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Disclosure: ISSB Will Require Companies to Use Climate-related Scenario Analysis and Consider SASB Standards

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Disclosure

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On November 1, the **International Sustainability Standards Board (ISSB) confirmed** companies will be required to utilize climate-related scenario analysis "to report on climate resilience and to identify climate-related risks and opportunities to support their disclosures." The ISSB is also planning to provide guidance regarding "what is meant by the term 'climate-related scenario analysis.'" In a somewhat unexpected move, the ISSB will not mandate the use of scenario templates produced by the Network for Greening the Financial System, which have been widely adopted by central banks. Instead, such 'off-the-shelf' scenarios may be considered a "useful resource" and companies should, at a minimum, carry out a qualitative form of scenario analysis as the basis for their resilience analyses. The ISSB said it would "build on the [Task Force for Climate-related Financial Disclosures] guidance, specifying that scenario analysis must be applied [by] setting out the required approach that is scalable to an entity's circumstances."

Additionally, on November 3, the **ISSB met** to review various proposals designed to "enhance interoperability with other international and jurisdictional sustainability-related standards." The ISSB confirmed that in meeting ISSB's general sustainability requirements, companies will be required to consider Sustainability Accounting Standards Board (SASB) Standards "because SASB Standards provide disclosures across a range of sustainability matters that have been designed with an investor focus and as industry-specific disclosures are fundamental to ISSB's approach to meeting investors' information needs."

In a **press release**, Emmanuel Faber, ISSB Chair, commented that: "We are convinced that the industry-based approach used to develop the SASB Standards is a market-validated model for the development of decision-useful and cost-effective sustainability disclosure standards. . . . Further enhancing and evolving the SASB Standards will be a priority for the ISSB, as embedding the industry-based approach in the work of the ISSB is essential to delivering

Standards that support investors’ assessments of enterprise value across a broad range of sustainability issues.”

Taking the Temperature: As with ESG ratings, the abundance of disclosure frameworks coupled with a lack of consensus regarding what disclosure is required, questions about whether and how to use scenario analyses, and the standards by which to measure sustainability metrics all leave issuers in a difficult position. Greater disclosure may satisfy regulators and investors, but leave companies open to potential challenges for misstatements given the lack of a unified market approach. On the other hand, opting for less disclosure threatens adverse market and regulatory reactions and is not guaranteed to ward off challenges based on alleged omission of material climate-related information. While there is no perfect solution as we wait for a growing consensus to emerge, in the U.S. or globally, companies and their boards can mitigate these risks by: (i) enhancing climate-related expertise at the board and senior executive levels; (ii) aligning enterprise risk and opportunity assessments and emissions measurement with leading frameworks and general governance best practices; (iii) ensuring that reasonable bases exist for climate-related disclosures and that such bases are contemporaneously documented; and (iv) appropriately qualifying public statements regarding potential future developments.