

UNDERSTANDING THE CONSEQUENCES OF NON-COMPLIANCE WITH ISSB STANDARDS

OVERVIEW

As businesses around the world begin to grapple with the International Sustainability Standards Board (ISSB) standards, it's crucial to understand not only the benefits of compliance but also the potential consequences of non-compliance. These standards, which became available for voluntary adoption in January 2024, represent a significant step toward unified global sustainability reporting, making it imperative for companies to align with them sooner rather than later.

DETAILS

Regulatory and Legal Risks

The ISSB standards are being closely integrated into regulatory frameworks across various jurisdictions. Countries like the UK, Canada, Brazil, and Japan have already expressed their intentions to incorporate these standards into their regulatory requirements. For companies operating in these regions, non-compliance could lead to legal penalties and regulatory sanctions once these standards become mandatory. Even if these standards remain voluntary in some regions, failing to adhere to them could still result in reputational damage and legal scrutiny if stakeholders or regulators perceive the company as lacking transparency in its sustainability reporting.



Investor Confidence and Access to Capital

The ISSB standards are designed to provide investors with reliable and comparable sustainability information, which is increasingly critical for investment decisions. Companies that do not comply with these standards may find it more difficult to attract and retain investors who prioritise environmental, social, and governance (ESG) factors. As these standards become the baseline for global sustainability reporting, non-compliant companies may be perceived as higher risk, potentially leading to higher capital costs or even a reduction in available capital.

Reputational Damage

Non-compliance with the ISSB standards can also lead to significant reputational damage. As global awareness of sustainability issues continues to grow, stakeholders—including customers, employees, and partners—are placing greater emphasis on corporate responsibility. Companies that fail to meet ISSB standards risk being seen as lagging in sustainability efforts, which could harm their brand reputation and customer loyalty.

Operational Challenges and Lost Opportunities

Aligning with ISSB standards requires companies to integrate sustainability into their core operations, from governance and strategy to risk management. Non-compliance might indicate a lack of preparedness or commitment to sustainability, leading to missed opportunities for operational improvements and innovation. Additionally, companies that do not adhere to these standards may struggle to compete with peers who are better positioned to meet evolving market and regulatory demands.

Conclusion

While the ISSB standards are currently voluntary in many regions, the trajectory towards mandatory adoption is clear. Non-compliance could expose companies to a range of risks, from regulatory penalties and investor withdrawal to reputational harm and operational disadvantages. Therefore, it is crucial for companies to begin aligning their sustainability practices with these standards to ensure they remain competitive and compliant in a rapidly changing global landscape.

For further guidance on how to comply with the ISSB standards, companies should consult with ESG experts and stay informed about developments in local and international regulatory environments

For more detailed information on how to comply with the ISSB standards, please refer to the [IFRS ISSB](https://www.ifrs.org/standards/issb/) website, or alternatively, contact us at info@envionas.com.