

To: Corporate Reporting - Investments & Sustainable Finance WG
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Subject: New ISSB educational material on disclosing information about anticipated financial effects

Summary

On 18 August, the International Sustainability Standards Board (ISSB) released educational material specifically focused on the disclosure of anticipated financial effects under the ISSB Standards: [here](#).

In the accompanying article ([here](#)), Jenny Bofinger-Schuster (ISSB member) discusses these requirements and how they interoperate with the corresponding disclosure requirements in the European Sustainability Reporting Standards (ESRS).

Under the ISSB Standards, companies must explain how sustainability-related risks and opportunities affect their business model, strategy, financial position, performance and cash flows – both currently and over the short, medium and long term. These disclosures should include qualitative and quantitative information. Permanent reliefs allow companies to provide only qualitative information when reliable quantitative data is not available (e.g. due to uncertainty or limited capabilities).

The current ESRS framework also requires disclosure of anticipated financial effects. However, relief is only temporary: companies can omit these disclosures in the first year and provide qualitative-only information for up to three years where quantitative disclosures are impracticable. After the transition period, quantitative disclosure becomes mandatory. ESRS also require more granular information, including reconciliation to financial statement line items and details on the amounts and locations of assets and revenues affected.

The proposed July 2025 ESRS revision aim to simplify these requirements and improve alignment with the ISSB approach. Two options are under consultation:

- Option 1 – align with ISSB Standards and introduce proportionality mechanisms that allow permanent use of qualitative disclosures (excluding the 'skills and capabilities' relief available under the ISSB Standards).
- Option 2 – make quantitative disclosures of anticipated financial effects optional, reducing reporting burden but undermining interoperability and comparability.

In addition, EFRAG proposes removing the current requirement to reconcile anticipated financial effect disclosures to relevant line items in the financial statements (currently in ESRS E1-9) and making ESRS-specific granular disclosures optional. According to Jenny Bofinger-Schuster, this additional flexibility would reduce reporting burden without undermining alignment with the ISSB Standards.

She notes that the proposed changes would partly align ESRS with the ISSB approach. However, full interoperability would require inclusion of the 'skills and capabilities' relief and full alignment of the proportionality mechanisms with IFRS S2. While Option 1 would improve interoperability and reduce burden, Option 2 could create a disconnect between the two standards and lead companies applying both to prepare two separate disclosure sets.