ESG Reporting:

A Primer on Key Regulatory Reporting Requirements for U.S. Based Entities

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CAQ

About the Center for Audit Quality

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of U.S. public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by U.S. public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, U.S. public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of U.S. public company auditors and audits to dynamic market conditions.

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Introduction

Navigating the rapidly evolving ESG reporting landscape can be challenging. Adding to the complexity of preparing for various regulatory reporting requirements is the uncertainty surrounding the outcome of the litigation challenging the Securities and Exchange Commission's (SEC) Climate Rules and the California climate laws.[1] The change in administration resulting from the 2024 U.S. presidential election has further increased the uncertainty associated with the SEC Climate Rules. What is certain is that many U.S. entities will nevertheless be subject to ESG-related reporting requirements. It's expected that up to 3,000 U.S. entities will be impacted by the EU's Corporate Sustainability Reporting Directive (CSRD) and the California climate laws are expected to impact over 10,000 public and private U.S. entities.[2,3] Even entities without direct reporting obligations under the CSRD may be asked for information by customers, suppliers, investors, or lenders because of the requirements for entities in scope to disclose information about their value chain, or because they are subsidiaries of EU companies with reporting obligations. In addition, the required disclosure of scope 3 emissions by various regulations and standards (e.g., the CSRD, California Senate Bill 253 and the IFRS Sustainability Disclosure Standards) is likely to result in scope 3 driven data requests of entities within the supply chains of the larger entities that are subject to these regulations and standards.[4,5] Even in the absence of any regulatory requirements, investors continue to demand insight into entities' ESG-related risks and opportunities.

While many U.S. entities have started preparing for these rapidly approaching ESG-related reporting requirements, others still need to get started. The purpose of this publication is to provide stakeholders, such as boards, entity management, auditors, and others with an overview of key regulatory ESG reporting requirements and standards likely to impact U.S. entities along with practical implementation considerations.

This publication provides high-level insight into the California climate laws, SEC Climate Rules, CSRD, and the current IFRS Sustainability Disclosure Standards. It highlights which entities fall within the scope of the various ESG reporting regulations and standards and notes the relevant compliance dates. Further, this publication provides an overview of what information needs to be reported, where that information needs to be reported, and what the assurance requirements are, if any. This publication also highlights important ongoing developments that entities should continue to monitor as they progress through their ESG reporting implementation journey and concludes with practical implementation considerations.

1 33-11280.pdf (sec.gov) and Chamber of Commerce of the United States of America v. California Air Resources Board - Climate Change Litigation (climatecasechart.com)
2 At Least 10,000 Foreign Companies to Be Hit by EU Sustainability Rules - (wsj.com)
3 California Senate Bill 253, which requires the disclosure of greenhouse gas emissions, is expected to impact 5,000 public and private U.S. entities doing business in California with revenue in excess of $1 billion. California Senate Bill 261, which requires the disclosure of climate-related risks, is expected to impact 10,000 public and private U.S. entities doing business in California with revenue in excess of $500 million.
4 Scope 3 emissions are indirect emissions that occur in the upstream and downstream value chain of the reporting entity.
5 ISSB issues inaugural global sustainability disclosure standards\

California Climate Laws

On October 7, 2023, the California Governor signed three climate disclosure bills into law: Senate Bill 253, *Climate Corporate Data Accountability Act* (SB 253), Senate Bill 261, *Greenhouse Gases: Climate-Related Financial Risk* (SB 261) and Assembly Bill 1305, *Voluntary Carbon Market Disclosures* (AB 1305).[6] These bills are expected to impact over 10,000 U.S. entities – including both public and private entities. The California Air Resources Board (CARB) has been tasked with providing more detailed guidance on SB 253, and to set administrative penalties for SB 261 in regulations required to be issued prior to July 1, 2025.[7] There are no definitive plans to develop additional guidance for AB 1305. Separately, there is a lawsuit challenging SB 253 and SB 261, the outcome of which may affect these laws.

SB 253 - CLIMATE CORPORATE DATA ACCOUNTABILITY ACT

Scope

SB 253 applies to business entities (both public and private) formed in the U.S., with annual revenue over $1 billion that do business in California.

Key disclosure topics

Scope 1, scope 2 and scope 3 GHG emissions, in accordance with the Greenhouse Gas Protocol standards and guidance.

Where reported

Business entities will file the reported disclosures on a digital platform to be established by the CARB that is accessible to the public. The report may be consolidated at the parent company level. If a subsidiary falls within the scope of SB 253 the subsidiary is not required to prepare a separate report as long as the parent company meets the reporting requirements.

Frequency of reporting

Annually

Assurance requirements

Assurance performed by an independent third-party assurance provider is required over scope 1 and 2 GHG emissions. The CARB may later extend the assurance requirement to scope 3 GHG emissions. The assurance requirements are phased-in beginning with limited assurance and later moving to reasonable assurance. See compliance dates on page 6.

REASONABLE VERSUS LIMITED ASSURANCE

Reasonable assurance is similar to the level of assurance provided in an audit of financial statements. Reasonable assurance is a positive form of assurance that results in an opinion on whether the information is in accordance with the criteria in all material respects. A reasonable assurance engagement includes obtaining an understanding sufficient to identify and assess risks of material misstatement and provide a basis for designing and performing procedures to respond to the assessed risks. It also includes evaluating the design and implementation of relevant controls.

Limited assurance is a negative form of assurance that concludes as to whether any material modifications are needed for the information to be in accordance with specified criteria. The procedures performed include identifying and focusing on areas of increased risk that the information may be materially misstated. Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures performed in a limited assurance engagement vary in nature and timing from, and may be less in extent than for, a reasonable assurance engagement.

6 These laws have been incorporated into the Healthy and Safety Code in California (in Section 38532, Section 38533 and as Part 10 to Division 26 (commencing with Section 44475) respectively).

7 On September 27, 2024, the California Governor signed Senate Bill 219 (SB 219) into law, making changes to SB 253 and SB 261. These changes include amending the climate bills to extend the deadline for CARB to adopt implementing regulations to July 1, 2025 (from January 1, 2025). Relevant portions of this publication reflect the changes introduced by SB 219; however, not *all* changes introduced by SB 219 are reflected in this publication.

▸ **Compliance dates**
Under SB 253, scope 1 and scope 2 emissions reporting is required in 2026 (for the reporting entity's prior fiscal year) by a date to be determined by the CARB. Scope 3 emissions reporting is required in 2027 (for the reporting entity's prior fiscal year) by a date to be determined by the CARB. Further, limited assurance over scopes 1 and 2 GHG emissions is required from 2026 moving to reasonable assurance in 2030. The CARB will decide whether to require assurance over scope 3 GHG emissions. If assurance over scope 3 GHG emissions is ultimately required, limited assurance over scope 3 GHG emissions would be required by no later than 2030 but the exact timing will be determined by the CARB.

SB 261 - GREENHOUSE GASES: CLIMATE-RELATED FINANCIAL RISK

▸ **Scope**
SB 261 applies to business entities (both public and private) formed in the U.S., with annual revenue over $500 million that do business in California. Business entities subject to regulation by the Department of Insurance in California, or in the business of insurance in any other state, are exempt as they are already subject to a similar requirement.

▸ **Key disclosure topics**
Disclosure topics include climate-related financial risks, disclosed in accordance with the Final Report of Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), or any successor thereto. The TCFD recommendations are structured around four thematic areas that represent core elements of how entities operate: governance, strategy, risk management, and metrics and targets. In addition, disclosure of measures the entity has adopted to reduce and adapt to the climate-related risks disclosed under the TCFD's recommendations is required. Disclosure of climate-related financial risk information in accordance with laws, regulations, or voluntary frameworks that meet the same requirements as the TCFD, including the IFRS Sustainability Disclosure Standards as issued by the International Sustainability Standards Board (ISSB) would also satisfy the disclosure requirements.

▸ **Where reported**
Business entities are required to make the report publicly available on their entity website. A report may be consolidated at the parent company level. If a subsidiary falls within the scope of SB 261 the subsidiary is not required to prepare a separate report as long as the parent company meets the reporting requirements.

▸ **Frequency of reporting**
Biennially

▸ **Assurance requirements**
None

▸ **Compliance dates**
The first climate-related financial risk report is required on or before January 1, 2026. Entities will likely need to report on 2024 data during 2025 in order to meet the deadline given that it's unlikely that entities will be able to report on 2025 data on or before January 1, 2026.

AB 1305 - VOLUNTARY CARBON MARKET DISCLOSURES

▸ **Scope**
AB 1305 applies to business entities (both public and private) operating in California that make claims regarding the achievement of net zero emissions, carbon neutrality or significant emissions reductions; and entities that market, sell, purchase or use voluntary carbon offsets in California.

▸ **Key disclosure topics**
A business entity that makes claims regarding the achievement of net zero emissions, carbon neutrality or significant emissions reductions is required to disclose all information documenting how, if at all, a claim was determined to be accurate or actually accomplished, how interim progress toward that goal is being measured, and whether there is independent third-party verification of the entity data and claims listed. If claims are made and the entity purchases or uses voluntary carbon offsets, then additional disclosure requirements apply.

An entity that is marketing or selling voluntary carbon offsets within the state is required to disclose specified information about the applicable carbon offset project and details regarding accountability measures if a project is not completed or does not meet the projected emissions reductions or removal benefits.

▸ **Where reported**
Business entities are required to make the information publicly available on their entity website.

▸ **Frequency of reporting**
At least annually

▸ **Assurance requirements**
None, but business entities are required to indicate whether they have subjected the disclosed information to independent third-party verification.

▸ **Compliance dates**
The bill took effect on January 1, 2024.[8]

▸ **Looking ahead**
Entities should continue to monitor the lawsuits challenging SB 253 and SB 261 to understand what impact the outcome may have on the laws.

8 While the bill took effect on January 1, 2024, the bill is silent on when the first disclosures are required. Through normal legislative process, the law became effective January 1, 2024. In a November 30, 2023 letter to the Chief Clerk of the Assembly the bill sponsor indicated that he intended the first annual disclosures be made by January 1, 2025. However, the sponsor's intent does not have a direct impact on the effective date. The bill sponsor subsequently proposed in AB 2331, that the first disclosures would be required by January 1, 2025; however, the bill was not brought up for final vote in the Assembly before the legislative session ended at the end of August 2024.

SEC Climate Rules

On March 6, 2024, the SEC adopted, *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (SEC Climate Rules). However, on April 4, 2024, the SEC stayed its Climate Rules to "facilitate the orderly judicial resolution" of pending legal challenges. In connection with the stay, the SEC indicated that it would establish a new effective date at the conclusion of its voluntary stay.[9] The change in administration, resulting from the 2024 U.S. presidential election, has increased the uncertainty associated with the SEC Climate Rules. The information presented in this publication reflects details of the SEC Climate Rules, as published by the SEC on March 6, 2024 – all of which may be subject to change pending the outcome of the legal challenges and the possible impacts resulting from the change in administration.

The SEC Climate Rules require a registrant to disclose certain climate-related information in its registration statements and annual report. The SEC Climate Rules aim to provide investors with consistent, comparable and reliable information about the financial effects of climate-related risks on a registrant's business and how the registrant manages those risks.

▸ Scope

The new SEC Climate Rules apply to both domestic registrants and foreign private issuers, although Canadian registrants reporting on Form 40-F under the Multi-jurisdictional Disclosure System (MJDS) are exempt. The SEC Climate Rules also apply to entities filing a Securities Act or Securities Exchange Act registration statement for an IPO, spin-off or other transaction.

▸ Key disclosure topics

The SEC Climate Rules require disclosures both within and outside of the financial statements.

Disclosures required outside of the financial statements (by Regulation S-K) include:

+ Climate-related risks that have had a material impact or are reasonably likely to have a material impact on strategy, results of operations, or financial condition in the short term (i.e., the next 12 months) and the long term (i.e., beyond the next 12 months)
    - The actual and potential material impacts of any identified climate-related risks on the registrant's strategy, business model, and outlook
    - Activities (if any) to mitigate or adapt to material climate-related risks, including a description of transition plans (if adopted) and progress made, scenario analysis (if used), and information about internal carbon prices (if used)
    - Whether the impacts of those risks have been integrated into the strategy or business model, including material expenditures incurred and material impacts on financial estimates and assumptions
+ A description of the board of directors' oversight of climate-related risks, targets and goals, and management's role in assessing and managing material climate-related risks
+ Risk management processes to identify, assess and manage climate-related risks and, if managing material risks, whether and how any such processes are integrated into the registrant's overall risk management system or processes
+ Material climate-related targets or goals (if any) related to the registrant's business, results of operations, or financial condition and related progress
+ Scope 1 and/or scope 2 greenhouse gas (GHG) emissions by large accelerated filers (LAFs) and accelerated filers (AFs) (excluding smaller reporting companies (SRCs) and emerging growth companies (EGCs)), if material

Disclosures required within the financial statements (by Regulation S-X) include:

+ Effects of severe weather events and other natural conditions, including:

9 IowavSEC452024.pdf (cch.com)

- Incurred expenses and losses if the aggregate amount equals or exceeds 1% of the absolute value of pre-tax income or loss (subject to $100,000 de minimis threshold)

- Capitalized costs and charges if the aggregate amount equals or exceeds 1% of the absolute value of stockholders' equity or deficit (subject to $500,000 de minimis threshold)

- Recoveries recognized if incurred expenses, losses, or capitalized costs and charges are disclosed

+ Expenses, capitalized costs, and losses related to carbon offsets or renewable energy credits if used as a material component of the registrant's plans to achieve climate-related targets or goals

+ Financial estimates and assumptions materially affected by severe weather events and other natural conditions or disclosed targets or transition plans

The above-mentioned financial statement disclosures are unique to the SEC Climate Rules. None of the other reporting requirements covered in this publication require disclosures of that nature within the financial statements.

▸ Where reported

The SEC Climate Rules create a new 'Climate-Related Disclosure' section in annual reports (i.e., Forms 10-K and 20-F) and registration statements. Regulation S-K disclosures may be included in this new section or other parts of a registration statement or annual report. Regulation S-X disclosures are required to be made in the footnotes of the audited financial statements.

Any GHG emissions metrics required to be disclosed may be incorporated by reference from the registrant's Form 10-Q for the second fiscal quarter in the fiscal year immediately following the year to which the GHG emissions metrics disclosure relates, or may be included in an amended annual report on Form 10-K no later than the due date for such Form 10-Q.[10] The registrant needs to include an express statement in its annual report indicating its intention to incorporate this information by reference from either a quarterly report on Form 10-Q or to amend its annual report on Form 10-K.

▸ Frequency of reporting

Annually and, if applicable, upon filing of a registration statement.

▸ Assurance requirements

LAFs and AFs (excluding SRCs and EGCs) are required to file an attestation report covering the required disclosure of scope 1 and scope 2 GHG emissions. LAFs and AFs are required to obtain limited assurance beginning three years after the GHG emissions disclosure compliance date and LAFs are required to obtain reasonable assurance beginning seven years after the GHG emissions disclosure compliance date. Keep in mind that information disclosed in the footnotes to the financial statements will fall within the scope of the financial statement audit.

▸ Compliance dates

As mentioned above, the SEC indicated that it would establish a new effective date at the conclusion of its voluntary stay.[11] For illustrative purposes, we've indicated on page 10 how, as currently written, the compliance dates for the SEC Climate Rules would be phased in based on the registrant's filing status (e.g., LAF) and the type of disclosure.

▸ Looking ahead

Entities should continue to monitor the litigation, including the status of the stay, and the impact of the 2024 U.S. presidential election on the SEC Climate Rules.

10 If the registrant is a foreign private issuer, the GHG emissions metrics required to be disclosed may be disclosed in an amendment to its annual report on Form 20-F, which will be due no later than 225 days after the end of the fiscal year to which the GHG emissions metrics disclosure relates. The registrant must include an express statement in its annual report indicating its intention to incorporate this information by reference from Form 20-F by the due date.

11 IowavSEC452024.pdf (cch.com)

COMPLIANCE DATES

Registrant type	Disclosure and financial statement effects		GHG emissions/assurance			Electronic tagging
	All Reg. S-K and S-X disclosures, other than as noted in this table	Reg. S-K disclosures about material expenditures and impacts on financial estimates and assumptions	Scopes 1 and 2 GHG emissions disclosure	Limited assurance	Reasonable assurance	Inline XBRL tagging
Large accelerated filer	FYB* 2025	FYB 2026	FYB 2026	FYB 2029	FYB 2033	FYB 2026
Accelerated filers (other than SRCs and EGCs)	FYB 2026	FYB 2027	FYB 2028	FYB 2031	N/A	FYB 2026
SRCs, EGSs, and non-accelerated filers	FYB 2027	FYB 2028	N/A	N/A	N/A	FYB 2027

* “FYB” refers to any fiscal year beginning in the calendar year listed.

European Union Corporate Sustainability Reporting Directive (CSRD)

The CSRD went into effect in January 2023, superseding the previous Non-Financial Reporting Directive (NFRD). The scope of the CSRD is far-reaching, affecting not only EU-based entities but also non-EU-based public and private entities with operations in the EU through subsidiaries or branches. EU Member States had until July 6, 2024, to incorporate the CSRD provisions into national law – a deadline which many Member States failed to meet. Member States could add additional provisions during the transposition process, but they could not reduce the requirements. In late September 2024, the European Commission opened infringement procedures against the 17 Member States that had yet to complete the transposition.

The CSRD requires comprehensive sustainability-related disclosures covering environmental, social and governance matters. Entities subject to the CSRD are required to report according to European Sustainability Reporting Standards (ESRS). The standards were developed by EFRAG, previously known as the European Financial Reporting Advisory Group. The first set of ESRS was published in the Official Journal of the European Union in December 2023 and adopted by the European Commission in July 2023. In the future, sector-specific standards, standards for small and medium sized entities (SMEs) and standards for global consolidated reporting for non-EU entities will also be developed.

EU Taxonomy Regulation

Entities subject to the CSRD are also required to comply with the EU Taxonomy Regulation (EU Taxonomy). The EU Taxonomy establishes a classification system that requires entities to calculate their percentage of environmentally sustainable economic activities in specific areas based on the entity's sector. Ultimately, the EU Taxonomy aims to enable the EU to scale up sustainable investment by directing investments towards sustainable projects and activities.

Non-EU entities (including U.S. entities) with securities listed on an EU regulated market are required to issue a CSRD report in accordance with ESRS, as early as 2025 on 2024 information.

▸ Scope

The CSRD applies to all entities listed on EU-regulated markets (with limited exceptions) and to 'large' undertakings (as defined in the CSRD) and 'large' groups in the EU. The CSRD also affects non-EU headquartered entities through their EU subsidiaries and through a phased requirement for reporting at the global consolidated level.

The scoping requirements of CSRD reporting are complex and entities need to consider applicability at multiple levels within their organizations to ensure all reporting obligations are identified. Seeking expert advice and engaging with counsel may be helpful in this evaluation. Similarly, the CSRD reporting options are complex and entities may benefit from consultation with counsel regarding their reporting options.

The frequently asked questions (FAQs) on the implementation of the CSRD, published by the European Commission on August 7, 2024, provide a flowchart illustrating the process to determine whether an entity is subject to sustainability reporting requirements and from which financial year. This table has been included as Appendix 2 to this publication.

U.S. entities should keep in mind that, even without direct reporting obligations under the CSRD, they may be asked for information by customers, suppliers, investors, or lenders because of the requirements for in-scope entities to disclose information about entities in their value chain, or because they are subsidiaries of EU entities with reporting obligations.

▸ Key disclosure topics

ESRS disclosure requirements

To date, the European Commission has adopted 12 sector-agnostic standards. These standards include both cross-cutting and topical standards covering a broad range of sustainability matters. These standards cover environmental, social and governance topics and are intended to provide insight into an entity's material sustainability impacts, risks and opportunities. Current ESRS can be viewed in the chart below.

Like SB 253 and the IFRS Sustainability Disclosure Standards, ESRS E1, Climate Change, includes a requirement for entities to disclose their scope 1, 2 and 3 GHG emissions.

The ESRS use the concept of "double materiality," which requires that an entity report information necessary to understand (1) how sustainability matters affect the entity (referred to as financial materiality) and (2) the impact the entity has on a range of sustainability matters, like people and the environment (referred to as impact materiality). This concept is unique to the ESRS when compared with the other reporting requirements covered in this publication.

EU Taxonomy disclosures

The EU Taxonomy requires disclosure of key performance indicators (KPIs) regarding the percentage of an entity's environmentally sustainable economic activities. The required KPIs differ depending on whether the entity is a financial or non-financial entity. Non-financial entities are required to disclose the proportion of their revenue, operating expenditures and capital expenditures that are related to environmentally sustainable economic activities. Financial entities (i.e., asset managers, credit institutions, investment firms, and insurance entities) are required to disclose the proportion of environmentally sustainable economic activities based on the nature of their business (e.g., asset managers must report the proportion of sustainable investments).

CURRENT ESRS

Cross-cutting standards		
ESRS 1 | General requirements		
ESRS 2 | General disclosures		
Topical standards		
Environmental	**Social**	**Governance**
ESRS E1 Climate change	ESRS S1 Own workforce	ESRS G1 Business conduct
ESRS E2 Pollution	ESRS S2 Workers in the value chain	
ESRS E3 Water and marine resources	ESRS S3 Affected communities	
ESRS E4 Biodiversity and ecosystems	ESRS S4 Consumers and end-users	
ESRS E5 Resource use and circular economy		

▸ Where reported

Entities are required to provide the CSRD sustainability disclosures in a sustainability statement within a dedicated section of the management report or, in a consolidated sustainability report if an EU entity with a non-EU parent qualifies for and elects a parent level consolidated reporting option.[12]

Entities reporting under the CSRD will be required to provide the EU Taxonomy disclosures together with their ESRS disclosures. ESRS 1 Appendix F.40 provides an example of the structure of the sustainability statement. The management report is submitted based on the requirements of the relevant regulator and EU Member States and is required to be filed together with the financial statements.

▸ Frequency of reporting

Annually. Exact timing is dependent on the Member State requirements and the level of reporting.

▸ Assurance requirements

The CSRD requires an entity to obtain limited assurance covering the compliance of the sustainability reporting with the sustainability reporting standards, the process carried out by the entity to identify the information reported and compliance with the requirement to mark-up sustainability reporting in accordance with the specified electronic reporting format. Assurance is also required over the disclosures under the EU Taxonomy Regulation. The CSRD requirements begin with limited assurance and may expand to reasonable assurance at a later date (if determined feasible by the EU Commission). Entities are required to obtain assurance from the first year of reporting.

▸ Compliance dates

Compliance with the CSRD is being phased in. Issuers on EU-regulated markets that meet specified size requirements and those subject to the NFRD will have to comply with the new rules and apply the ESRS for the first time in reports published in 2025 for the 2024 financial year. Most other in-scope entities (including many EU subsidiaries of non-EU entities) will be required to report in 2026 for the 2025 financial year with additional time provided for SMEs.

In addition, information about an in-scope CSRD entity's ultimate non-EU parent that has significant activity, as defined, generated in the EU will be required to report consolidated information under to-be-developed standards in 2029 (for the 2028 financial year).[13]

The FAQs on the implementation of the CSRD, published by the European Commission on August 7, 2024, provide a table that illustrates the different application dates for the different types of entities subject to sustainability reporting. This table has been included as Appendix 3 to this publication.

▸ Looking ahead

Entities should continue to monitor the transposition process to understand country-specific requirements and be on the lookout for future reporting standards that are yet to be published (i.e., sector-specific standards, standards for SMEs and standards for non-EU entities).

12 See EU CSRD Article 19a paragraph 9 and 29a paragraph 8 for additional information about alternative presentation.
13 An exposure draft of these standards is expected to be published for public comment in Q1 2025.

IFRS Sustainability Disclosure Standards

In November 2021, the IFRS Foundation created the ISSB as a sister board to the International Accounting Standards Board. The ISSB was established to develop a comprehensive set of standards to serve as a global baseline of sustainability disclosures focused on the needs of investors. In June 2023, the ISSB issued its first two IFRS Sustainability Disclosure Standards. These standards require adoption by authorities in local jurisdictions before compliance would become mandatory in any jurisdiction, similar to the IFRS Accounting Standards.

In July 2023, the International Organization of Securities Commissions announced its endorsement of the IFRS Sustainability Disclosure Standards and called on its members to consider how they might adopt, apply or otherwise be informed by the IFRS Sustainability Disclosure Standards. More than 20 jurisdictions have already decided to use or are taking steps to introduce IFRS Sustainability Disclosure Standards into their legal or regulatory reporting frameworks. Brazil and Australia have announced that the IFRS Sustainability Disclosure Standards will be required, and several jurisdictions, including Canada and the United Kingdom, have indicated that they expect to require the adoption of the IFRS Sustainability Disclosure Standards or similar standards. Entities may also voluntarily apply the standards. Entities may apply the IFRS Sustainability Disclosure Standards irrespective of the accounting principles applied in their financial statements.

▸ Scope

The scope and applicability of the IFRS Sustainability Disclosure Standards would depend on whether and how local jurisdictions decide to incorporate them into their regulatory regime. Multinational entities should continue to monitor which jurisdictions are adopting the standards to understand whether they need to report in accordance with these standards.

▸ Key disclosure topics

The first two IFRS Sustainability Disclosure Standards cover general sustainability- and climate-related disclosures:

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.

IFRS S1 requires an entity to provide disclosures about:

+ "the governance processes, controls and procedures the entity uses to monitor, manage and oversee sustainability-related risks and opportunities;
+ the entity's strategy for managing sustainability-related risks and opportunities;
+ the processes the entity uses to identify, assess, prioritize and monitor sustainability-related risks and opportunities; and
+ the entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation."[14]

IFRS S2 Climate-related Disclosures sets out specific climate-related disclosures and is designed to be used with IFRS S1. Similar to IFRS S1, it requires disclosures about an entity's governance, strategy, risk management and metrics and targets but instead of dealing with general sustainability-related risks and opportunities, IFRS S2 specifically deals with climate-related risks and opportunities. IFRS S2 requires the disclosure of scopes 1, 2 and 3 GHG emissions.

14 https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/

IFRS S1 and IFRS S2 incorporate the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

▸ Where reported

An entity is required to provide disclosures required by the IFRS Sustainability Disclosure Standards as part of its general-purpose financial reports. IFRS S1 notes that subject to any regulation or other requirements that apply to an entity, there are various possible locations in general-purpose financial reports in which to disclose sustainability-related financial information, such as an entity's management commentary, which is a required report in many jurisdictions.

▸ Frequency of reporting

An entity must report its sustainability-related financial disclosures at the same time as its related annual financial statements, and the entity's sustainability-related financial disclosures must cover the same reporting period as the related financial statements. In the initial year of application, an entity is permitted to report its sustainability reporting after its related financial statements.

▸ Assurance requirements

Any assurance requirements will be determined by the respective jurisdictions as they adopt the standards. The ISSB anticipates that as the IFRS Sustainability Disclosure Standards are incorporated into national regulatory and legal frameworks, jurisdictional regulators will require the information to be subject to some level of assurance.

▸ Compliance dates

While IFRS S1 and IFRS S2 became effective for annual reporting periods beginning on or after January 1, 2024, the actual compliance dates will be determined by the respective jurisdictions as they adopt the standards. Australia, for example, requires the mandatory use of IFRS S2 from January 1, 2025, for the initial in scope entities and Brazil requires use of the IFRS Sustainability Disclosure Standards from January 1, 2026.

As specified in IFRS S1, in the first annual reporting period in which the standards are applied, information is only required as it relates to climate-related risks and opportunities.

▸ Looking ahead

Multinational entities should continue to monitor which jurisdictions are adopting the IFRS Sustainability Disclosure Standards and what the relevant compliance dates are in the respective jurisdictions. Further, entities should continue to monitor ongoing ISSB activities which include a project to enhance the SASB standards for priority industries and conducting research to determine the need for standards covering the risks and opportunities associated with biodiversity, ecosystems and ecosystem services, and human capital.

Practical Implementation Considerations

While there are various uncertainties associated with the different regulatory reporting requirements, continuing to prepare is essential given the significant time and resources needed for implementation. Steps that entities are taking to prepare include:

+ Determining which regulatory reporting requirements apply and when
+ Understanding the current state of any existing ESG reporting performed by the entity
+ Performing a gap analysis to understand what additional reporting (beyond existing ESG reporting efforts) will be required to meet the applicable regulatory reporting requirements
+ Where applicable, conducting a materiality assessment as a first step to determine what information needs to be reported
+ Developing appropriate policies, processes, systems and internal controls to enable the collection of high-quality data
+ Establishing cross-functional teams across relevant areas like accounting, legal, ESG, operations, and human resources to coordinate the collection of relevant data
+ Engaging with relevant experts as applicable
+ Making sure appropriate governance is in place, including board level committees, to provide oversight of relevant climate- and other sustainability-related risks, accounting and disclosure
+ Having readiness assessments performed to help prepare for future assurance requirements
+ Monitoring ongoing developments in relevant jurisdictions to understand how they will impact the entity

These steps provide a high-level overview of key actions that entities are undertaking to prepare for upcoming regulatory reporting requirements. They should be considered in combination with a comprehensive analysis of the entity's relevant facts and circumstances, review of the reporting requirements, and appropriate professional and technical advice.

The reporting requirements outlined in this publication overlap in certain areas and diverge in others – Appendix 1 provides a high-level comparison. Most reporting requirements require some form of GHG emissions disclosure and reporting of climate-related risks roughly aligned with the TCFD recommendations. On the other hand, the financial statement footnote disclosures are unique to the SEC Climate Rules, use of the double materiality principle is unique to the CSRD, and reporting beyond climate-related information is only required by the CSRD and the IFRS Sustainability Disclosure Standards. Where topics overlap among different reporting requirements it can be effective to address those simultaneously to make sure that any nuances in the requirements are considered to enable a streamlined approach to implementation.

Conclusion

While there are various uncertainties associated with the different reporting requirements, continuing to prepare, while monitoring ongoing developments, is essential given the significant time and resources needed for implementation. Entities subject to multiple reporting requirements may find that simultaneously preparing to report topics that cut across many of the applicable reporting requirements (e.g., GHG emissions), can help support a streamlined approach to implementation.

Appendix 1

High-level comparison of reporting requirements covered in this publication

The following table provides a high-level summary of certain aspects of the reporting requirements covered in this publication. In most cases, the requirements are nuanced, as a result, it is essential that the table be read in the context of this publication and the rules themselves.

	California Climate Laws			SEC Climate Rules	EU CSRD	IFRS Sustainability Disclosure Standards
	SB 253	SB 261	AB 1305			
Scope	Businesses (public and private) formed in the US, with annual revenue over $1B, doing business in California.	Businesses (public and private) formed in the US, with annual revenue over $500M, doing business in California.	Entities (public and private) that operate and make emissions claims within California, or that buy/sell carbon offsets within California.	Most SEC registrants, including domestic registrants and foreign private issuers.	EU and Non-EU entities subject to certain criteria.	Depends on jurisdictional requirements.
Key disclosure topics	Scopes 1, 2 and 3 GHG emissions in accordance with the GHG Protocol.	Climate-related financial risks in accordance with TCFD and measures the entity has adopted to reduce and adapt to the climate-related risks disclosed under the TCFD's recommendations.	Information about emissions claims, use of carbon offsets, and sale of carbon offsets.	Information about governance, strategy, risk management, and metrics and targets associated with climate-related risks, including scopes 1 and/or 2 GHG emissions, if material. Information about the financial statement effects of severe weather events and other natural conditions and carbon offsets and renewable energy credits.	Information about governance, strategy, risk management, and metrics and targets associated with environmental, social and governance impacts, risks, and opportunities, including scopes 1, 2 and 3 GHG emissions. Double materiality principle applies.	Information about governance, strategy, risk management, and metrics and targets associated with environmental, social and governance risks and opportunities. Includes scopes 1, 2 and 3 GHG emissions.

	California Climate Laws			SEC Climate Rules	EU CSRD	IFRS Sustainability Disclosure Standards
	SB 253	SB 261	AB 1305			
Where reported	Public digital platform The report may be consolidated at the parent company level.	On entity website The report may be consolidated at the parent company level.	On entity website	In annual report or registration statement filed with the SEC GHG emissions disclosures may be incorporated by reference from Form 10-Q or included in an amended Form 10-K	In a sustainability statement within a dedicated section of the management report (or, in a consolidated sustainability report if an EU entity with a non-EU parent qualifies for and elects a parent level consolidated reporting option)	As part of general-purpose financial reports, subject to jurisdictional regulations or requirements
Frequency of reporting	Annually	Biennially	Annually	Annually or upon filing a registration statement	Annually	Depends on jurisdictional requirements, but generally annually
Assurance requirements	Yes, over scope 1 and 2 GHG emissions. Begins with limited assurance moving to reasonable assurance. Assurance requirements for scope 3 GHG emissions will be determined by the CARB.	None	Disclose whether verification was obtained	Yes, LAFs and AFs (excluding SRCs and EGCs) are required to obtain assurance over scope 1 and 2 GHG emissions, if material. Begins with limited assurance moving to reasonable assurance. (Information disclosed in the footnotes to the financial statements will fall within the scope of the financial statement audit.)	Yes, over the sustainability reporting, the materiality determination process, the digital tagging and the EU Taxonomy disclosures. Begins with limited assurance, possibly moving to reasonable assurance.	Depends on jurisdictional requirements

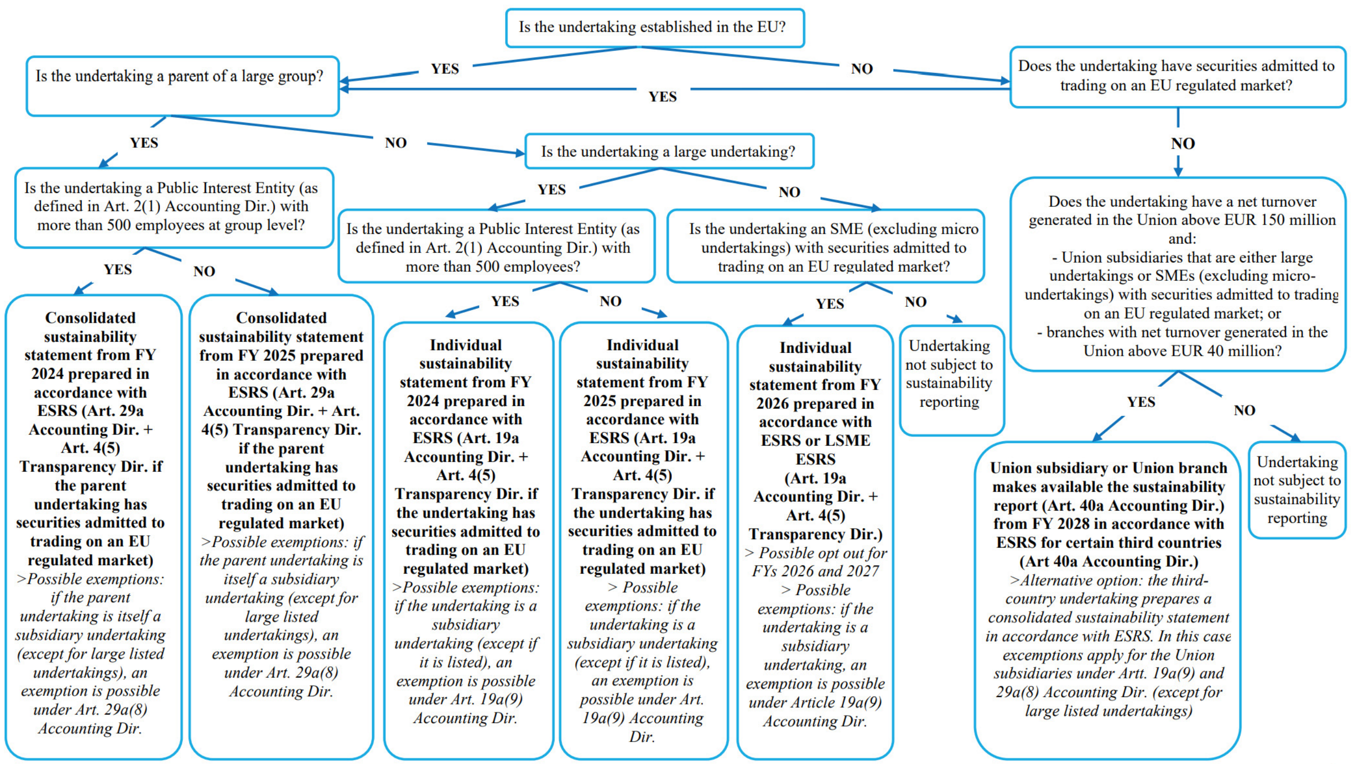
	California Climate Laws			SEC Climate Rules	EU CSRD	IFRS Sustainability Disclosure Standards
	SB 253	SB 261	AB 1305			
Compliance dates *for reporting*	Being phased in between 2026 and 2027 based on the specific disclosure	On or before January 1, 2026[15]	From January 1, 2024	SEC Climate Rules are currently stayed, and compliance dates are subject to change based on outcome of litigation. As currently written, requirements would be phased in from fiscal years beginning (FYB) in 2025 through FYB 2028, based on the registrant's filing status and disclosure type.	Being phased in between 2025 (on 2024 data) and 2029 (on 2028 data)	Depends on jurisdictional requirements
Compliance dates *for assurance*	Scopes 1 and 2 GHG emissions: Limited assurance from 2026 moving to reasonable assurance in 2030 Scope 3 emissions: If and when limited assurance is required will be determined by the CARB. (Date would be no later than 2030 depending on CARB's regulations.)	Not applicable	Not applicable	SEC Climate Rules are currently stayed, and compliance dates are subject to change based on outcome of litigation As currently written: LAFs: Limited assurance over scopes 1 and 2 GHG emissions for FYB 2029, moving to reasonable assurance for FYB 2033 AFs (other than SRCs and EGCs): Limited assurance over scopes 1 and 2 GHG emissions for FYB 2031	From the first year of reporting	Depends on jurisdictional requirements

15 See the "Compliance Dates" section within the "SB 261 - Greenhouse Gases: Climate-Related Financial Risk" section for additional considerations.

Appendix 2

Flowchart to identify the applicable CSRD sustainability reporting requirements for each type of undertaking and the specific application date[16]

The flowchart below illustrates the process to determine whether an entity is subject to sustainability reporting requirements and from which financial year.



- **Micro-undertakings (Art. 3(1) Accounting Directive)** = undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria: (a) balance sheet total: EUR 450 000; (b) net turnover: EUR 900 000; (c) average number of employees during the financial year: 10.
- **SMEs (Art. 3(1), (2) and (3) Accounting Directive)** = undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria: (a) balance sheet total: EUR 25 000 000; (b) net turnover: EUR 50 000 000; (c) average number of employees during the financial year: 250.
- **Large undertakings (Art. 3(4) Accounting Directive)** = undertakings which on their balance sheet dates exceed at least two of the three following criteria: (a) balance sheet total: EUR 25 000 000; (b) net turnover: EUR 50 000 000; (c) average number of employees during the financial year: 250.
- **Large groups (Art. 3(7) Accounting Directive)** = groups consisting of parent and subsidiary undertakings to be included in a consolidation and which, on a consolidated basis, exceed the limits of at least two of the three following criteria on the balance sheet date of the parent undertaking: (a) balance sheet total: EUR 25 000 000; (b) net turnover: EUR 50 000 000; (c) average number of employees during the financial year: 250.

16 Source: European Commission, *Frequently asked questions on the implementation of the EU corporate sustainability reporting rules*, p 12.

Appendix 3

Timeline for application of the CSRD sustainability reporting requirements[17]

The table below illustrates the different application dates for the different types of undertakings subject to sustainability reporting.

	Financial year 2024 (reporting in 2025)	Financial year 2025 (reporting in 2026)	Financial year 2026 (reporting in 2027)	Financial year 2027 (reporting in 2028)	Financial year 2028 (reporting in 2029)
Large undertakings which are PIEs (including third-country issuers) > 500 employees on average during the financial year	**Individual sustainability statement (ESRS)**	**Individual sustainability statement (ESRS)**	**Individual sustainability statement (ESRS)**	**Individual sustainability statement (ESRS)**	**Individual sustainability statement (ESRS)**
PIEs (including third-country issuers) that are parent undertakings of a large group > 500 employees on average on a consolidated basis during the financial year	**Consolidated sustainability statement (ESRS)**	**Consolidated sustainability statement (ESRS)**	**Consolidated sustainability statement (ESRS)**	**Consolidated sustainability statement (ESRS)**	**Consolidated sustainability statement (ESRS)**
Large undertakings (including third-country issuers) that are not "*PIEs > 500 employees on average during the financial year*"	N/A	**Individual sustainability statement (ESRS)**	**Individual sustainability statement (ESRS)**	**Individual sustainability statement (ESRS)**	**Individual sustainability statement (ESRS)**
Parent undertakings of a large group (including third-country issuers) that are not "*PIEs > 500 employees on average on a consolidated basis during the financial year*"	N/A	**Consolidated sustainability statement (ESRS)**	**Consolidated sustainability statement (ESRS)**	**Consolidated sustainability statement (ESRS)**	**Consolidated sustainability statement (ESRS)**
Listed SMEs, SNCIs, captive (re)insurance undertakings (including third-country issuers)	N/A	N/A	**Individual sustainability statement (ESRS or LSME ESRS)***	**Individual sustainability statement (ESRS or LSME ESRS)***	**Individual sustainability statement (ESRS or LSME ESRS)**
CSRD subsidiaries (or, in the absence, EU branches with net turnover in the Union > EUR 40 million) of third-country non-listed undertakings with net turnover in the Union > EUR 150 million	N/A	N/A	N/A	N/A	**Sustainability report (ESRS for certain third-country undertakings or ESRS)**

* may opt out

17 Source: European Commission, *Frequently asked questions on the implementation of the EU corporate sustainability reporting rules*, p 13.

Appendix 4
Helpful Resources

The following list provides links to helpful resources:

CALIFORNIA CLIMATE LAWS

+ Senate Bill 253, Climate Corporate Data Accountability Act (SB 253) (see SB 219 for updates to SB 253)
+ Senate Bill 261, Greenhouse Gases: Climate-Related Financial Risk (SB 261) (see SB 219 for updates to SB 261)
+ Assembly Bill 1305, Voluntary Carbon Market Disclosures (AB 1305)
+ Senate Bill 219, Greenhouse gases: climate corporate accountability: climate-related financial risk (SB 219)

SEC CLIMATE RULES

+ SEC Final rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors
+ SEC Fact Sheet: The Enhancement and Standardization of Climate-Related Disclosures for Investors

EU CSRD

+ EU Corporate Sustainability Reporting Directive (CSRD)
+ EU Taxonomy Regulation
+ European Sustainability Reporting Standards (ESRS)
+ European Commission FAQs on the implementation of the EU corporate sustainability reporting rules
+ Committee of European Oversight Bodies (CEAOB) guidelines on limited assurance on sustainability reporting

IFRS SUSTAINABILITY DISCLOSURE STANDARDS

+ IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information
+ IFRS S2 Climate-related Disclosures
+ Voluntarily applying ISSB Standards—A guide for preparers

OTHER

+ Handbook: GHG Emissions Reporting (KPMG)
+ Sustainability Reporting Guide (PwC)
+ Technical Line - How the EU's Corporate Sustainability Reporting Directive affects non-EU-based multinationals (EY)
+ Global ESG Disclosure Standards Converge: ISSB Finalizes IFRS S1 and IFRS S2 (Deloitte)

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