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TCFD Is Dead, Long Live ISSB
Are You Ready?

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Proskauer Special Report

TCFD Is Dead, Long Live ISSB – Are You Ready?

Global momentum is steadily and quietly increasing with many jurisdictions taking steps to endorse and ultimately adopt the International Sustainability Standards Board ("ISSB") standards. The ISSB is the standard-setting body responsible for creating and maintaining the newly formed International Financial Reporting Standards Foundation ("IFRS") S1 and S2 guidance to be adopted by jurisdictions relating to sustainability-related financial disclosures. With opinions on sustainability currently fractured and under pressure from both sides of the political divide, the ISSB standards could provide useful clarity and a global baseline for climate-related reporting following the disbanding of the Task Force on Climate-related Financial Disclosures ("TCFD").

With the ISSB's continued focus on the disclosures to be decision-useful to investors, lenders, insurance underwriters and other stakeholders from a financial perspective, it could be that this is the middle ground for climate-related disclosures that the significant majority of parties can agree on — with the further step of reporting impact materiality and how a business affects the environment and/or society remaining very much optional.

With the momentum gathering a pace towards ISSB standards, we explore in this alert:

- Key concepts of the ISSB standards — including the differences between ISSB and TCFD;
- Progress toward adoption of the ISSB standards in key jurisdictions; and
- Practical tips on how to get ready for the ISSB standards implementation.

Recap on the TCFD Recommendations (and the foundations for IFRS)

In late 2023, the TCFD team disbanded noting they had reached the climate-related reporting aims they had set out to complete. From 2024, the IFRS has taken over the responsibility to monitor climate-related reporting whilst also implementing a new framework ("IFRS S1" and "IFRS S2") that is built on the TCFD foundations. Given the integral part TCFD plays in the structure and approach of IFRS S1 and IFRS S2, we briefly recap on TCFD's establishment and its four central pillars.

Back in 2015, Mark Carney, the newly elected President of Canada, had established TCFD in his role as Chairman of the Financial Stability Board, with a keynote speech on "Breaking the Tragedy of the Horizon," in which he said:

"The horizon for monetary policy extends out to 2-3 years. For financial stability it is a bit longer, but typically only to the outer boundaries of the credit cycle — about a decade. In other words, once climate change becomes a defining issue for financial stability, it may already be too late."

TCFD was born and the TCFD Recommendations sought to create voluntary, consistent climate-related disclosures for businesses to provide information to investors, lenders, insurance underwriters and other stakeholders. By the end of 2023, over 5,000 companies were reporting on the TCFD Recommendations with this financial lens, which were structured across the following disclosures:

1. **Governance:** describing the organization's governance around climate-related risks and opportunities, including the board's oversight and management's role in assessing and managing these issues.
2. **Strategy:** focusing on the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning, often including scenario analysis to understand long-term implications.
3. **Risk Management:** explaining how the organization identifies, assesses and manages climate-related risks, with the expectation to show how these processes are integrated into the overall risk management framework.
4. **Metrics and Targets:** assessing and managing relevant climate-related risks and opportunities. This includes greenhouse gas (GHG) emissions and other related performance indicators.

Whilst described as the four pillars, the TCFD expectation was for the four reporting areas to be connected and reliant on each other; for example, the scenario testing should inform the risk management.

IFRS leans heavily on this structure — for those familiar with TCFD reporting, this will be a significant advantage for ISSB Standards reporting.

IFRS S1 & IFRS S2 – The New Regime

The ISSB Standards are structured into a Foundational IFRS S1 and Climate-Specific IFRS S2.

IFRS S1 focuses on general disclosure relating to sustainability financial information — it has guidance considerations for assessing the materiality of risks and opportunities, on value chains, connected information, commercially sensitive information and disaggregation of data — all with consideration as to what investors, creditors and underwriters might find most useful.

IFRS S2 focuses specifically on the climate-related disclosures which should be provided, in conjunction with the general requirements of IFRS S1.

Whilst IFRS S2 is climate-focused, the overall proposed structure is to be modular based, and over time, other areas such as nature, through adoption of the Taskforce for Nature-related Financial Disclosure (TNFD) may be added into the reporting standards.

TCFD to IRFS S2 – What's the difference?

The IFRS are not a "copy and paste" of TCFD, and we set out the key additional or new disclosure requirements below.

Key Principles	IFRS S2 Changes
Governance	Climate-related responsibilities for executives and management: IFRS S2 requires disclosure of more detailed information, e.g., how a governance body or individual's responsibilities for climate-related risks and opportunities are reflected in terms of reference, mandates, role descriptions and any other applicable policy.
Strategy	Industry-based disclosures: IFRS S2 requires a company to refer to and consider the applicability of industry-based disclosure topics in its industry-based guidance in identifying climate-related risks and opportunities. More detailed information describing effects of climate-related risks and opportunities and how to resource these. New disclosures on current and expected adaptation and mitigation efforts, including where quantitative and qualitative information is required: qualitative disclosures are only permitted if a company cannot separately identify the effects of the risk or opportunity or if there is too much uncertainty regarding the level of measurement. Requirement to use all reasonable and supportable information that is available at the reporting date without undue cost or effort, including with regard to scenario analysis: IFRS S2 provides that a company use an approach that is commensurate with the company's circumstances. Carbon prices and capital deployment: there are added disclosures regarding financial information on carbon prices and capital deployment, including the amount of capital expenditure, financing or investment deployed toward climate-related risks and opportunities. Climate transition plans (if applicable): such as plans to achieve climate-related targets and the use of carbon offsets.
Risk Management	More detailed scenario analysis disclosures: IFRS S2 requires more detailed climate scenario focused analysis which should include how the scenario analysis was carried out, the data sources, scope of operations covered, which climate-related scenarios were used, time horizons and key assumption details (macroeconomic trends, national or regional variables, energy usage and mix, technology developments) and sufficient detail on how risks and opportunities are intergrated into overall risk management processes and structures. IFRS S2 requires disclosures related to the amount and percentage of assets or business activities vulnerable to: physical risks, transition risks, climate-related opportunities and the amount of capital expenditure/financing/investment deployed towards climate-related risks and opportunities.
Metrics and Targets	Requirement to disclose metrics if they are material to the business — this is in contrast to TCFD where the disclosures were required 'independent of materiality'

	IFRS S2 notes that with respect to Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions, companies should include the following in their disclosures, subject to the materiality threshold above: Separate disclosures of Scope 1 and Scope 2 GHG emissions for (1) the consolidated accounting group and (2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; Disclosure of Scope 2 GHG emissions using a location-based approach and providing information about any contractual instruments that are necessary to inform users' understanding; Disclosures relating to Scope 3 GHG emissions include the nature of the financed emissions to be disclosed under consultation (please see below). Scope 3 emissions also have a new measurement framework; and Information about the measurement approach, input and assumptions the company used in measuring its Scope 3 GHG emissions. Details on climate-related targets include: If gross (excluding the impact of carbon credits) or net with gross (including the effect of carbon credits) is required; How each target was set and informed by the latest jurisdictional commitments and international agreements; How these targets have been verified; How targets and performance against each are reviewed and what forms of consistent monitoring are in place; and The use of carbon credits and the reporting of gross and net emissions.

Financed emissions in the spotlight

On 28 April 2025, the ISSB issued an Exposure Draft proposing targeted amendments to IFRS S2 to address practical challenges in disclosing financed emissions, particularly Scope 3 Category 15 emissions related to investments. These proposed changes include providing relief from the requirement to measure and disclose emissions associated with derivatives and certain financial activities where data availability or methodological consistency is limited.

Additionally, the ISSB suggested allowing entities more flexibility in how they classify financed emissions by removing the mandatory use of the Global Industry Classification Standard (GICS). The amendments also permit the use of jurisdiction-specific GHG measurement methodologies instead of the GHG Protocol, including the use of older Global Warming Potential (GWP) values if required by local regulations. The proposals are aimed at supporting preparers in applying IFRS S2 effectively while still delivering decision-useful information to investors.

Where and when do we need to report?

From the ISSB's perspective, there is currently a transition period in play, and the general expectation is that companies will seek to comply with the new rules by 1 January 2026.

However, the ISSB is a global standard setter, not a regulator, and it will be at the discretion of jurisdictions and regulators when to adopt the ISSB standards for reporting. We set out a breakdown of jurisdictions below:

Key jurisdictions of interest and their approach to IFRS S1 & IFRS S2	
United Kingdom	The UK Sustainability Reporting Standards ("UK SRS") are currently anticipated to be published following an imminent public consultation. They are expected to broadly follow the IFRS S1 and IFRS S2 requirements but are specifically aimed at requiring companies to disclose: 1. Material sustainability risks and opportunities Information about how sustainability issues affect financial performance and strategy, tailored to meet the needs of primary users such as creditors, lenders and investors when making resource allocation decisions. 2. Climate-related disclosures Information relating to governance, risk management, metric and transition planning with a focus on climate-related risks and opportunities, including physical and transition risks. 3. Industry-specific metrics Sector specific guidance based on the SASB framework. This approach will help companies provide decision-useful information that is material to primary users. 4. Integrated financial reporting Sustainability disclosures are expected to be embedded into annual financial reporting, specifically with the strategic report. Carve outs are expected to relate to an extended 'climate-first' reporting relief of up to two years, alternative industry classification for financed emissions for Scope 3 reporting (which may now be redundant following the financed emissions Exposure Drafts set out above) and immediate sustainability disclosure alignment. This follows the UK Sustainability Disclosure Technical Advisory Committee advice to the UK government to endorse IFRS S1 and IFRS S2, subject to the amendments listed above.
European Union	The Omnibus Package introduced by the European Commission in February 2025 includes significant proposed amendments to the Corporate Sustainability Reporting Directive ("CSRD"). Its primary aim is to simplify and streamline sustainability reporting, reduce administrative burdens — especially for small to medium-sized enterprises (SMEs) — and enhance the competitiveness of EU businesses. CSRD's reporting standards are found in the European Sustainability Reporting Standards ("ESRS") developed by the European Financial Reporting Advisory Group ("EFRAG"). As part of the Omnibus Package, the European Commission formally requested EFRAG to consider how the ISSB's IFRS S1 and S2 standards could be integrated or aligned with the revised ESRS. Specifically, EFRAG has been asked to: • Prepare drafts of revised ESRS by 31 October 2025, reflecting the simplification goals; • Explore how to streamline disclosures and reduce duplication for companies reporting under both EU and global frameworks; and

	• Consider greater alignment in structure and terminology with IFRS S1 and S2. Whereas CSRD had previously raced ahead with complex sustainability-reporting requirements, even in the European Union the ISSB standards are gathering significant momentum.
USA	In the United States, there is no momentum toward adopting the ISSB standards at the federal level, although individual states may lean on the newly revamped disclosure regime. In California, Senate Bill 261 ("SB 261") is explicitly aligned with the Task Force on Climate-related Financial Disclosures (TCFD) framework. Under SB 261, companies with over $500 million in annual revenue that do business in California are required to biennially disclose their climate-related financial risks. These disclosures must be prepared in accordance with the TCFD framework, covering the four core pillars: Metrics and Targets, Governance, Strategy and Risk Management. The first reports are due under SB 261 from 1 January 2026. Of note, insurance companies are excluded from SB 261 because they are already required to report their climate-related financial risk in alignment with the TCFD framework, the standard adopted by the National Association of Insurance Commissioners. In other states, there is also evidence of TCFD alignment. For example, New York's proposed Climate-Related Financial Risk Reporting Bill (Senate Bill 3697) would require biennial reporting on climate-related financial risks in accordance with the TCFD framework, and the New York State Common Retirement Fund has already taken voluntary steps to provide climate disclosures in line with TCFD principles. We expect pro-climate states such as California and New York to watch the ISSB standards' progress with interest and consider alignment as TCFD falls further into the past.
Canada	On 18 December 2024, the Canadian Sustainability Standards Board ("CSSB") officially released the Canadian Sustainability Disclosure Standards ("CSDS 1" and "CSDS 2") set for voluntary adoption on 1 January 2025. These standards fully align with the ISSB framework: • CSDS 1 requires companies to disclose material sustainability-related risks and opportunities. • CSDS 2 applies to climate-related disclosures in respect of governance & strategy, risk management and metrics and targets (including GHG emissions). The CSSB also issued key transition relief periods allowing for a one-year delay for reporting on sustainability matters beyond climate, and in respect of Scope 3 GHG emissions, two additional years for reporting on Scope 3 GHG emissions, three years of relief in respect of quantitative scenario analysis and up to nine months of a delay in publishing sustainability disclosures in the first year. Canadian regulators such as the Canadian Securities Administrators are currently considering whether to mandate CSDS 1 and CSDS 2 disclosures and how they might integrate with existing or future climate disclosures.
Hong Kong	In December 2024, the government of the Hong Kong Special Administration Region announced its intention as part of the Roadmap on Sustainability Disclosure in Hong Kong – to require large publicly accountable entities to adopt the ISSB standards by no later than 2028.

	Since the publication of the Roadmap, the Hong Kong Institute of Certified Public Accountants issued the final Hong Kong sustainability disclosure standards (HKFRS S1 & HKFRS S2) which fully align with the ISSB standards. Key milestones include: • Main board issuers are now required to disclose in accordance with new climate requirements on a "comply or explain" basis from 1 January 2025; and • Large cap issuers are required to disclose in accordance with the new climate requirements on a mandatory basis from 1 January 2026. The Hong Kong Exchanges and Clearing Limited (Hong Kong financial regulators) will consult on mandating reporting in accordance with the Hong Kong Standards in 2027. It is expected that the standards will apply to large cap issuers from 1 January 2028.
Japan	On 5 March 2025, the Sustainability Standards Board of Japan ("SSBJ") issued its sustainability disclosure standards which incorporate the key principles from IFRS S1 & IFRS S2 - specifically: 1. The Application Standard — this tracks the fundamental matters addressed under IFRS S1, outlining the basic requirements for sustainability reporting. 2. The General Standard — this aligns with the core content under IFRS S1, focusing on sustainability-related risks and opportunities; and 3. The Climate Standard —to document all the climate-related and address all requirements under IFRS S2. Following the issuance of the SSBJ standards, prime listed companies are given two years of voluntary compliance before the rules become mandatory as early as March 2027.
Australia	On 20 September 2024, The Australian Accounting Standards Board ("AASB") met to approve the final Australian Sustainability Reporting Standards ("ASRS"). Reporting will commence from 1 January 2025. The AASB has taken a 'climate first' approach to adopting IFRS S1 and IFRS S2 to align with Government commitments to introduce mandatory climate reporting in Australia. The key differences between the adopted AASB S1 & S2 and IFRS Standards are detailed below: • AASB S1 — relates the general requirements for sustainability-related financial information and aligns to the scope of IFRS S1. Key changes include the broadening of AASB S1 to allow for sustainability disclosures for topics beyond climate (such as biodiversity and water usage) and that this is voluntary. • AASB S2 – whilst this includes the necessary components of IFRS S1, it only covers a climate-only standard which reduces the mandatory reporting generally under ASRSs. IFRS S2 requires consideration of SASB Standards and Industry-based guidance with respect to disclosures but AASB S2 does not account for this; and

	• In relation to scenario analysis, the AASB has removed the requirement to assess climate resilience against two relevant possible future state temperatures, including the most ambitious global temperature goal set out in the Climate Change Act 2022 (aligning to the scope under IFRS S2 whereby scenario analysis is left to management's discretion). This, however, contradicts recent legislation passed by parliament which states that it is mandatory for sustainability reporting to retain the requirement to assess two climate scenarios (one where the global temperature increase is maintained below 1.5 degrees and one where it well exceeds 2 degrees). We may see a future deviation from IFRS S2 in this respect to align with local regulatory law.
Brazil	On 29 October 2024, Brazil's Securities and Exchange Commission ("CVM") published Resolutions No. 217, No. 218 and No. 219 to mandate the adoption of the Brazilian Committee for Sustainability Pronouncements ("CBPS"). These pronouncements are based on the IFRS S1 and S2 standards: • CVM Resolution No 217 provides that all publicly held companies must comply with CBPS Technical Pronouncement No.1 which adopts the standards from IFRS S1. The resolution seeks to ensure investors are fully informed about sustainability-related risks and opportunities that may affect companies' cashflows, access to finance, or capital costs in the short, medium, or long term; • CVM Resolution No. 218 mandates compliance with CBPS Technical Pronouncement No.2 Climate-Related Disclosures, adapting IFRS S2 to Brazilian regulations. This resolution outlines requirements for disclosing risk-related information (including physical and transitional risks), as well as opportunities within the realm of climate change that may affect the companies' operating revenue, capital costs and access to capital. The resolution also requires companies to disclose the characteristics of the procedures, internal controls and corporate governance structures that were implemented to monitor and manage climate-related risks and opportunities; • CVM Resolution No. 219 amended article 5 of CVM Resolution No. 193, setting a new deadline for companies that opt to disclose sustainability-related information prior to the mandatory reporting deadline (applying to fiscal years beginning on or after 1 January 2026).

How can I prepare for IRFS S1 & S2?

Below are some overall principles that can support being ISSB-ready:

1. **Review and Compare**

Identify the differences between the current TCFD disclosures that are in place against the requirements of IRFS S2.

2. **Address Any Gaps**

Identify which areas of IFRS S2 cannot be satisfied with the existing TCFD disclosures in place and make an action plan to address these in advance of the mandatory deadline.

3. **Assess and Act**

Determine what changes are needed with respect to company governance, risk management, strategy and reporting to comply with IFRS S1 and IFRS S2.

4. **Data Gathering**

Develop a strategy for gathering the data needed to meet the new IFRS requirements; consider interoperability and efficiency across leading climate standards.

5. **Communication and Implementation**

IFRS S1 and IFRS S2 apply to all levels of the corporate structure. To ensure that nothing is missed, communicate the new standards throughout the company and develop an implementation roadmap with reasonable targets to align with the governance and risk management disclosures.

6. **Consider Timing**

Sense check whether you will need to make any changes to the timing of your disclosures – e.g., IFRS S1 requires companies to publish their financial statements and sustainability disclosures at the same time. Some jurisdictions, such as the UK, have not yet aligned the financial statement and TCFD disclosures so closely, so this remains a wait and watch for your relevant jurisdiction.

7. **Monitor Progress**

Regularly monitor your progress against the IFRS S1 and S2 requirements and make any adjustments as applicable.

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