and aligns paragraphs from the two sets of standards side by side in a 7-page table for reference (Table 2.1), based on the structure of IFRS S2.

There are similarities between the paragraphs in the two sets of standards and, in some cases, the phrases used are the same. The guidance material states that “this section illustrates that there is a high degree of alignment of the climate-related disclosures in the two sets of standards. Table 2.1 illustrates that almost all the disclosures in ISSB Standards related to climate are included in ESRS”. In some cases, the wording in the two sets of standards is not exactly the same, but the IFRS Foundation and EFRAG have decided not to mark those instances as a difference. Therefore, entities may be satisfied that the information disclosed relating to these requirements will meet the disclosure requirement across both sets of standards. The guidance states that it cannot be read in isolation and that it “must be read in conjunction with the relevant standards” (i.e., ESRS or ISSB Standards).

## **Differences in climate-related disclosures between the two sets of standards**

Section 3 of the guidance material covers areas where the ISSB Standards have additional climate-related disclosure requirements which an entity starting with ESRS will need to consider in order to also claim compliance with the ISSB Standards. Section 4 of the guidance material covers areas where ESRS have incremental or additional climate-related disclosure requirements which an entity starting with the ISSB Standards needs to consider in order to also claim compliance with ESRS.

In some cases, both sets of standards address a disclosure topic, but the disclosure requirements differ, for example, scenario analysis, disaggregation of GHG emissions and carbon credits. These areas are addressed in sections 3.1 and 4.1 of the guidance material.

Section 3.1 of the guidance material addresses areas where the ISSB Standards overlap with the climate-related disclosure requirements in ESRS, and highlights areas which require further consideration. These areas include, in addition to the three mentioned above: transition plan assumptions; industry-based metrics; climate-related opportunities; and capital deployment. Section 3.2 addresses the fact that, in the case of climate-related disclosures on financed emissions, there are no corresponding specific disclosure requirements in ESRS.

Section 4.1 of the guidance material addresses areas where ESRS overlaps with the climate-related disclosure requirements in ISSB Standards, and highlights areas which require further consideration. These areas include, in addition to the three mentioned above: quantitative information - single amount or range; climate-related physical and transition risks; GHG emission reduction targets; and defining the organisational boundary for GHG emissions. Regarding the definition of the organisational boundary, the guidance material clarifies that entities reporting in accordance with IFRS S2 will only be able to align the organisational boundary with ESRS when they choose to apply the financial control option as described by the GHG Protocol. Additionally, the entity reporting in accordance with IFRS S2 will only be able to align the organisational boundary with ESRS for the consolidated group when they also disclose GHG emissions from associates, joint ventures, unconsolidated subsidiaries (investment entities) and contractual arrangements that are joint arrangements not structured through an entity (that is, jointly controlled operations and assets), where the entity has operational control.

Section 4.2 of the guidance material addresses climate-related disclosures required by ESRS, for which incremental datapoints are required by ESRS, and additional climate-related disclosures for which there are no corresponding disclosure requirements in IFRS S1 or IFRS S2. ESRS 2 includes disclosures pertaining to the Governance and Strategy pillars, which must be applied in conjunction with ESRS E1. These incremental and additional disclosures are included in table 4.2.1. Incremental and additional disclosures arising from ESRS E1 have been included in table 4.2.2.

#### How we see it

The interoperability guidance material will be useful for entities that want to claim compliance with both the ISSB Standards and ESRS. In particular multi-national entities that may need to comply with both sets of standards if they have both reporting entities in jurisdictions that require compliance with ESRS, and reporting entities in jurisdictions that require compliance with ISSB Standards. Entities starting with either set of standards should be aware of key differences between them and reflect these in their disclosures accordingly, to the extent they are applicable and material to the entity. However, entities should ensure that information required to be disclosed under ISSB Standards is clearly identifiable alongside information required to be disclosed under ESRS. Entities should keep in mind that the guidance material must be read in conjunction with the relevant standards. They should not rely on the guidance material in isolation to meet the requirements of either set of standards.

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