



IFRS® Foundation

# ISSB's proposed IFRS® Sustainability Disclosure Standards

Emerging Economies Group Meeting

EEG Agenda Paper 1  
May 2022

Background

Integration and compatibility

Exposure Draft 1 – General Requirements

Exposure Draft 2 – Climate

How to get involved

Next steps



1. **Establish** International Sustainability Standards Board (ISSB)
2. **Consolidate** Climate Disclosure Standards Board and Value Reporting Foundation (IIRC and SASB)
3. **Publish** general disclosure and climate prototypes as a precursor to ISSB proposals (exposure drafts)

# 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

# Seeking compatibility between IFRS Sustainability Disclosure Standards and GRI Standards

Agenda ref 1

## Announcement of intent to collaborate

IFRS Foundation and GRI announced Memorandum of Understanding on 24 March 2022

## First step

ISSB and GRI join each other's consultative bodies related to sustainability reporting activities

## Future work plan

Align, where possible, terminology, standards structure and metrics, helping to reduce the reporting burden for companies

# Significant progress since COP26

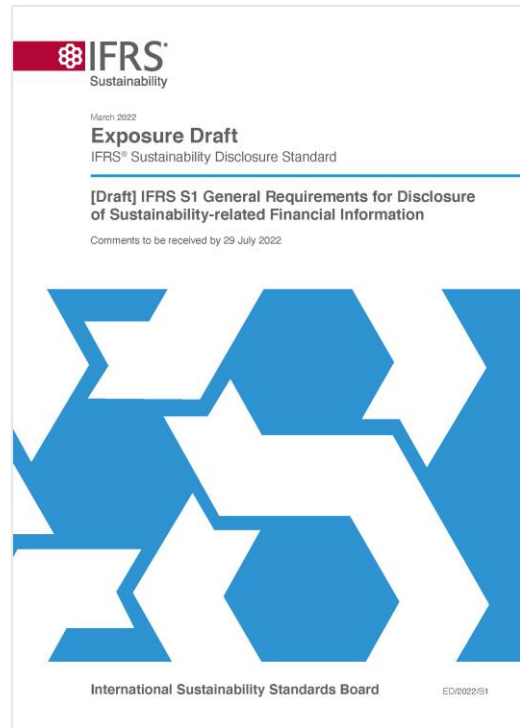
Agenda ref 1

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

# Two proposed IFRS Sustainability Disclosure Standards

Agenda ref 1

1



General Requirements  
Exposure Draft

2



Climate  
Exposure Draft

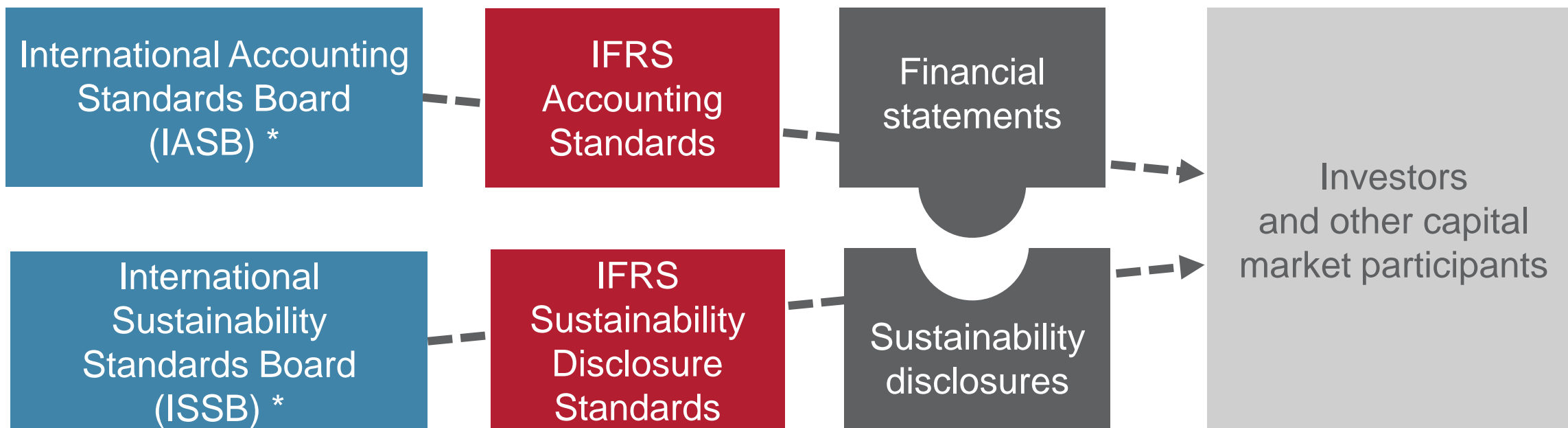
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# Integration and compatibility



# Achieving compatibility between IFRS Standards

Agenda ref 1



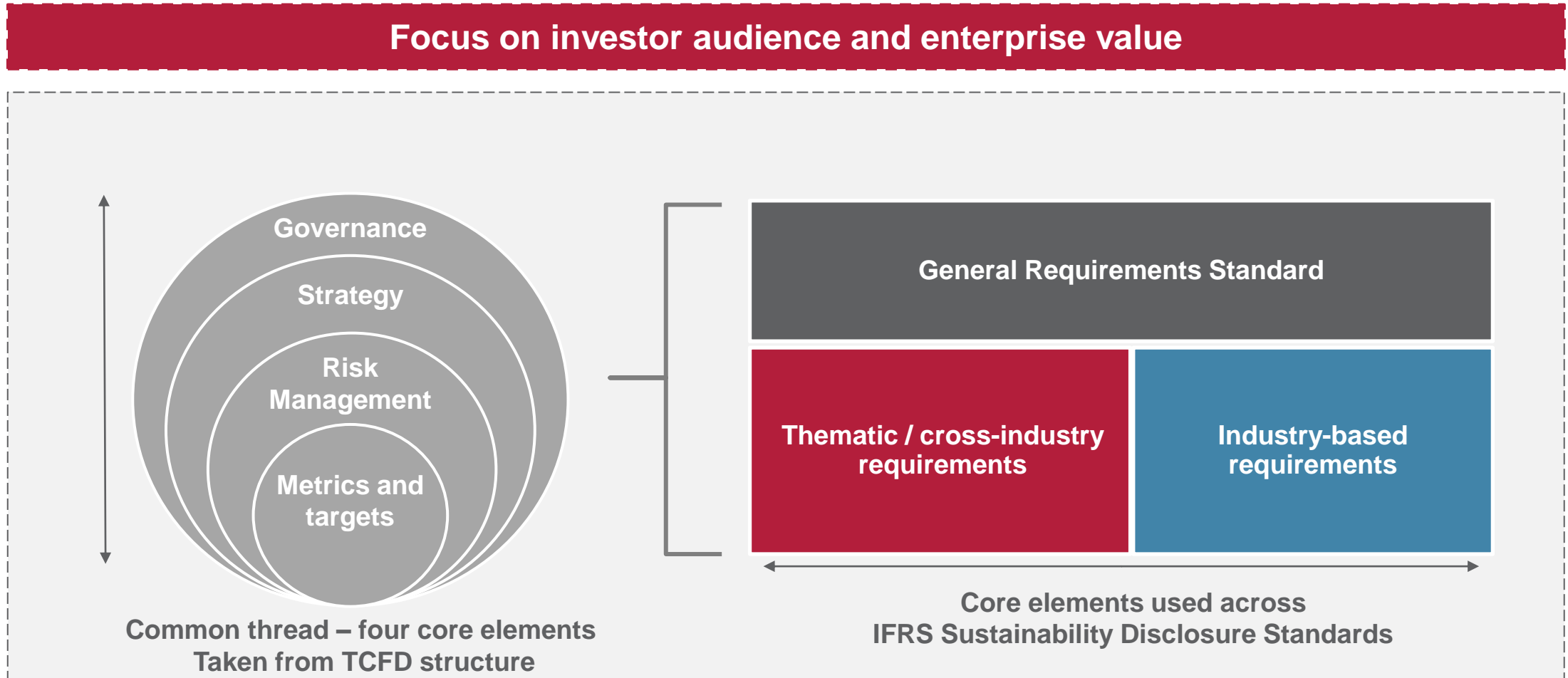
- Integrated Reporting Council to advise IASB and ISSB on connectivity via fundamental concepts / guiding principles of integrated reporting
- IFRS Sustainability Disclosure Standards compatible with IFRS Accounting Standards or other GAAP to meet investor needs

## General Requirements Exposure Draft

- Emphasises consistency and connections between financial statements and sustainability-related reporting
- Proposes that sustainability information be included in general purpose financial reporting—ie as part of the same package of reporting targeted at investors and other providers of financial capital

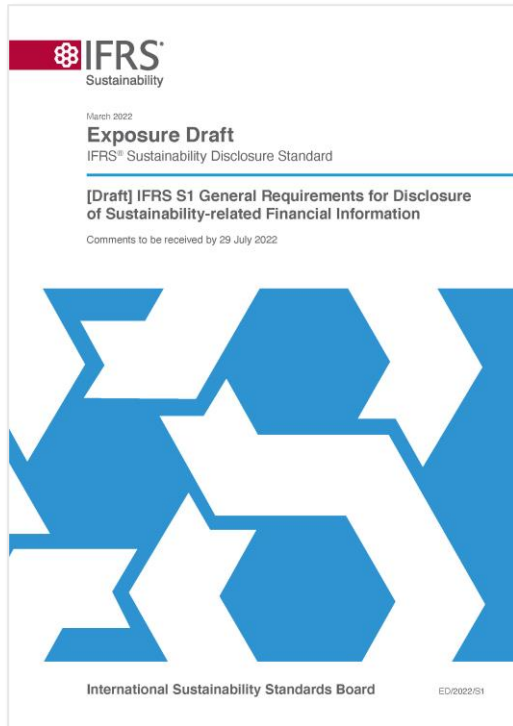
## Bigger picture

- The IFRS Foundation encourages adoption of the Integrated Reporting Framework
- The Integrated Reporting Framework and the IASB's Management Commentary provide a basis for connecting the reporting required by the IASB and ISSB





# 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:
  - SASB Standards are priority materials for identifying sustainability-related risks and opportunities and to develop appropriate disclosures
  - CDSB Framework and Guidance
- Equivalent to IFRS Accounting Standards IAS 1 and IAS 8

# Structure consistent with TCFD recommendations

Agenda ref 1

## 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 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

Agenda ref 1

## 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

- 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)



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

# When should sustainability-related financial disclosures be published?

Agenda ref 1

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*

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

Agenda ref 1

- 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

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.

# Comparative information, sources of estimation and outcome uncertainty, and errors

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Agenda ref 1

- **Comparative information (adapted from IAS 1)**
  - Comparative information required for all metrics and for narrative and descriptive sustainability-related financial disclosures if relevant
  - Not required to provide comparative information in the first year of application (transition relief)
- **Sources of estimation and outcome uncertainty, and errors (adapted from IAS 1 and 8)**
  - All changes in estimate and corrections of errors to be corrected by restating any comparative information provided
  - Contrasts with changes in estimates in financial statements which are recognised prospectively

- The proposal does not include a proposed effective date
- The ISSB will determine an effective date in the process of finalising the two IFRS Sustainability Disclosure Standards based on the comments it receives on the period of time that entities believe is necessary to apply the proposals and why
- Proposed that the Standards would be available for immediate voluntary adoption

# Qualitative characteristics of useful sustainability-related financial information

Agenda ref 1

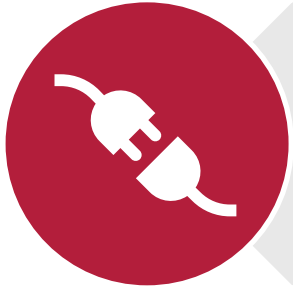
The proposals include guidance on the qualitative characteristics of useful sustainability-related financial information, adapted from the IASB's Conceptual Framework for Financial Reporting (Conceptual Framework)

- Fundamental qualitative characteristics
  - Relevance
    - Materiality: entity-specific aspect of relevance
  - Faithful representation
- Enhancing qualitative characteristics
  - Comparability
  - Verifiability
  - Timeliness
  - Understandability



The Exposure Draft includes Illustrative Guidance. This illustrates how assess materiality and how to identify sustainability-related risks and opportunities and disclosures in the absence of specific IFRS requirements. This guidance is illustrative and not mandatory

- Implementing materiality judgments
  - Making materiality judgment involves both qualitative and quantitative considerations (materials are consistent with IFRS Practice Statement 2 *Making Materiality Judgments*)
- Selecting sustainability-related financial disclosures
  - Illustrates how a company can use other sources of information to fulfil the requirements of the proposed Standards using
    - industry-based SASB Standards
    - CDSB Framework application guidance for water- and biodiversity-related disclosures



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

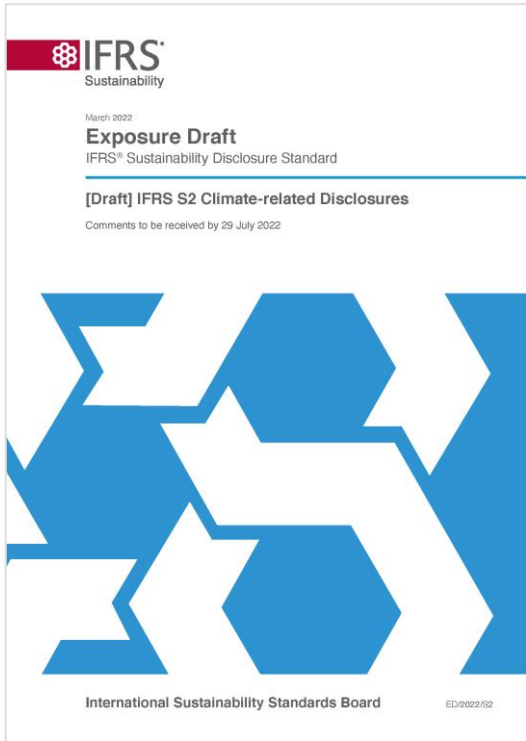
- not specifying a particular location for sustainability information
- allowing additional information to be provided



# Climate Exposure Draft

# 2 Climate Exposure Draft

Agenda ref 1



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

- Incorporates TCFD recommendations
- Includes SASB's climate-related industry-based requirements
- Requires disclosure of information about;
  - physical risks (eg flood risk)
  - transition risks (eg regulatory change)
  - climate-related opportunities (eg new technology)

# Requires information that enables investors to...

Agenda ref 1

- determine the effects of climate-related risks and opportunities on the company's enterprise value
- understand the company's response to and strategy for managing its climate-related risks and opportunities
- evaluate the ability of the company to adapt its planning, business model and operations to climate-related risks and opportunities

## Consistent with the General Requirements Exposure Draft

- focus is on significant climate-related risks and opportunities
- information provided must be material for assessments of enterprise value

# Relation to TCFD recommendations and SASB Standards

Agenda ref 1



- ←
- 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



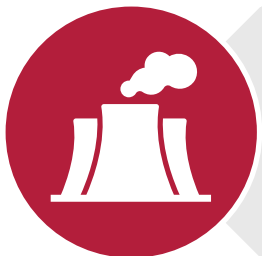
## Transition planning

Emissions targets and use of carbon offsets



## Climate resilience

Resilience of business strategy in multiple scenarios



## Scope 1-3 emissions

Requirement to disclose GHG emissions

## 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.**”



## 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



Agenda ref 1

## 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 – Climate resilience

Agenda ref 1

## Proposed Climate Disclosure Requirements



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



# Strategy – Climate resilience

Agenda ref 1

## Proposed Climate Disclosure Requirements



Climate-related scenario analysis	Alternative method or technique
Which scenarios were used and their sources	Explanation of the methods or techniques used (e.g., sensitivity analysis)
Whether the analysis compared a diverse range of climate-related scenarios	Climate-related assumptions used including whether those include a range of hypothetical outcomes
Whether the scenarios are associated with transition risks or increased physical risks	
Whether the entity has used a scenario aligned with latest international agreement on climate change	
Why the chosen scenarios are relevant to the assessment	Why the chosen climate-related assumptions are relevant to assessing climate resilience
Time horizons used in the analysis	
Inputs used in the analysis (e.g., scope of operations covered)	
Assumptions about the way the transition to a lower-carbon economy will affect the entity	

## 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

Agenda ref 1

## 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



# Metrics and targets – GHG Emissions

Agenda ref 1

## Proposed Climate Disclosure Requirements



### 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 – International Applicability

Agenda ref 1

## Proposed Climate Disclosure Requirements



### Context

- The TRWG climate prototype, issued in November 2021, included **341 industry-based disclosure topics and associated performance metrics** sourced from SASB Standards.
- 11% of the metrics exhibited a regional bias that may inhibit application across jurisdictions. This regional bias was found in the underlying technical protocol; not in the core concepts.

### Proposal

- Designed and executed 12 workstreams (technical research and targeted consultation)
- Proposed enhancements to **36 metrics**, e.g.:

	Former	Proposal
Electric Utilities industry: “smart grid technology”	US Energy Independence Act	IEA
Across nine industries: “renewable fuel”	US Renewable Fuel Standard	Generic definition
Across three industries: energy efficiency of products	EnergyStar (US EPA)	Refers to jurisdictional standards



# Metrics and targets – Financed Emissions

Agenda ref 1

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

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 global connectivity or a network.

# Call to action and next steps

# Consultation package & communication materials Agenda ref 1

General Requirements Exposure Draft	Climate Exposure Draft	Other materials
<ul style="list-style-type: none"> <li>• Draft Standard</li> </ul>	<ul style="list-style-type: none"> <li>• Draft Standard                             <ul style="list-style-type: none"> <li>- including Appendix B industry-based disclosure requirements</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Press release</li> </ul>
<ul style="list-style-type: none"> <li>• Basis for Conclusions</li> </ul>	<ul style="list-style-type: none"> <li>• Basis for Conclusions</li> </ul>	<ul style="list-style-type: none"> <li>• Snapshot (high-level summary)</li> </ul>
<ul style="list-style-type: none"> <li>• Illustrative Guidance</li> </ul>	<ul style="list-style-type: none"> <li>• Illustrative Guidance</li> </ul>	<ul style="list-style-type: none"> <li>• Video</li> </ul>
		<ul style="list-style-type: none"> <li>• Comparison of Climate ED &amp; TCFD</li> </ul>
		<ul style="list-style-type: none"> <li>• Comparison of TRWG prototypes and Exposure Drafts</li> </ul>

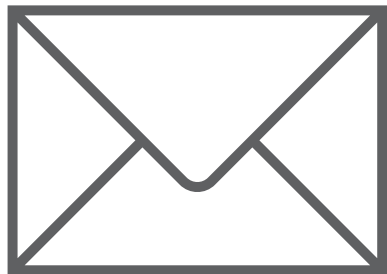
# How to comment on the proposals?

Agenda ref 1



Survey

or



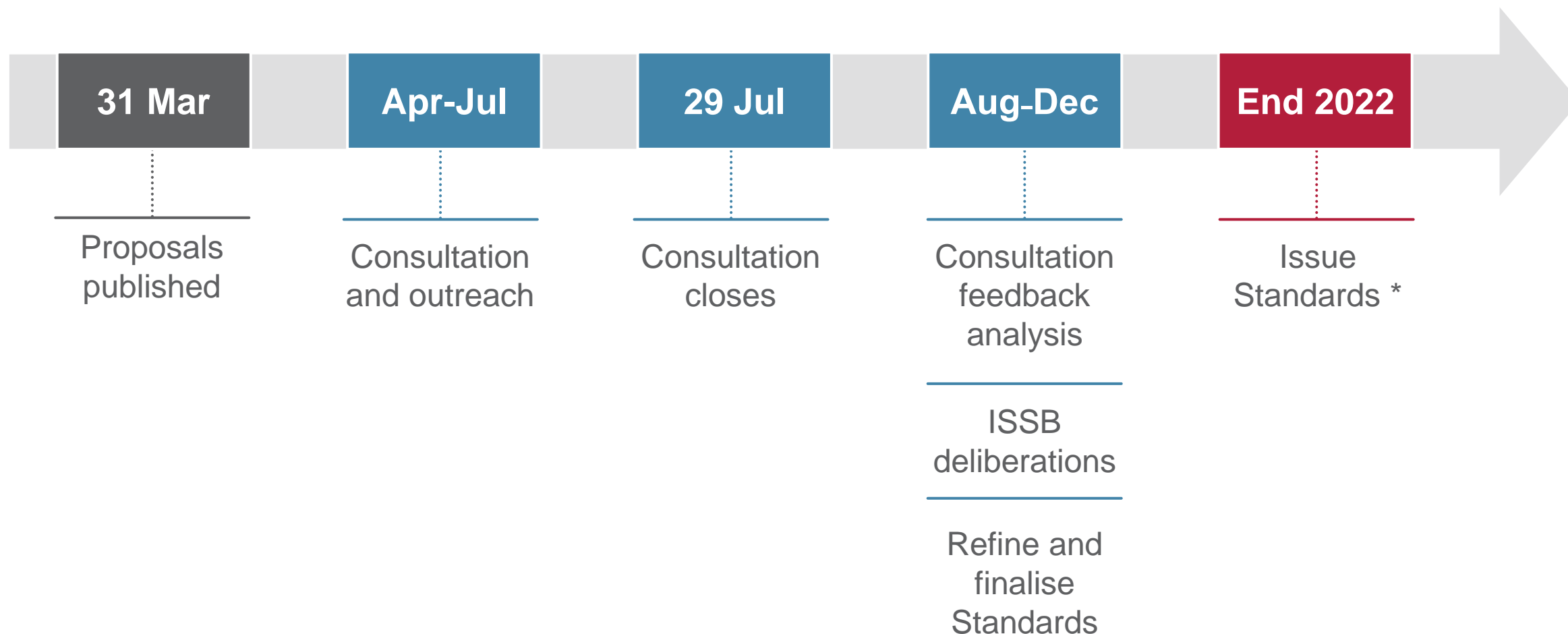
Comment letter

**Visit:**  
[ifrs.org/projects/open-for-comment/](https://ifrs.org/projects/open-for-comment/)

Comments are published on [ifrs.org](https://ifrs.org)

# Next steps for the Exposure Drafts

Agenda ref 1



\* Dependent on feedback from the consultation

## 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

# How ISSB will build on SASB Standards

Agenda ref 1

<b>Industry-based approach</b>	ISSB will embed SASB's industry-based approach into its standard-setting process
<b>Inclusion in exposure drafts</b>	SASB Standards play a key role in the General Requirements and Climate Exposure Drafts
<b>Internationalisation</b>	Addressing the international applicability of SASB Standards is a priority for the ISSB
<b>Starting point</b>	SASB Standards will serve as the starting point for the ISSB's industry-based requirements and the ISSB will assume responsibility for the evolution and enhancement of SASB's 77 industry-based Standards
<b>Project continuity</b>	Ongoing projects by the SASB will be transitioned to the ISSB
<b>Encourage use</b>	The ISSB encourages companies and investors to support and use SASB Standards in this transition phase

# Next steps – institutional

Agenda ref 1

Appointments

Remaining ISSB members

Advisory groups

Formalise groups and appoint members

Consolidation

CDSB completed (Jan 2022); VRF by end of June 2022

Locations

Implement multi-location approach for global footprint

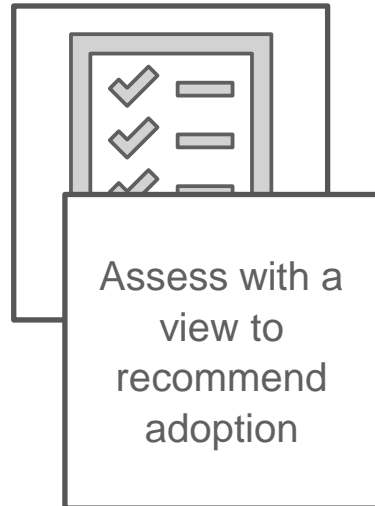


# Adoption ecosystem

## ISSB



## IOSCO



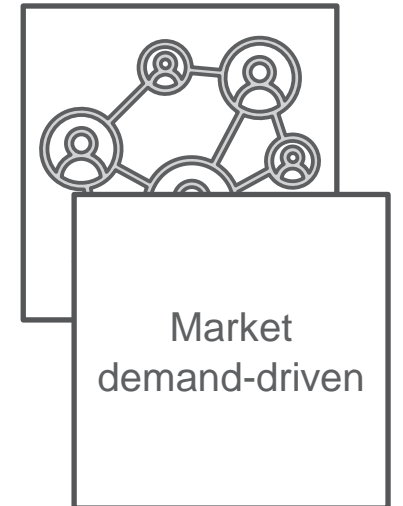
## IAASB

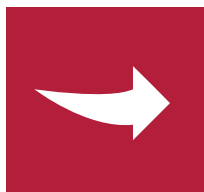


## Jurisdictions



## Voluntary





Continue applying existing standards and frameworks



Respond to the ISSB's consultation and build capacity to engage in the ISSB's development of standards on an ongoing basis



Engage with relevant jurisdictions' consultations



Sign up for alerts – [ifrs.org/dashboard](https://ifrs.org/dashboard)

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