

ISSB Update and ISSB Exposure Drafts

Joint CMAC GPF meeting
Agenda Paper 6
June 2022

Agenda

ISSB update

Exposure Draft 1 – General Requirements

Exposure Draft 2 – Climate

Next steps

Significant progress since COP26

COP26 announcement	Developments since COP26	Current focus
1. Establish ISSB	<ul style="list-style-type: none"> • Leadership appointments <ul style="list-style-type: none"> • Emmanuel Faber (Chair) • Sue Lloyd (Vice-Chair) • Janine Guillot (Special Advisor) • Multi-location model <ul style="list-style-type: none"> • MoU with Frankfurt, interim office in place • MoU with Montreal 	<ul style="list-style-type: none"> • Appointments <ul style="list-style-type: none"> • Recruiting remaining ISSB members • Multi-location model <ul style="list-style-type: none"> • Finalise arrangements for Asia-Oceania presence • Appoint advisory groups
2. Consolidate or align with other initiatives	<ul style="list-style-type: none"> • CDSB consolidation completed (Jan 2022) • GRI cooperation agreement (MoU) • Jurisdictional working group set up 	<ul style="list-style-type: none"> • Preparing for VRF consolidation (June 2022)
3. Publication of prototypes	<ul style="list-style-type: none"> • Published proposals for inaugural IFRS Sustainability Disclosure Standards 	<ul style="list-style-type: none"> • Outreach and consultation

ISSB members



Emmanuel Faber
Chair



Sue Lloyd
Vice-Chair



Richard Barker



Verity Chegar



Bing Leng



Ndidi Nnoli-Edozien

ISSB focus



Develop standards for global baseline of sustainability disclosures and a digital taxonomy to enable electronic tagging of disclosures



Focus on meeting the information needs of investors



Will enable companies to provide comprehensive sustainability information for the global capital markets



Building blocks approach: facilitate the addition of requirements that are jurisdiction-specific or aimed at a broader group of stakeholders

Building blocks approach

Sustainability reporting (broader multi-stakeholder focus)

Reporting on all sustainability matters that reflect significant positive or negative impacts on people, the environment and the economy

Jurisdictional initiatives
and/or GRI

Sustainability-related financial disclosures (investor focus)

Reporting on those sustainability-related matters that may reasonably create or erode enterprise value over the short, medium and long term

ISSB

Financial reporting (investor focus)

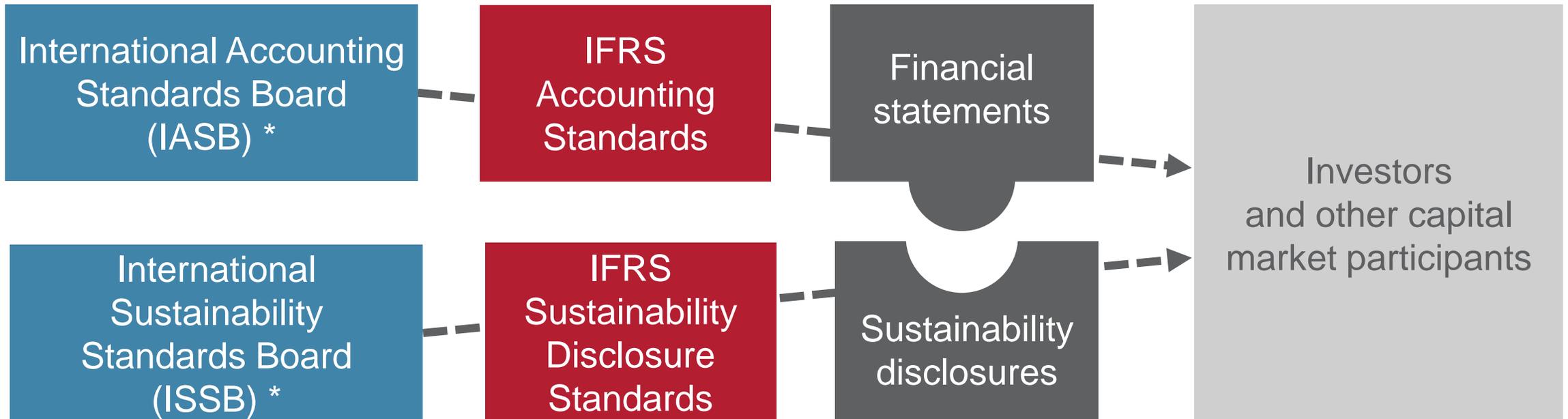
Reflected in monetary amounts in the financial statements

IASB (140+
countries)

Other GAAP
(eg FASB)

Integrated Reporting

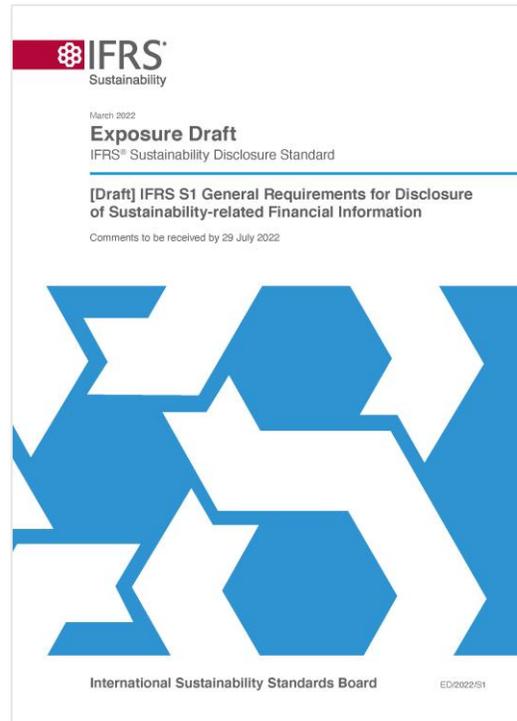
Achieving compatibility between IFRS Accounting Standards & IFRS Sustainability Disclosure Standards



- Integrated Reporting Council to advise IASB and ISSB on connectivity via fundamental concepts / guiding principles of integrated reporting
- IFRS Sustainability Disclosure Standards compatible with IFRS Accounting Standards or other GAAP to meet investor needs

Two proposed IFRS Sustainability Disclosure Standards

1



General Requirements
Exposure Draft

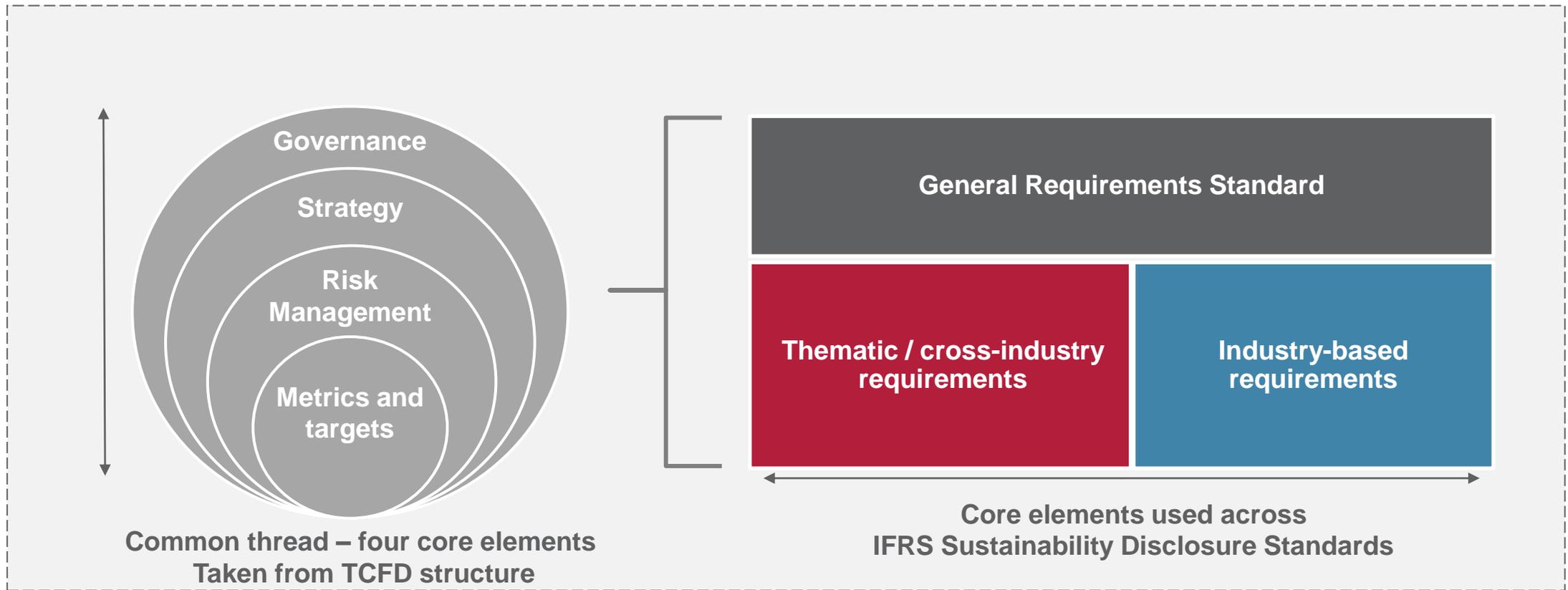
2



Climate
Exposure Draft

Standards architecture

Focus on investor audience and enterprise value

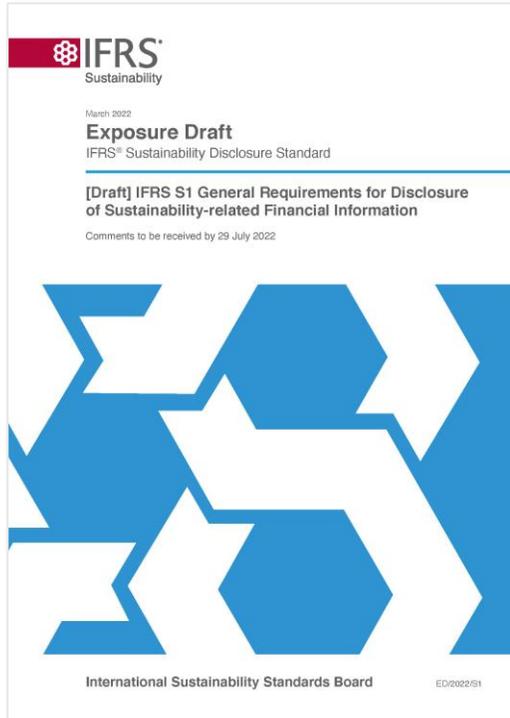




General Requirements Exposure Draft

1

General Requirements Exposure Draft



Requires companies to provide material information on all significant sustainability-related risks and opportunities necessary to assess enterprise value

- Other IFRS Sustainability Disclosure Standards (eg Climate Standard) set out specific disclosures
- Points to other standards and frameworks in absence of a specific IFRS Sustainability Disclosure Standard
- Equivalent to IFRS Accounting Standards IAS 1 and IAS 8

Information for the capital markets

- Information provided must 'enable an assessment of the effects of sustainability-related risks and opportunities on a company's enterprise value' (the market value of its equity and net debt)
- focus is on **significant** sustainability-related risks and opportunities
- information required includes the impacts of a company on people, the environment and the planet **if** they affect assessments of enterprise value
- requires information that is **material** for a company, ie that could reasonably be expected to influence decisions that investors would make (in this case, when assessing enterprise value)

Key features



Emphasises need for consistency and connections between financial statements and sustainability reporting by requiring companies to

- explain linkages in information
- use consistent assumptions when relevant



Requires financial statements and sustainability disclosures to be published at the same time



Facilitates application in different jurisdictions by

- not specifying a particular location for sustainability information
- allowing additional information to be provided

Interaction with IFRS Accounting Standards

The proposals **do not** change how sustainability-related risks and opportunities are considered in preparing financial statements

- IFRS Sustainability Disclosure Standards will be complementary to both IFRS Accounting Standards and to other GAAP – the proposals would result in additional information being provided to users to support their assessment of enterprise value
- The IFRS Foundation published educational materials setting out how climate-related risks and opportunities are required to be considered in preparing financial statements in accordance with IFRS Accounting Standards

Structure consistent with TCFD recommendations

Governance

The governance processes, controls and procedures a reporting entity uses to monitor sustainability-related risks and opportunities.

Strategy

The sustainability-related risks and opportunities that could enhance the entity's business model and strategy over the short, medium and long term.

Risk management

How sustainability-related risks and opportunities are identified, assessed, managed and mitigated.

Metrics and targets

Information used to manage and monitor the entity's performance in relation to sustainability-related risks and opportunities over time.

Identifying sustainability-related risks and opportunities and disclosures

General Requirements [Standard]

A company would be required to disclose material information about all significant sustainability-related risks and opportunities



Climate [Standard]

A company would apply the relevant IFRS Sustainability Disclosure Standards to identify climate-related risks and opportunities and disclosures



In lieu of a specific IFRS Sustainability Disclosure Standards, when identifying sustainability-related risks and opportunities and disclosures consider:

SASB Standards	CDSB Framework, CDSB Framework application guidance	Other standards	Other sources
Industry-based disclosure topics identified in SASB Standards	ISSB's non-mandatory guidance, e.g. CDSB Framework and CDSB Framework application guidance for social, water- and biodiversity-related disclosures	Other standards, provided that they are designed to meet the information needs of investors	Practices of peer companies in the same industries or geographies

Illustrative Guidance is provided to illustrate how a company can use the **SASB Standards** and the **CDSB Framework application guidance** to identify disclosures about significant sustainability-related risks and opportunities that are relevant to investor decision making, faithfully represent the company's risks and opportunities, and are neutral

Location of information

The sustainability-related financial information would be required to be part of the company's **general purpose financial reporting**, but can be provided in various ways.

- General purpose financial reporting forms the same package of reporting that is targeted at investors and other providers of financial capital.
 - encompasses— but is not restricted to—an entity's general purpose financial statements and sustainability-related financial disclosures.
- The proposals do not prescribe a specific location within general purpose financial reporting to disclose sustainability-related financial information. This facilitates global adoption enabling compliance with jurisdictional requirements eg location in management commentary or as part of an integrated report.
- The proposals allow for information required by an IFRS Sustainability Disclosure Standard to be disclosed with information to meet other requirements. However the IFRS disclosures must not be obscured by that other information.
- Unnecessary duplication of common items is discouraged

Timing of when the material information will be published

Sustainability-related financial disclosures would be required to be published at the same time as the financial statements.

- Sustainability-related financial disclosures are for the same reporting period as the financial statements
- The proposals do not mandate which entities would be required to disclose interim sustainability-related financial information. However, jurisdictions may require an entity to publish interim reports.
 - This is consistent with the parameters for interim reporting specified in IAS 34 *Interim Financial Reporting*

Reporting entity

Sustainability-related financial disclosures shall be for the same **reporting entity** as the general purpose financial statements.

- Eg if the reporting entity is a group, the consolidated financial statements will be for a parent and its subsidiaries, enabling investors to assess the enterprise value *of the parent and its subsidiaries*.
- The proposals note that enterprise value is however affected by factors such as sustainability-related risks and opportunities arising from an entity's value chain and from investments in other entities that are not part of the consolidated group
- The proposals require the disclosure of the financial statements to which the sustainability-related financial disclosures relate with the same presentation currency used as the financial statements.

Sustainability-related risks and opportunities across an entity's value chain

- The proposed Standard requires disclosure of material information about sustainability-related risks and opportunities across a company's **value chain** ie 'the full range of activities, resources and relationships related to a reporting entity's business model and the external environment in which it operates'.
- Information about sustainability-related risks and opportunities across value chain relevant to the assessment of enterprise value by investors include activities, resources and relationships:
 - **Within a company's operations**, such as human resources
 - **Along a company's supply, marketing and distribution channels**, such as materials and service sourcing & product and service sales and delivery
 - **The financing, geographical, geopolitical and regulatory environments** in which the company operates

A company would be required to use judgement in identifying **material** information relating to the activities, interactions and relationships and the use of resources across its value chain and determining when it is relevant to assessing enterprise value

Connected information

It is proposed that companies provide information that allows investors to assess the connections between **different sustainability-related risks and opportunities** and **between sustainability-related financial information and information in the financial statements**

- When financial data and assumptions are used in sustainability-related financial disclosures, they shall be consistent with the corresponding information provided in the financial statements

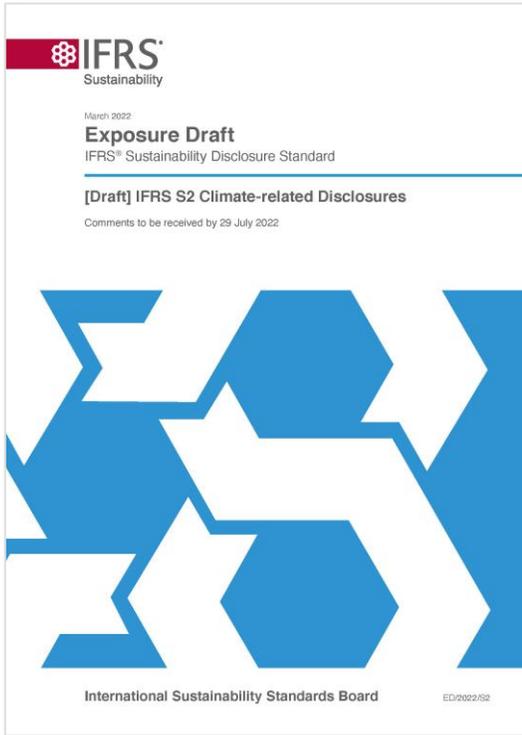
Examples:

- A company's supplier has recently been found to have employment practices that fall well short of international norms. The company decides to terminate its contract with that supplier. In its disclosures the company states that it is confident that its new supplier has employment practices that meet the international norms. The decision might also have consequences for the cost of its supplies, and that would also be disclosed.
- A company has a production facility that generates high levels of greenhouse gas (GHG) emissions. The company decides to close the facility. In its disclosures the company explains the financial consequences of that decision: a revised useful economic life of the affected asset and, if relevant, recognition of an impairment expense. The company also discloses that the decision has consequences for the staff who will lose their jobs and for businesses in the local community, because the company assesses that this information affects its reputation.



Climate Exposure Draft

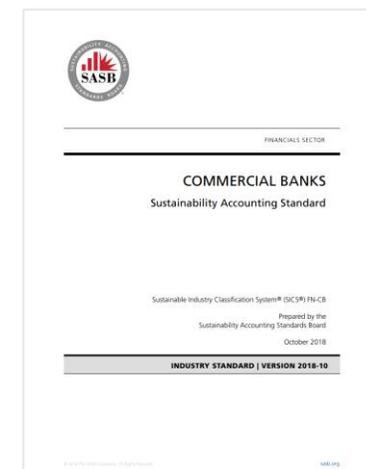
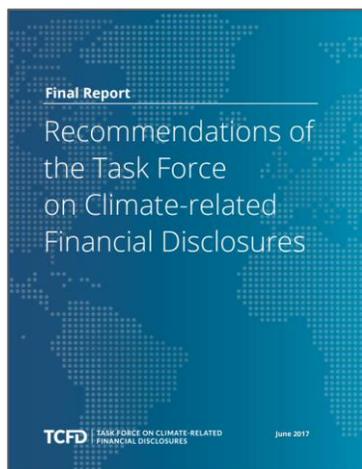
2 Climate Exposure Draft



Requirements for disclosure of material information about significant climate-related risks and opportunities

- Requires disclosure of information about;
 - physical risks (eg flood risk)
 - transition risks (eg regulatory change)
 - climate-related opportunities (eg new technology)

Relation to TCFD recommendations and SASB Standards



- Consistent with TCFD**
- Governance
 - Strategy
 - Risk management
 - Cross-industry metrics and targets
 - Illustrative guidance

- Builds on SASB Standards**
- Industry-based disclosures in Appendix B derived from SASB Standards
 - Proposed changes to:
 - Internationalise metrics
 - Add financed emissions disclosures

Governance

Proposed Climate Disclosure Requirements



“The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reporting to understand **the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities.**”

Strategy

Proposed Climate Disclosure Requirements



“The objective of climate-related financial disclosures on strategy is to enable users of general purpose financial reporting to understand **an entity’s strategy for addressing significant climate-related risks and opportunities.**”

Climate-related risks and opportunities

Business model and value chain

Strategy and decision-making

Financial position, financial performance and cash flows

Climate resilience

Strategy – Strategy and decision-making

Proposed Climate Disclosure Requirements



The effects of significant climate-related risks and opportunities on its strategy and decision-making, including its *transition plans*

How the entity plans to achieve any climate-related targets

- Current and anticipated changes to the entity's business model
- How these plans will be resourced

Information regarding climate-related targets for these plans

- The processes in place for review of the targets
- The amount of the entity's emission target to be achieved through emission reductions within the entity's value chain
- The intended use of **carbon offsets** in achieving emissions targets

Quantitative and qualitative information about the progress of plans

Strategy – Strategy and decision-making: Carbon offsets

Proposed Climate Disclosure Requirements



Information regarding climate-related targets for these plans

- The intended use of **carbon offsets** in achieving emissions targets



In explaining the intended use of carbon offsets, the entity shall disclose:

- the **extent** to which the targets rely on the use of carbon offsets;
- whether the offsets will be subject to a **third-party offset verification or certification scheme**, and if so, which scheme, or schemes
- the **type** of carbon offset, including:
 - whether the offset will be **nature-based or based on technological** carbon removals; and
 - whether the amount intended to be achieved is through **carbon removal or emission avoidance**
- **any other significant factors** necessary for users to understand the credibility and integrity of offsets intended to be used by the entity

Strategy – Financial position, financial performance and cash flows

Proposed Climate Disclosure Requirements



The effects of significant climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term:

How significant climate-related risks and opportunities have affected the entity's **most recently reported** financial position, financial performance and cash flows

How the entity expects its **financial position to change over time**, given its strategy to address significant climate-related risks and opportunities

How the entity expects its **financial performance to change over time**, given its strategy to address significant climate-related risks and opportunities

If the entity is *unable* to disclose quantitative information for the above, an explanation of why that is the case.

*When providing quantitative information, an entity can disclose **single amounts or a range**

Proposed Climate Disclosure Requirements



Strategy – Climate resilience

The proposals seek to enable users to understand the resilience of the entity’s strategy to climate-related changes, developments or uncertainties—taking into consideration an entity’s identified significant climate-related risks and opportunities and related uncertainties.

The entity shall use **climate-related scenario analysis** to assess its climate resilience unless it is *unable* to do so. If unable to do so, an entity shall explain why and use an alternative method or technique to assess its climate resilience.

An entity’s analysis of climate resilience must enable users to understand:

1. The implications (if any) for its strategy
2. The significant areas of uncertainty covered in the analysis
3. The entity’s capacity to adjust or adapt its strategy and business model over the short, medium and long term to climate developments

Risk management

Proposed Climate Disclosure Requirements



“The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reporting to **understand the process, or processes, by which climate-related risks and opportunities are identified, assessed and managed.**”

Metrics and targets

Proposed Climate Disclosure Requirements



“The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reporting to understand **how an entity measures, monitors and manages its significant climate-related risks and opportunities**. These disclosures shall enable users to understand how **the entity assesses its performance, including progress towards the targets it has set**”

Cross-industry metric categories

- Greenhouse gas emissions
- Transition risks
- Physical risks
- Climate-related opportunities
- Capital deployment
- Internal carbon prices
- Remuneration

Industry-based requirements

In preparing these disclosures, an entity shall consider whether **industry-based metrics** associated with disclosure topics could be used in whole or part to meet the requirements

Proposed Climate Disclosure Requirements



Metrics and targets – GHG Emissions



Greenhouse gas emissions

Absolute gross Scope 1-3 emissions* and emission intensity for each scope

For **Scope 1-2** emissions disclosed

- Disclose emissions separately for:
 - the consolidated accounting group (the parent and its subsidiaries);
 - associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group
- The approach used to include emissions for the entities includes as associates, joint ventures, unconsolidated subsidiaries or affiliates (for example, the equity share or operational control method in the Greenhouse Gas Protocol Corporate Standard)
- The reason for the choice of approach and how that relates to the disclosure objective for metrics and targets

For **Scope 3** emissions disclosed

- Includes upstream and downstream emissions
- The categories included to enable users to understand which Scope 3 emissions are included, or excluded
- When the entity's measure of Scope 3 emissions includes information provided by entities in its value chain, it shall explain the basis for that measurement
- If the entity excludes those GHG emissions, it shall state the reason for omitting them

* measured in accordance with the Greenhouse Gas Protocol Corporate Standard

Metrics and targets – Financed Emissions

Proposed Climate Disclosure Requirements



Context

- No explicit GHG emissions disclosure topic and metric(s) exist in the SASB's financials sector industries, despite the need for industry-based disclosure
- Differing, evolving methodologies remain at play
- Small piece of a larger puzzle e.g., portfolio alignment and target setting

Proposal

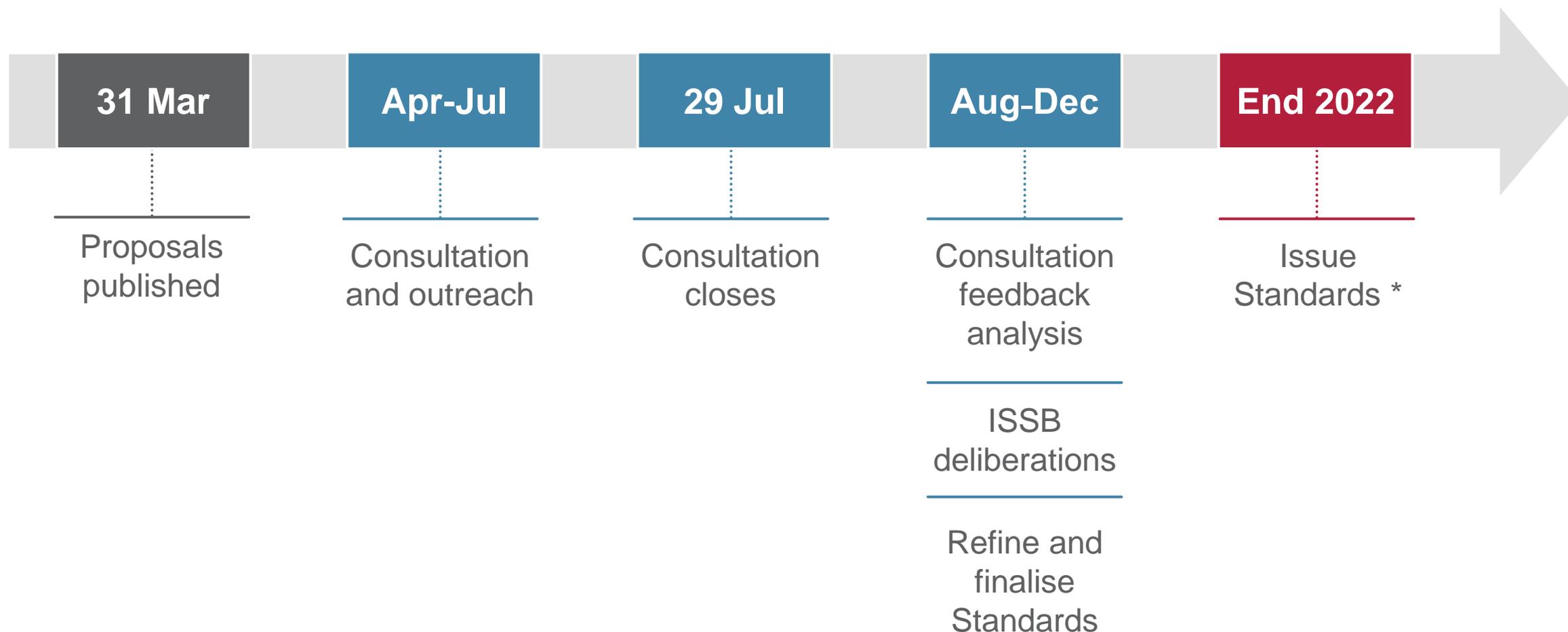
- New disclosure topic titled "**Transition Risk Exposure**" in 4 out of 7 **industries** in the financials sector.
- A description of the methodology used to calculate financed and facilitated emissions (all 4 industries)

Industry	Metric
<i>Commercial Banking</i>	<ul style="list-style-type: none">• Exposure to carbon related industries• Financed emissions (Scope 1, 2 & 3) at industry and asset class level
<i>Insurance</i>	
<i>Investment Banking and Brokerage</i>	<ul style="list-style-type: none">• Facilitated emissions (Scope 1, 2 & 3) by business line and industry• Revenue generated by business line and industry
<i>Asset Management and Custody Activities</i>	<ul style="list-style-type: none">• Financed emissions at AUM level

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. Additionally, there are dotted lines forming a grid-like pattern across the map, suggesting a global network or data flow.

Next steps

Next steps for the exposure drafts



* Dependent on feedback from the consultation

Other technical priorities

Taxonomy

Publish Taxonomy proposals to facilitate electronic tagging and presentation of disclosures

SASB Standards

Improve international applicability of the SASB Standards

Assume responsibility for SASB standards on consolidation of VRF

Work plan

Public consultation on future agenda, including

- Sustainability-related risks and opportunities the ISSB should prioritise
- Delivery plan for current SASB Standards projects