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## ISSB Meeting

Date	<b>December 2022</b>
Project	<b>ISSB Consultation on Agenda Priorities</b>
Topic	<b>Projects to be included in Request for Information</b>
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This paper has been prepared for discussion at a public meeting of the International Sustainability Standards Board (ISSB). This paper does not represent the views of the ISSB or any individual ISSB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Sustainability Disclosure Standards. The ISSB's technical decisions are made in public and are reported in the ISSB *Update*.

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## Objective

1. Utilising guidance in the IFRS *Due Process Handbook*, we note that one of the objectives of consulting on the [ISSB's] work plan is to seek input on [sustainability-related] financial reporting matters that should be given priority. At its July 2022 and October 2022 meetings, the ISSB indicated its support for the staff's proposed approach to conduct research and outreach to prioritise a short list of potential projects to include in a Request for Information to gather stakeholder feedback to inform the ISSB's initial two-year work plan.
2. The ISSB's objective in describing potential projects in the Request for Information is to provide stakeholders and the ISSB with a common understanding of the matters that could be addressed in a potential project. Including such background information in the Request for Information will help:
  - (a) stakeholders understand the ISSB's view of the priority of the potential project;
  - (b) stakeholders provide feedback; and
  - (c) the ISSB obtain sufficient evidence to make sound prioritisation and resource allocation decisions.
3. The IFRS Advisory Council supported the planned approach to the Consultation on Agenda Priorities when they discussed it at their meeting in October 2022.
4. The purpose of this paper is to:
  - (a) summarise the research and outreach activities undertaken, including key observations and findings, to scope and prioritise the short list of potential projects we recommend be included in the Request for Information; and
  - (b) allow the ISSB to provide thoughts and feedback on:
    - (i) the staff's research and outreach activities;
    - (ii) the recommended projects to be included in the Request for Information; and
    - (iii) the example of a potential project description included in Appendix A; and

- (c) ask whether the ISSB agrees that each of the recommended projects should be included in the Request for Information.

## Structure of the paper

- 5. This paper is structured as follows:
  - (a) Background (paragraphs 6–13)
  - (b) Overview of research and outreach (paragraphs 14–18)
  - (c) Summary of feedback and findings (paragraphs 19–25)
  - (d) Projects to be included in the Request for Information (paragraphs 26–42)
    - (i) Biodiversity, ecosystems and ecosystem services (paragraphs 27–30)
    - (ii) Human capital (paragraphs 31–34)
    - (iii) Human rights (paragraphs 35–38)
    - (iv) Connectivity in reporting – management commentary and integrated reporting (paragraphs 39–42)
  - (e) Description of a potential project in the Request for Information (paragraphs 43–46)
  - (f) Questions for the ISSB (paragraph 47)
  - (g) Appendix A – Example of a potential project description to be included in the Request for Information

## Background

- 6. During its meeting in October 2022, the ISSB discussed updates to the planned approach to preparing a Request for Information on its agenda priorities. In that meeting, the ISSB tentatively decided that the Request for Information should:
  - (a) outline committed work to build upon the foundation established by IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (S1) and IFRS S2 *Climate-related Disclosures* (S2), once finalised (**‘foundational work’**); and
  - (b) request stakeholder feedback on a short list of proposals for new research and standard-setting projects that are incremental to such foundational work (**‘potential projects’**).
- 7. See paragraphs 10–21 of [Agenda Paper 2](#) for that meeting for a description of the foundational work, which will commence prior to the finalisation of the ISSB’s initial work plan. As discussed in that meeting, the foundational work is expected to demand a significant portion of the ISSB’s capacity during the initial two-year work plan, such that the remaining capacity to devote to potential projects will be limited.

8. The ISSB discussed a preliminary list of subject matters to be considered in developing the Request for Information within [Agenda Paper 1A](#) for its July 2022 meeting and [Appendix A of Agenda Paper 2](#) for its October 2022 meeting.
9. At its October 2022 meeting, the ISSB tentatively decided its foundational work would include efforts to improve the Sustainability Accounting Standards Board (SASB) Standards, including advancing the existing SASB Standards research and standard-setting projects. The existing SASB Standards research and standard-setting projects were initially identified as items to be considered for inclusion in the Request for Information (per paragraphs 50–83 of [Agenda Paper 1A](#) for the ISSB’s July 2022 meeting); however, given the ISSB’s tentative decision in the October 2022 meeting to include the SASB Standards projects as part of the foundational work, these projects are not in the scope of projects being considered for potential projects.
10. The ISSB also tentatively decided at its October 2022 meeting that continued research and outreach to identify targeted enhancements of [draft] S2, once finalised, should be included in its foundational work. As noted in paragraph 17 of the [Agenda Paper 2](#) for that meeting, this work may include additional research on some of the aspects of climate-related risks and opportunities that were identified as potentially warranting additional research and possible standard-setting in paragraph 19 of [Agenda Paper 1A](#) for the ISSB’s July 2022 meeting. As this work will be considered as part of the foundational work, it is not in the scope of projects being considered for potential projects.
11. Finally, the ISSB also decided at its October 2022 meeting that its foundational work would include coordination with the International Accounting Standards Board (IASB) to ensure the IASB’s and ISSB’s respective requirements are compatible and avoid inconsistencies and conflicts. This work would initially be focused on the IASB’s and ISSB’s respective requirements on climate-related disclosures. Other potential projects that may involve coordination with the IASB are outlined in paragraphs 86–95 of [Agenda Paper 1A](#) for the July 2022 ISSB meeting.
12. Based on the ISSB’s discussions and tentative decisions outlined in paragraphs 6-11, the population of sustainability-related subject matters being considered for potential projects to be included in the Request for Information consist of the ‘broadly-defined topics’ and ‘potential projects to be undertaken in coordination with the IASB’ included in [Agenda Paper 1A](#) for the July 2022 ISSB Meeting and the ‘broadly defined topic’ included in [Appendix A of Agenda Paper 2](#), excluding those topics which are now included in the foundational work.
13. The ISSB discussed the staff’s approach to scoping and prioritising the short list of potential projects as outlined within paragraphs 32 and 33 of [Agenda Paper 1](#) for its July 2022 meeting, including the assessment of project proposals against a set of criteria for inclusion in the Request for Information which were discussed in paragraphs 17-20 of that paper. The scope and prioritisation of the short list of potential projects summarized in paragraphs 26-42 reflect the research and outreach efforts undertaken by the staff.

## Overview of research and outreach

14. In order to scope and prioritise the short list of potential projects to be included in the Request for Information, staff conducted various outreach and research activities.
15. Outreach was primarily conducted by staff and ISSB members in October and November 2022 with advisory bodies and consultative groups, including:
  - (a) IFRS Advisory Council (see [Agenda Paper 6](#) for its October 2022 meeting);

- (b) Sustainability Consultative Committee (see meeting agenda and recording for its [October 2022 meeting](#));
  - (c) ISSB Investor Advisory Group (IIAG); and
  - (d) Technical Reference Group (TRG).
16. We presented to the groups a description of the staff's planned approach to the consultation on agenda priorities and solicited their views. We also discussed and solicited the views of the Sustainability Consultative Committee, IIAG and TRG on the relative priority of the potential projects that could be included in the Request for Information. While we considered the views of these advisory bodies and consultative groups, we did not specifically seek a consensus view on the potential projects from any of the groups. Instead, their input was considered in the context of the staff's overall research and outreach efforts.
17. The staff also conducted research by consulting and analysing various sources of information to assess potential projects against the criteria for inclusion in the Request for Information which were discussed in paragraphs 17-20 of [Agenda Paper 1](#) for the ISSB's July meeting. In addition to the criteria, the staff's assessments of potential projects considered the work of other jurisdictional and voluntary sustainability standard-setting bodies, with the goal of enhancing interoperability. The primary sources of information that were analysed included:
- (a) a database of sustainability-related funds with over US\$300 billion in assets under management (during the period August 2021- September 2022) that were associated with a specific sustainability-related subject matter to analyse the value of investment funds associated with each subject matter to assess the importance to investors;
  - (b) a database of more than 200,000 international earnings calls from 2008-2020 to analyse the frequency with which a sustainability-related subject matter was raised by investors to assess the sustained level of importance to investors and the prevalence of the matters in certain jurisdictions and sectors;
  - (c) a summary of shareholder proposals filed during the 2022 US proxy voting season to analyse the frequency with which a sustainability-related subject matter was included in shareholder proposals to assess the importance to investors and the pervasiveness of the topics;
  - (d) stakeholder responses received on [draft] S1 and [draft] S2 to analyse the frequency with which commenters noted particular sustainability-related subject matters in the context of the consultation on agenda priorities to assess the importance to investors;
  - (e) publications of international market-led initiatives and organisations focused on the measurement and disclosure of sustainability-related risks and opportunities to assess the importance to investors and the pervasiveness of the topics; and
  - (f) existing standards and proposals of jurisdictional and voluntary standard-setters.
18. The outcome of the research and outreach described in paragraphs 14-17 were primarily used to inform the staff's relative prioritisation of the 'broadly defined topics'. In assessing the priority of potential projects to be undertaken in coordination with the IASB, including those referenced in paragraph 12, we engaged with technical staff and board members of the IASB and ISSB in order to

understand the scope, timing and implications on the ISSB's resources related to each of the potential projects.

## Summary of feedback and findings

19. The results of the staff's research and outreach activities highlighted that, while there was some level of investor interest and market demand for information related to all of the broadly defined topics, the most significant interest and demand was focused on three topics. Those topics, which the staff is recommending be included as potential projects in the Request for Information, are:
  - (a) biodiversity, framed as a broad topic including ecosystems, ecosystem services and other nature-related issues;
  - (b) human capital, with a particular focus on diversity, equity and inclusion (DEI); and
  - (c) human rights, particularly in the context of the value chain, with a focus on worker or labour rights and community rights (for example, basic needs).
20. A primary consideration in the staff's analysis to prioritise potential projects was the ability of the ISSB, as part of its initial two-year work plan, to make timely, meaningful progress on sustainability-related subject matters where there is clear evidence of investor interest and market demand, but where a widely accepted standard for capital markets-focused disclosure on such matters does not currently exist.
21. As it relates to biodiversity and human capital, a library of both internal and external resources exists that could be advanced and built upon with the end goal of establishing a global baseline of sustainability disclosures for the capital markets related to these topics. The topic of human rights and its link to sustainability-related risks and opportunities relevant to the investor assessments set out in [draft] S1 is not as mature as the other topics. However, the evidence of market demand and investor interest is clear, and significant work has been undertaken by the United Nations Guiding Principles on Business and Human Rights, and the Investors Alliance for Human Rights and other organisations in the space in recent years. The staff's research and outreach activities evidenced strong investor interest in the topic of human rights, and thus we recommend including a potential project on this topic in the Request for Information, but acknowledge the ISSB might need more time to allow market-accepted practices around the link between human rights and investor-relevant sustainability-related risks and opportunities to evolve. Thus, the ISSB may be less able to make significant of progress on this topic in a timely manner.
22. In assessing potential projects to be undertaken in coordination with the IASB, connectivity in reporting emerged as a key priority. Such a project would build on the IASB's Management Commentary project and the Integrated Reporting Framework. The project would advance the IFRS Foundation's aim of enabling connectivity between sustainability-related financial information and financial statements.
23. It was noted in the staff's research and outreach that while the IASB received strong support for its Management Commentary project, in particular from investors, many of the IASB's stakeholders encouraged the IASB to work jointly with the ISSB in advancing the project. Many stakeholders asked for clarity on the interaction between management commentary and sustainability-related financial disclosures<sup>1</sup> and some stakeholders also suggested that there is an opportunity to further align the

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<sup>1</sup> See March 2022 IASB [Agenda Paper 15A: Feedback summary—Project direction](#)

IASB's proposals and the Integrated Reporting Framework<sup>2</sup>. Additionally, the comment period on the IASB's Exposure Draft *Management Commentary* closed prior to the publication of [draft] S1 and [draft] S2. Thus, commenters did not have the benefit of considering the proposals on management commentary in the context of the proposed requirements in [draft] S1 and [draft] S2. Further, the Chairs of the IASB and the ISSB have committed to consider opportunities to address similarities and differences between the IASB's proposals on management commentary and the Integrated Reporting Framework<sup>3</sup>. Thus, the staff recommends including in the Request for Information a potential project on connectivity in reporting that considers the IASB's Management Commentary project and the Integrated Reporting Framework.

24. In our research and outreach, the staff noted clear evidence of investor interest and market demand for all potential projects; however, we considered it necessary to include only those potential projects with the highest level of interest and demand. Key considerations in determining the number of potential projects to recommend be included in the Request for Information were:
- (a) the anticipated capacity of the ISSB to take on potential projects as part of its initial work plan, which we acknowledge will be limited by the foundational work; and
  - (b) the relative scope and indicative size of the potential projects.
25. The staff wishes to emphasise that the topics which are not being recommended for inclusion in the Request for Information could nevertheless be candidates for inclusion on the ISSB's workplan in the future. The ISSB will continue its market engagement and consultation to understand changing and emerging market needs related to sustainability-related financial information to ensure IFRS Sustainability Disclosure Standards are meeting the needs of stakeholders and the ISSB is appropriately prioritising its work. Further, while the intention of including a short list of potential projects in the Request for Information is partly to focus the feedback solely on those projects, stakeholders will nonetheless have the opportunity to provide their views and recommendations for the ISSB's initial work plan outside the potential projects included in the Request for Information.

## Projects to be included in the Request for Information

26. The staff recommends describing the following projects in the Request for Information. Providing a description is important to ensure that the ISSB fully understands the feedback received from its stakeholders (i.e., that we are not inadvertently describing different projects or areas of emphasis). Paragraphs 43-46 explain what information the staff proposes to include in each project description and Appendix A includes an example project description for biodiversity, ecosystems and ecosystem services.

### ***Biodiversity, ecosystems and ecosystem services***

27. The staff recommends that the Request for Information include a proposal to initiate a research project on biodiversity, ecosystems and ecosystem services, including an initial literature review around definitions, categorisation and scope to inform more applied research on related business risks and opportunities and associated disclosures.
28. Biodiversity is defined as the variability among living organisms from all sources including terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part. This

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<sup>2</sup> See March 2022 IASB [Agenda Paper 15 Management Commentary: Feedback summary—Overview](#).

<sup>3</sup> See May 2022 Announcement [Integrated Reporting—articulating a future path](#).

includes diversity within species, between species and of ecosystems. Biodiversity is a foundational characteristic of nature, and it is a proxy for functional, productive and resilient ecosystems, thus more capable of providing the ecosystem services—such as air and water purification, carbon sequestration, provision of raw materials, and pest and flood control—upon which the global economy relies. When biodiversity is reduced (for example, when a species is lost), ecosystem functioning is degraded, and so are the related ecosystem services, thus representing a risk for human activities, including businesses, that depend on such services.

29. Research will leverage and extend existing ISSB materials, including the CDSB Framework application guidance for biodiversity-related disclosures and more than 400 accounting metrics related to ecological impacts, materials sourcing, product design and other relevant disclosure topics contained in the 77 industry-based SASB Standards, as well as frameworks and guidance issued by other third parties working on nature-related matters.
30. In the staff's research and outreach, biodiversity emerged as a priority topic, reflecting that (1) it underpins all human activities, including business, and thus has substantial implications for capital markets participants, and (2) research and work on the topic are evolving at a significant pace. Despite existing resources, a well-established and widely embraced set of disclosure practices, tools and metrics has yet to emerge to facilitate understanding of how biodiversity affects an entity's financial position, performance and prospects over the short, medium or long term.

### ***Human capital***

31. The staff recommends that the Request for Information include a proposal to initiate a research project on human capital, with an initial focus on diversity, equity and inclusion (DEI).
32. Human capital refers to the manner in which an entity manages its employees as assets, rather than as a cost to the entity. Different aspects of human capital management are likely to drive value in different ways. For example, academics, consulting firms and subject matter expert organisations strongly assert that an entity's diversity, equity and inclusion management strategy can impact value through the channels of talent attraction and retention; product design, marketing and delivery; community relations; and innovation and risk recognition. Employee health, safety and wellbeing is associated with increased productivity, reduced workforce turnover and cost savings. Significant reliance on an 'alternative' workforce—temporary, provisional or contingent workers, including those employed in the 'gig economy'—is associated with legal and regulatory risks.
33. Research on this topic could leverage and build upon the ISSB's existing resources and research, such as the Human Capital – Diversity, Equity and Inclusion standard-setting project and the Human Capital research project inherited from the SASB Standards Board, the latest version of the CDSB Framework covering disclosure on social information, as well as the work done by other organisations in this space.
34. In the staff's research and outreach activities, human capital emerged as one of the key areas of investor interest and market demand. We also noted that the most frequently occurring human capital-related subtopic was DEI, which we recommend as an initial area of focus for the research project. Investors around the world increasingly seek information on human capital management in making investment decisions and, thus, entities across jurisdictions are seeking clearer guidance on how to prepare and disclose more effective information on the topic.

### ***Human rights***

35. The staff recommends that the Request for Information include a proposal to initiate a research project on human rights, with an initial focus on labour rights and communities' rights in the value chain.
36. Human rights refer to a wide range of issues such as workers' rights, discrimination and equality, indigenous peoples' and community rights, child labour, forced or bonded labour, and human trafficking in an entity's direct operations or in its value chain. Some of these issues – such as those related to labour wages and equality – overlap with human capital. Entities perceived as contributing to human rights violations are subject to protests, consumer or group boycotts, suspension of permits, and they may face substantial costs related to compensation, settlement payments or fines and write-downs in the value of their assets in sensitive areas. Although it is standard practice in most jurisdictions for entities to respect human rights and undertake appropriate due diligence to manage related risks, they are increasingly challenged to do so as international economies become more interconnected and supply chains become more complex. In such a context, a growing number of investors view human rights information as relevant to their assessments and related decision making.
37. Research on this topic could leverage existing ISSB materials including preliminary work on human rights, such as (1) the latest version of the CDSB Framework covering the disclosure of social information, which centres on the human rights of key groups within an organisation's value chain, and (2) the industry-based SASB Standards, which include human rights-related aspects such as community relations and rights of indigenous peoples. The ISSB may also wish to consider the significant work done by other organisations working in this space.
38. In the staff's research and outreach, a strong market interest around human rights emerged, with a particular emphasis on labour rights and communities' rights in the value chain. Despite investors' interest and the recent work in the space, the topic of human rights and its link to investor-relevant sustainability-related risks and opportunities is still maturing.

### ***Connectivity in reporting – Management Commentary and Integrated Reporting***

39. The staff recommends that the Request for Information include a proposal to undertake a joint project with the IASB to develop comprehensive disclosure requirements and guidance that enable entities to report connected discussion and analysis of their financial statements and sustainability-related financial disclosures. This project would also aim to provide clarity about how the components of general purpose financial reports fit together.
40. The IASB is undertaking a project to deliver a comprehensive overhaul of IFRS Practice Statement 1 *Management Commentary* to enable an entity to bring together, in a single concise and coherent narrative, information about financial, sustainability and other factors that have affected the entity in the reporting period or could affect the entity's prospects. The IASB's project focusses on information that investors and other capital market participants need in assessing the entity's ability to create value and generate cash flows, including in the long term. In developing its proposals, the IASB sought to consolidate and build on national and international innovations in reporting, including the Integrated Reporting Framework, and to target shortcomings in practice. In addition, the Integrated Reporting Framework is now part of the materials of the IFRS Foundation. The Integrated Reporting Framework aims to enable an entity to explain primarily to investors and other capital market participants how the entity creates, preserves or erodes value over time by taking into consideration how the entity is affected and affects different resources of financial, tangible and intangible nature.



41. The joint project would analyse the feedback on the IASB's proposals on management commentary and explore similarities and differences between those proposals and the Integrated Reporting Framework, seeking to further build on the principles and concepts of the Integrated Reporting Framework. The project would also consider its relationship with IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and findings in other projects.
42. Many of the IASB's stakeholders encouraged the IASB to advance the Management Commentary project in collaboration with the ISSB and asked for clarity on the interaction between management commentary and sustainability-related financial disclosures. Furthermore, the Chairs of the IASB and the ISSB have committed to consider opportunities to address similarities and differences between the IASB's proposals on management commentary and the Integrated Reporting Framework. The staff believes that the Request for Information is an important opportunity for the ISSB to receive information from its stakeholders about the prioritisation of this work.

## Description of a potential project in the Request for Information

43. In the Request for Information, we propose to describe the following elements of each potential project:
  - (a) description of the topic;
  - (b) discussion of why the topic is a priority; and
  - (c) project description and indicative size.
44. When developing descriptions of potential projects, the staff will try to strike a balance between providing enough information for stakeholders to understand the issue and the need to keep the description concise. Consequently, the length and description and the amount of detail included is likely to vary among the potential projects. The descriptions will highlight suggested initial focus areas or subtopics within a project, phases of the project, and any synergies or overlap with other ISSB work included in the foundational work. The descriptions will also note external organisations and materials which may be leveraged to aid in the research with the goal of identifying the most efficient and effective way to address the needs of the ISSB's stakeholders.
45. The stakeholder feedback received as part of the Request for Information will inform the relative priority of each project, overall, as well as the relative priority of any subtopics included as part of each project, and will ultimately inform the initial work plan. We are planning to issue the Request for Information in the first half of 2023. At the time of redeliberation on the feedback on the Request for Information, the ISSB will likely have more clarity on the anticipated capacity demands of the foundational work to support the initial application, adoption and implementation of S1 and S2 (which are anticipated to be finalised in the first half of 2023). Based on the feedback received and considering the context of the capacity devoted to potential projects, it is possible that certain projects could be added to a 'reserve list' in the initial work plan.
46. Appendix A includes an example description of a potential project—Biodiversity, ecosystems and ecosystem services. This project was the most prevalent topic in our research and outreach. The feedback provided by the ISSB as part of this meeting will be considered in drafting the remaining descriptions for the projects we are recommending be included in the Request for Information, including the finalisation of the example description of the potential project included in Appendix A.

## Questions for the ISSB

47. The staff presents the following questions for the ISSB.

### Questions for the ISSB

1. Do you have any comments or questions on the research and outreach conducted by the staff?
2. Do you have any comments or questions on the recommended potential projects to be included in the Request for Information (paragraph 26–42)?
3. Do ISSB members agree with the staff’s recommendation that each of the following potential projects should be included in the Request for Information:
  - a. Biodiversity, ecosystems and ecosystem services (paragraphs 27–30)
  - b. Human capital (paragraphs 31–34)
  - c. Human rights (paragraphs 35–38)
  - d. Connectivity in reporting – management commentary and integrated reporting (paragraphs 39–42)
4. Do you have any comments on the content and level of detail included in the example of a potential project description in Appendix A?

## Appendix A – Example of a potential project description to be included in the Request for Information

### Biodiversity, ecosystems and ecosystem services

#### *Description of the topic*

A1. According to the Convention on Biological Diversity, biodiversity is defined as the variability among living organisms from all sources including terrestrial, marine, and other aquatic ecosystems<sup>4</sup> and the ecological complexes of which they are part.<sup>5</sup> This includes diversity within species, between species and of ecosystems. Biodiversity is a foundational characteristic of nature, and it is a proxy for functional, productive, and resilient ecosystems, thus more capable of providing the ecosystem services—such as air and water purification, carbon sequestration, medicinal resources, pollination, provision of raw materials, and pest and flood control—upon which the global economy relies.

#### *Why this is a priority*

- A2. Biodiversity underpins all human activities, and its collapse represents a risk for business: when a species is reduced (for example, when a species is lost), ecosystem functioning is degraded, and so are the related ecosystem services. For example, the decline of pollinators can affect the supply of critical raw materials, such as crops, which can cause interruption of operations and consequent loss of revenue. Human activities, including business, are directly and/or indirectly responsible for the collapse in biodiversity: consumption, production, trade and technological innovations cause changes in land and sea use, direct exploitation of organisms, climate change, pollution and invasion of alien species, which are all direct drivers of biodiversity loss. Companies can benefit from the conservation and restoration of biodiversity, which can lead to increased resilience due to the enhanced stability of raw material supply and pricing, as well as reduced costs for inputs to production (for example, due to water purification).
- A3. Biodiversity loss poses a significant and under-appreciated threat to financial stability<sup>6</sup>. Research by the World Economic Forum indicates that US\$44 trillion of economic generation—more than half the world's GDP—is directly dependent on nature and the ecosystem services it provides. Many ecosystem services are not replaceable and studies, such as those by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), find that the majority of ecosystem and biodiversity indicators are already in decline, thus highlighting the reality of the financial risk. For these reasons, issues related to biodiversity, ecosystems and nature loss have drawn increasing attention from investors and other capital market participants.
- A4. This was confirmed by ISSB staff's research and outreach activities, where biodiversity emerged as a priority topic, as (1) it underpins all human activities, including business and (2) research and work on the topic, and the related risks and opportunities for capital market participants, are evolving at a significant pace.

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<sup>4</sup> Ecosystem: a dynamic complex of plant, animal and microorganism communities and the non-living environment, interacting as a functional unit (source: Convention on Biological Diversity (1992) [Article 2](#); IPBES (2019) [Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services](#)). Example of ecosystems are: deciduous temperate forests, coastal river deltas, tropical flooded forests and peat forests, or Intertidal forests and shrublands (e.g., mangroves).

<sup>5</sup> Convention on Biological Diversity (1992), [Article 2](#).

<sup>6</sup> NGFS-INSPIRE Study Group on Biodiversity and Financial Stability (2022). [Central banking and supervision in the biosphere: An agenda for action on biodiversity loss, financial risk and system stability](#).

- A5. Despite the significant pace of biodiversity-related research, a well-established and widely embraced set of disclosure practices, tools and metrics has yet to emerge to facilitate understanding of how nature affects an entity's financial position, performance and prospects over the short, medium or long term.
- A6. Challenges that exist in addressing the market need may include:
- (a) the challenges in defining, organising, and categorising biodiversity and nature-related topics and subtopics (for example, changes in land and sea use, direct exploitation of natural resources, effect of climate change on ecosystems, pollution, and invasion of alien species) and the related lack of consensus on what should be prioritised for standard-setting;
  - (b) the overlap with other sustainability-related risks and opportunities—for example, greenhouse gas (GHG) emissions (also related to climate) or water management (also related to resource constraints); and
  - (c) the fact that biodiversity-related risks and opportunities differ across different geographic locations and business models.

*Project description and indicative size*

- A7. To address these challenges, the ISSB will undertake a research project on sustainability related risks and opportunities associated with the topic of biodiversity, ecosystems and ecosystem services to lay the groundwork for potential future standard-setting. The research project will encompass:
- (a) an initial literature review and research to explore existing definitions and categories of biodiversity, ecosystems, ecosystem services and other nature-related subtopics from academic and other third-party sources working in the field in order establish the boundaries between these sub-topics and to set the ground for more applied research;
  - (b) research to understand the sustainability-related risks and opportunities related to each nature-related subtopic, including those risks and opportunities that are associated with specific business models, economic activities and other common features that characterise participation in an industry; and
  - (c) research to understand existing practices, tools and metrics being used to measure and disclose information about sustainability-related risks and opportunities for each subtopic.
- A8. This project will also present synergies with the ISSB's continued work to identify and assess IFRS S2 *Climate-related Disclosures* for areas of potential enhancement, including the identification of causal relationships and overlapping risks and opportunities related to both climate and biodiversity, ecosystems and ecosystem services.
- A9. In conducting this work, the ISSB could potentially build upon existing materials to advance the project on a more timely basis. ISSB materials include the CDSB Framework application guidance for biodiversity-related disclosures and more than 400 accounting metrics related to ecological impacts, materials sourcing, product design and other relevant disclosure topics contained in the 77 industry-based SASB Standards. Additional resources that may be utilised include frameworks and guidance issued by other third parties working in the nature- and biodiversity-related space, including the work of, among others, the Taskforce on Nature-related Financial Disclosures (TNFD), the Partnership for Biodiversity Accounting Financials (PBAF), the Capitals Coalition, the Science Based Targets

Network, the European Financial Reporting Advisory Group (EFRAG), the European Commission's Align project, the EU Business and Biodiversity Platform and the World Benchmarking Alliance.

A10. The indicative size of this project is *large*.