IFRS Sustainability

Staff paper

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ISSB meeting

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Project	**General Sustainability-related Disclosures**
Topic	**Sources of guidance to identify sustainability-related risks and opportunities and disclosures**
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Objective

1. This paper discusses the sources of guidance to identify sustainability-related risks and opportunities and related disclosures in paragraphs 50-54 of the Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ([draft] S1) within the 'fair presentation' section.

2. The objective of this paper is to:

   (a) describe the feedback related to the sources of guidance in paragraphs 50-54 of [draft] S1;

   (b) seek the ISSB's feedback on the staff's analysis and recommendations; and

   (c) seek decisions from the ISSB on the staff's recommendations for revising the sources of guidance, including the overall approach on referencing materials, the specific materials to reference and the nature of each reference.

Summary of the staff's recommendations

3. The staff is seeking decisions from the ISSB on its recommendations summarised below and that are described more fully in paragraphs 63-91.

   (a) Staff recommendation 1: Overall approach on referencing guidance—the staff recommends that the ISSB:

      (i) Confirm the general approach used in [draft] S1 to reference materials other than IFRS Sustainability Disclosure Standards (paragraphs 50-54 in [draft] S1)—noting specific modifications recommended by the staff below;

      (ii) Provide further clarity on what is required when considering the materials referenced and the possible implications—specifically, state that a preparer is generally expected to have a process in place to consider the materials and that this process may result in not applying the materials (based on the objectives and other requirements throughout [draft] S1); and

      (iii) Clarify for each of the materials referenced, if a preparer is required to consider these materials or if consideration is permitted as an option—in other words, use 'shall consider' or 'may consider' (see staff recommendations 3-6 for specific recommendations on how the staff proposes this applies to each set of materials).

(b) Staff recommendation 2: Overarching requirements for using other materials—the staff recommends that the ISSB confirm the requirements in paragraph 53 of [draft] S1.

(c) Staff recommendation 3: SASB Standards—the staff recommends that the ISSB confirm the requirement to consider the SASB Standards as proposed in paragraphs 51(a) and 54 in [draft] S1.

(d) Staff recommendation 4: CDSB Framework—the staff recommends that the ISSB amend the reference to the CDSB Framework application guidance (paragraphs 51(b) and 54 in [draft] S1) to state that preparers may consider these materials, both in the identification of sustainability-related risks and opportunities and in the identification of disclosures about those risks and opportunities, but that such consideration is not a requirement (amend from 'shall consider' to 'may consider').

(e) Staff recommendation 5: Open ended sources of guidance—the staff recommends that the ISSB amend the references to 'other standard-setting bodies' (paragraphs 51(c) and 54 in [draft] S1) and 'entities that operate in the same industries or geographies' (paragraphs 51(d) and 54) to state that preparers may consider such sources, both in the identification of sustainability-related risks and opportunities and in the identification of disclosures about those risks and opportunities, but that such consideration is not a requirement (amend from 'shall consider' to 'may consider').

(f) Staff recommendation 6: Global Reporting Initiative (GRI) Standards and European Sustainability Reporting Standards (ESRS)—the staff recommends that the ISSB amend the sources of guidance to explicitly state that preparers may consider the GRI Standards and ESRS to identify disclosures about sustainability-related risks and opportunities that meet the objectives of [draft] S1.

Structure of the paper

4. This paper is structured:

(a) Background (paragraphs 5-10);

(b) Feedback received on fair presentation and sources of guidance (paragraphs 11-28);

(c) Staff discussion (paragraphs 29-62);

(d) Staff recommendations (paragraphs 63-91);

(e) Questions for the ISSB (paragraph 92);

(f) Next steps (paragraphs 93-94).

Background

5. [Draft] S1 includes proposed objectives and describes the information needs of primary users that are required to be met. [Draft] S1 sets out requirements and illustrative guidance to help preparers identify the sustainability-related risks and opportunities and disclosures necessary to meet the objectives of the [draft] Standard.

6. [Draft] S1 requires an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. To enable this requirement to be met, [draft] S1 proposes specific requirements and other guidance on how to identify the sustainability-related risks and opportunities to provide information about. Specifically, an entity is required to refer to IFRS

Sustainability Disclosure Standards and identified disclosure topics and also to consider other specified materials. In order to identify disclosures, including metrics, about those sustainability-related risks and opportunities, an entity is required to refer to relevant IFRS Sustainability Disclosure Standards. In the absence of a relevant IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk or opportunity, an entity is required to apply judgment to develop appropriate disclosures to meet the information needs of the users of general purpose financial reporting. In making that judgement, management is required to consider, to the extent that these do not conflict with an IFRS Sustainability Disclosure Standard, other specified materials. In both of these cases the materials referred to include the SASB Standards, the ISSB's non-mandatory guidance (including the CDSB Framework), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting and industry practice. These proposed requirements in [draft] S1 are primarily in the 'fair presentation' section—specifically paragraphs 50-54 of [draft] S1.

7. These proposed requirements were included in [draft] S1 to enable entities to meet the requirement to provide information on all significant sustainability-related risks and opportunities. These requirements will always be necessary in order to enable the overarching objective of [draft] S1 to be met, particularly given that the information needs of users of general purpose financial reporting in relation to sustainability-related risks and opportunities are continuously evolving (ie it is difficult to imagine that IFRS Sustainability Disclosure Standards will provide specific guidance in all circumstances). It is also noted that these requirements are particularly important at this time, as the ISSB has only proposed specific disclosures in relation to climate-related risks and opportunities.

8. Separately, the ISSB is advancing its consultation on agenda priorities to identify priorities for future research and standard setting. As the ISSB issues further IFRS Sustainability Disclosure Standards, preparers will be required to apply those applicable IFRS Sustainability Disclosure Standard for requirements that apply to specific sustainability-related risks and opportunities. Thus, over time, the extent to which entities will be required to refer to these additional materials will diminish.

9. [Draft] S1 also permits entities to report information disclosed to meet other requirements (for example, to meet public policy objectives and jurisdictional regulatory requirements) alongside information required by IFRS Sustainability Disclosure Standards. However, an entity is required to ensure that such disclosures do not obscure the information required by IFRS Sustainability Disclosure Standards. This emphasises the objective of the global baseline by enabling IFRS Sustainability Disclosure Standards to be interoperable with other jurisdictional reporting requirements while remaining focused on meeting the needs of the capital markets.

10. [Draft] S1 included an Invitation to Comment, soliciting public feedback on its proposals. Many respondents provided feedback on the use and meaning of the terms and fundamental concepts of [draft] S1. The ISSB tentatively agreed on the staff's proposals on the [draft] S1 topics for redeliberation as outlined at the September 2022 ISSB meeting in Agenda Paper 3B and 4B *General Sustainability-related Disclosures and Climate-related Disclosures—Plan for redeliberations*. One of the fundamental topics included in the plan for redeliberations is identifying significant sustainability-related risks and opportunities and disclosures (using sources of guidance, including the materials of other standard setters). Lastly, the staff notes that in its October meeting, the ISSB tentatively decided to remove the word 'significant' from the proposed requirements to describe which sustainability-related risks and opportunities an entity would be required to disclose, and to continue to redeliberate the application of materiality and the process used by preparers to identify risks and opportunities in order to provide useful information to primary users.

Feedback received on fair presentation and sources of guidance

11. Respondents were generally supportive of the proposed requirements related to fair presentation (question 7 in the Invitation to Comment). This is, in part, evidenced by a majority of respondents that generally agreed that the proposal was clear. Respondents' suggestions and concerns focused on a few areas within the 'fair presentation' section. This includes a range of feedback on the use of the term 'significant' in the context of identifying disclosures about 'significant sustainability-related risks and opportunities', and feedback on the sources of guidance in paragraphs 51 and 54 of [draft] S1 to identify sustainability-related risks and opportunities and related disclosures—and how entities are directed to use those materials.

12. The term 'significant', as it was originally used in [draft] S1, had a similar purpose to the sources of guidance in paragraphs 51 and 54 of [draft] S1, as it was intended to help preparers narrow down and identify the particular sustainability-related risks and opportunities they are required to provide information about from the broad range of topics they could potentially report on. In its October meeting, the ISSB decided they would prefer to remove this term following respondent feedback that it was confusing and subject to interpretation, and instead to provide guidance about the process to be undertaken to determine which sustainability-related risks and opportunities to provide information about. However, the staff notes that the decision to remove 'significant' further increases the relevance of, and emphasis on, the sources of guidance in paragraphs 51 and 54 of [draft] S1, especially when used to identify the sustainability-related risks and opportunities (ie topics) to provide disclosures about.

Support for approach on providing sources of guidance in [draft] S1

13. Many respondents agreed with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures. Respondents often stated that they support the ISSB's approach of building on established sustainability reporting standards and frameworks, including the role that existing standards and frameworks, such as the SASB Standards and CDSB Framework application guidance, can serve in helping to comply with the proposed requirements in [draft] S1. Overall, the staff concludes that respondents were primarily concerned with a few specific aspects of paragraphs 51 and 54 in [draft] S1, as opposed to the overall approach of referencing existing disclosure standards and frameworks and industry practice.

14. Comment letters received in response to [draft] S1, as well as outreach conducted by the staff in connection with the consultation, underscore the importance of providing specific tools and guidance for identifying sustainability-related risks and opportunities and related disclosures. Absent such guidance, stakeholders expressed concern about the burden for preparers, especially smaller entities and those new to sustainability reporting, and the risk that disclosures could lack comparability and usefulness for users of general purpose financial reporting.

Feedback on the SASB Standards as a source of guidance

15. Some respondents, including many users of general purpose financial reporting, emphasised the importance of an industry-specific approach to identifying sustainability-related risks and opportunities and related disclosures. Many of these respondents supported the SASB Standards specifically as an important resource in identifying such risks, opportunities and disclosures, while further commenting that [draft] S1 should provide greater clarity on the role of the SASB Standards.

16. Of respondents who commented on the industry-specific approach, almost all were supportive of the general idea, with support being very high among respondents from North America as well as among users of general purpose financial reporting. Many users indicated that their support for industry-specific disclosures is due to the variability of sustainability-related risks and opportunities by industry. These users often also noted that industry-specific disclosures enable better comparisons between

peer companies, which is aligned with how these respondents conduct research and make investment decisions. Finally, users noted that the SASB Standards were specifically developed to meet their information needs rather than the needs of a broader set of stakeholders, and that the SASB disclosure topics and associated metrics were designed to identify material information that would help them determine whether to provide resources to the entity or affect their assessment of the entity's value.

17. However, many respondents raised concerns related to the reference to the SASB Standards and its prominent role in the sources of guidance listed in paragraphs 51 and 54 of [draft] S1. These concerns included the following:

(a) some respondents, including many from Asia-Oceania, encouraged the ISSB to seek additional market input to ensure that the SASB Standards are applicable for a wide range of stakeholders worldwide;

(b) some respondents expressed their view that the SASB Standards were initially developed for use in a particular market and without robust input from global stakeholders. They also noted that these standards were developed without the oversight of the ISSB;

(c) some respondents stated that the SASB Standards may be unfamiliar to stakeholders in some jurisdictions, and that learning to use them for the first time could increase the reporting burden for many preparers;

(d) a few respondents stated their view that the SASB Standards lack completeness, as they do not contain comprehensive, industry-agnostic disclosure requirements on sustainability-related issues, such as human capital; and

(e) a few respondents stated that it is challenging for preparers with a conglomerate structure to identify the appropriate industry (or industries) they should refer to in the SASB Standards to determine which sustainability-related risks and opportunities to report on and the disclosures and metrics to use.

Concerns on open-ended sources of guidance

18. Some respondents, including many accounting firms and some preparers, raised concerns with the open-ended nature of paragraph 51(c)-(d) in [draft] S1 (and the corresponding language in paragraph 54). These paragraphs require an entity to consider, in addition to IFRS Sustainability Disclosure Standards (or in the absence of an applicable IFRS Sustainability Disclosure Standard), as relevant:

> c) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting; and
>
> d) the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

19. Respondents acknowledged that an objective of the ISSB is to simplify the disclosure landscape and reduce the burden on preparers to review numerous disclosure standards and frameworks. However, some respondents commented that these proposals could be interpreted as requiring preparers to review *all* possible relevant sources of disclosure guidance in the reporting landscape. Some respondents, particularly accounting firms, commented directly on the challenges of verifying these requirements (ie the difficulty of verifying whether the extensive range of sources had been considered by an entity as required by the proposals).

20. Similarly, regarding paragraph 51(d) in [draft] S1 (and the corresponding proposal in paragraph 54), some respondents stated that while the disclosures of similar companies may be informative, the requirement could be interpreted as requiring preparers to review risks and opportunities identified by *all* companies operating in the same industry or geography. These respondents stated that this could be a very large set of disclosures and thereby significantly increase the costs of applying [draft] S1.

21. Overall, many respondents noted that the open-ended nature of these requirements, without prioritisation, could be burdensome, provide verifiability challenges and result in disclosures that are not comparable given the variety of sources entities are required to consider. In other words, both the costs and benefits of the approach [draft] S1 took on these open-ended sources of guidance were questioned, largely in the context of the proposed requirement that preparers 'shall consider' such materials (see below for further discussion).

Concerns about the requirement to 'consider' sources of guidance

22. Paragraph 51 of [draft] S1 states that preparers 'shall consider' the sources of guidance listed in the following sub-paragraphs (a)–(d). Paragraph 54 also proposes that an entity 'shall consider' the same list of materials. By using 'shall consider' instead of 'shall apply' and by referring to a range of source materials, it is more likely that entities would be able to identify relevant materials to enable them to meet the objectives of [draft] S1. It also would facilitate transition by enabling more entities to continue their existing disclosure practices when they are already providing disclosures about sustainability-related risks and opportunities, and reduce the burden for preparers who may already be familiar with certain sources of guidance referenced, by enabling them to leverage those sources to meet the requirements of [draft] S1.

23. However, some respondents, including many accounting firms and some preparers, noted that 'shall consider' *requires* consideration of the materials listed. Specifically, these respondents noted that this language requires a preparer to consider *all* the materials listed, and possibly apply some or all of those materials, which led them to comment on the potentially large burden these requirements would place on preparers and assurance providers.

24. Several assurance providers commented that it was not clear how a preparer could demonstrate that the sources of guidance were actually considered. Questions were also raised about when a preparer can 'consider' these sources of guidance but not apply them while still meeting the requirements of [draft] S1.

25. Some respondents suggested that, instead of the 'shall consider' language in paragraphs 51 and 54 in [draft] S1, the proposals could be modified to 'may consider' for some or all of the sources of guidance listed.

Support for additional resources

26. [Draft] S1 referred to the SASB Standards and the ISSB's non-mandatory guidance along with the most recent pronouncements of other standard setters. However, the requirements of other standard setters were limited to those 'whose requirements are designed to meet the needs of users of general purpose financial reporting'.

27. Many respondents noted that there are additional sustainability disclosure standards and frameworks that are in use (or under development), such as the GRI Standards, the ESRS, those provided by the World Economic Forum (WEF), the International Organization for Standardization (ISO) and others that could be of value in identifying sustainability-related risks and opportunities and related disclosures. Some respondents supported the incorporation or reference of specific standards or

frameworks among these as guidance. Others noted that given the wide range of frameworks, the ISSB should avoid trying to publish an exhaustive list of specific materials to reference.

28. In particular, respondents pointed to the GRI Standards and ESRS as key frameworks for interoperability considerations. Some respondents, including preparers and public interest groups, especially from Europe, suggested expanding the list of resources to include these. These respondents noted the widespread use of GRI Standards and anticipated use of ESRS, which could increase the burden for preparers if those materials cannot be used to determine what sustainability-related risks and opportunities should be reported on and as a basis for developing appropriate disclosures.

Staff discussion

Using sources of guidance other than IFRS Sustainability Disclosure Standards

29. As noted above, preparers are directed to consider additional sources of guidance, including the materials of some other standard setters, to guide the identification of sustainability-related risks and opportunities to report on and, in the absence of an IFRS Sustainability Disclosure Standard that is specifically applicable, in the development of disclosures to meet the requirements in [draft] S1.

30. The purpose of referring to these sources of guidance is to provide a clear range of relevant materials to be considered, and thus improve the ease of reporting for preparers and increase the comparability of disclosures. The particular materials referenced were selected with the objective of identifying sources that were likely to result in the provision of information that would enable entities to meet the objectives of [draft] S1, including its focus on meeting the information needs of primary users. The sources of guidance may be particularly useful for entities that are newer to sustainability reporting. The list of investor focused sources of guidance was intended to help entities understand the requirements of IFRS Sustainability Disclosure Standards and how they may reconcile with existing sustainability disclosures.

31. As the ISSB continues to develop additional IFRS Sustainability Disclosure Standards, preparers will have less need to rely on the sources of guidance referenced in [draft] S1 because those IFRS Sustainability Disclosure Standards will identify sustainability-related risks and opportunities to report on and set out disclosures designed to meet the needs of users of general purpose financial reporting. Essentially, there will be less gaps to fill as the range of IFRS Sustainability Disclosure Standards is built out.

Clarifying the distinction between the identification of sustainability-related risks and opportunities versus the disclosure of related information

32. The process of (a) identifying sustainability-related risks and opportunities and (b) identifying appropriate information to disclose about those risks and opportunities, is intended to be a two-step process. Some respondents suggested that the ISSB consider providing further clarity and guidance that explains this differentiation and the process to be followed.

33. The fair presentation section of [draft] S1 includes requirements and guidance on how preparers should approach each step of the process, with the first step being covered in paragraph 51 and the second being covered in paragraphs 52-54.

34. First, preparers need to identify the set of sustainability-related risks and opportunities to provide information about. Once a preparer has identified the set of sustainability-related risks and

opportunities to provide information about, they need to identify the metrics and information to disclose about those sustainability-related risks and opportunities.

35. This two-part structure and process aligns with the structure of many commonly used sustainability reporting frameworks and should be generally familiar to entities who already prepare sustainability reports. Even for those preparers newer to sustainability reporting, the two-part part process is likely to be intuitive and help guide them through the process of narrowing down a broad set of information to identify material disclosures that meet the objectives of [draft] S1.

Sources of guidance currently referenced in [draft] S1

36. The proposals in paragraphs 51-54 in [draft] S1 were based on similar requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which specify how to develop an accounting policy in the absence of a directly applicable IFRS Accounting Standard (IAS 8.10-12).

37. Like this requirement in IAS 8, these proposals were intended to provide direction to an entity in the absence of directly applicable IFRS requirements. The inclusion of other sources of guidance in [draft] S1 was intended to provide a roadmap for preparers about the appropriate use of other standards and frameworks to produce decision-useful disclosures about sustainability-related risks and opportunities for users of general purpose financial reporting. It also enables entities to provide material information on all significant sustainability-related risks and opportunities as required by [draft] S1. This guidance is particularly useful in the early days of the ISSB's standard setting, while a range of IFRS Sustainability Disclosure Standards are developed. Absent this guidance when S1 is published, an entity would lack a clear basis for meeting the requirements in [draft] S1 for sustainability-related risks and opportunities other than those related to climate.

38. The SASB Standards and CDSB Framework leverage many years of standard setting and framework development that has identified sustainability-related risks and opportunities relevant to the capital markets. This suggested guidance aims to increase the comparability of disclosures, so that preparers that are exposed to similar risks and opportunities provide more comparable disclosures that are relevant to investors. Both of these sources are materials of the ISSB following consolidation of the Value Reporting Foundation and the Climate Disclosure Standards Board and are now governed by the ISSB.

39. The CDSB Framework technical guidance includes the CDSB Framework that covers the disclosure of environmental and social information, and the CDSB Framework application guidance for water- and biodiversity-related disclosures.

40. The industry-based SASB Standards have the same objective of [draft] S1, that is, to facilitate the disclosure of sustainability-related information to meet the needs of primary users of general purpose financial reporting. The SASB disclosure topics offer a helpful way to identify sustainability-related risks and opportunities for this purpose, and thus are likely to be relevant for many preparers as they seek to meet the objectives of [draft] S1.

Global baseline interoperability considerations

41. The objective of the ISSB—and IFRS Sustainability Disclosure Standards—is to develop a comprehensive global baseline of sustainability-related disclosures to meet the needs of the capital markets. The ISSB's global baseline presents a unique opportunity to reduce fragmentation of sustainability disclosure requirements. International collaboration in the development of the global baseline is essential to create a disclosure system that can be implemented globally, resulting in a consistent approach across markets.

42. [Draft] S1 builds upon and incorporates sustainability disclosure standards and frameworks that are largely investor focused, including those of the Task Force on Climate-related Financial Disclosures (TCFD), CDSB, SASB, and the Integrated Reporting Framework.

43. In addition to the frameworks and standards currently incorporated within the two [draft] IFRS Sustainability Disclosure Standards, the IFRS Foundation also entered into a cooperation agreement with GRI to further harmonise the sustainability reporting landscape at an international level. IFRS Sustainability Disclosure Standards and GRI Standards can be viewed as two interconnected reporting pillars that can work together to form a comprehensive corporate reporting regime for the disclosure of sustainability information.

44. GRI is the most widely accepted global framework for voluntary corporate reporting of environmental and social performance and has been adopted by thousands of businesses across many jurisdictions. Given the fact that many preparers currently use GRI to develop multi-stakeholder sustainability reports, providing guidance on how to leverage and connect GRI Standards with the IFRS Sustainability Reporting Standards may reduce the reporting burden, avoid confusion and duplication, and produce a full set of sustainability reporting.

45. As noted above, the feedback on the ISSB's exposure drafts also showed strong demand for achieving greater interoperability with jurisdictional requirements. Most notably, many respondents noted the importance of achieving interoperability with the proposals published in Europe and the US.

46. There is specific urgency in relation to the ISSB working with the European Financial Reporting Advisory Group's (EFRAG) Sustainability Reporting Board on achieving greater alignment with their proposed ESRS. This is more fully described in Agenda Paper 3C & 4D *Interoperability—key matters* for the October meeting. Given that European preparers and many preparers with operations in the EU will be required to apply ESRS, it is important that the ISSB consider ways to achieve interoperability with the ESRSs. This will enable entities that need to or choose to apply both ESRS and IFRS Sustainability Disclosure Standards to do so in a more efficient manner (reducing potential duplication in reporting), which can also help improve comparability for investors.

47. The Staff notes that at the October board meeting, the ISSB confirmed its focus on meeting the information needs of primary users. It is thus important that the information provided when entities use other guidance in meeting the requirements in [draft] S1 is relevant to meeting the needs of primary users. This is why the guidance proposed in [draft] S1 referred to the pronouncements of standard setters *whose requirements are designed to meet the needs of users of general purpose financial reporting*.

48. It may be useful to include GRI and/or ESRS within the other sources of guidance in [draft] S1 to help preparers identify information and metrics for sustainability-related risks and opportunities to which they are exposed. However, preparers would first need to identify the specific sustainability-related risks and opportunities that could reasonably be expected to affect its business model, strategy or cash flows over the short, medium and long term (consistent with the objectives of [draft] S1). The question is whether it would then be appropriate, in the absence of an IFRS Sustainability Disclosure Standard that applies to the specific sustainability-related risk or opportunity, for preparers to be able to consider referring to ESRS and/or the GRI Standards when identifying information and metrics to disclose.

49. Although ESRS and GRI are not written solely with an investor focus, investors are one of the users included in their broader set of stakeholders. Therefore, these standards are designed to include a focus on meeting investor information needs to some capacity.

50. Referring to materials that extend beyond purely investor-focused disclosures is not viewed by the staff as fundamentally changing or conflicting with the existing objective of [draft] S1, especially if those frameworks are only used to the extent that they help meet the needs of the investor audience. This may also help reduce costs of preparing disclosures. Additionally, this may help explicitly confirm that IFRS Sustainability Disclosure Standards are intended to be interoperable with frameworks and regulatory requirements across the sustainability reporting landscape.

51. Importantly, paragraphs 50 and 53 of [draft] S1 establish the requirements to be met when relying on other sources of guidance to fulfil the ISSB global baseline disclosure requirements:

> This [draft] Standard requires an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed (see paragraph 2).
>
> In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk or opportunity, management shall use its judgement in identifying disclosures that:
>
> (a) are relevant to the decision-making needs of users of general purpose financial reporting;
>
> (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and
>
> (c) are neutral

52. From a practical perspective, if an entity is applying ESRS or GRI requirements in addition to IFRS Sustainability Disclosure Standards, enabling these materials to be referenced to the extent they meet the objectives of [draft] S1 would improve efficiency and cost effectiveness for preparers by enabling them to use a subset of these disclosures (those relevant to meet the needs of the users of general purpose financial reporting) to meet the requirements of [draft] S1. Importantly, it is noted that this would only be applicable in the absence of a specific IFRS Sustainability Disclosure Standard. For clarity, when a specific IFRS Sustainability Disclosure Standard applies in relation to a sustainability-related risk or opportunity an entity would apply those requirements rather than ESRS or GRI requirements.

53. IFRS Sustainability Disclosure Standards are designed to facilitate a building blocks approach, and [draft] S1 allows an entity to report information needed to meet other requirements, as long as the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information. This requirement provides protection in enabling entities to refer to materials that meet information needs beyond those of users of general purpose financial reporting, as an entity is required to ensure that incremental information does not obscure the investor-focused information required by IFRS Sustainability Disclosure Standards.

Observations on interoperability of IFRS Standards from an ESRS perspective

54. In addition to the question of interoperability between IFRS Sustainability Disclosure Standards and ESRS, a similar question arises regarding interoperability 'in the other direction'. Following a similar concept to that outlined regarding the benefits for preparers and users of information of using ESRS as a source of guidance in the absence of a specific IFRS Sustainability Disclosure Standard, there would be benefits for those using ESRS when 'gaps' could be filled using IFRS Sustainability Disclosure Standards to assist in meeting the objectives of ESRS.

55. The ESRS currently being developed are sector-agnostic. Sector-specific ESRS requirements will be developed subsequently. ESRS 1 sets out an overarching requirement to provide material information (using the ESRS notion of materiality) and it is noted that, when necessary, (additional) entity-specific

information should be provided to meet the requirement to provide material information. It is also contemplated in ESRS 1 that when ESRS do not cover a matter or do so with insufficient granularity, entity-specific information should be developed. It is proposed by EFRAG that ESRS 1 would note that in developing entity-specific disclosures, consideration should be given to comparability between entities including by considering other disclosure frameworks.

56. Using the materials of the ISSB would foster such comparability. In particular, comparability could be fostered in the near term if it were the case that for climate-related disclosures both those using ISSB Standards and those using ESRS (E1) were referred to Appendix B of [draft] S2 as a basis for providing industry-specific information. Industry-specific requirements are an important component of the ISSB Standards and thus utilising this material (even if illustrative initially) emphasises an important feature of the ISSB's standards. The inclusion of such a reference within ESRS would provide a similar role to the proposals set out in this paper with regard to ESRS in that the ISSB's materials would be relevant in the absence of a specific ESRS requirement and to the extent it assists in meeting the objectives of ESRS requirements. This approach would result in the ISSB adopting similar methods to assist in providing interoperability.

Clarifying language used to guide the use of other materials

57. The phrase 'shall consider' was intended to create a requirement to review and consider the use of certain materials, but was not intended to require the application of those materials. Language within the Basis for Conclusions on [draft] S1 clarifies this (paragraph BC68):

> Consistent with the proposals in the Exposure Draft, applying the SASB Standards and CDSB pronouncements would be considered good practice for an entity applying IFRS Sustainability Disclosure Standards, but applying those pronouncements would not be a formal requirement for an entity. For example, an entity could still assert compliance with IFRS Sustainability Disclosure Standards in accordance with paragraph 91 if it did not apply the requirements in these documents.

58. 'Shall consider' was used rather than 'may consider' in order to be clear that referring to the materials listed is not a free choice (ie an entity cannot simply disregard the materials that are listed). Therefore, the materials must be taken into consideration. By using this language rather than a more general permission to consider the materials (as implied by the term 'may consider'), the proposals were intended to ensure that consideration would be given to materials that were identified as providing disclosures likely to meet the objectives of [draft] S1. Such an instruction was designed to support the provision of high-quality disclosures that would meet the needs of users of general purpose financial reporting.

59. However, as noted above, even a requirement to 'consider' materials can become a substantial burden if there are numerous materials to consider and especially when the materials are open-ended. As suggested by respondents, [draft] S1 could leverage the phrase 'may consider' to guide preparers towards certain preferred sources, without creating such a burden of compliance (even if the list were more contained).

60. The ISSB may also choose to provide additional clarity on what is expected of an entity by requiring 'consideration' of these sources. As noted above, some respondents expressed concerns that 'shall consider' could be interpreted as 'shall apply', which was not the intent of [draft] S1. The ISSB could provide more specificity on what it means to 'consider' and explicitly acknowledge that it is possible for a preparer to consider these materials and ultimately determine they should not be applied—and still comply with the requirements of [draft] S1 (if this is the intent of the ISSB). The staff believes that such clarification would be beneficial for preparers and assurance providers.

61. As noted above, the Basis for Conclusions on [draft] S1 noted that an entity could still assert compliance with the Standard even if these materials were not applied. Moving this observation to the Standard could provide confirmation that 'shall consider' does not mandate application of these materials. It may also be useful to note in the Basis for Conclusions that if an entity determines that these materials would not meet the requirements in paragraph 53 of [draft] S1, for example because they would not result in the provision of relevant information, then an entity could decide that they should not be applied. The staff also notes that the wording used in paragraphs 51 and 54 of [draft] S1 ('shall consider') is slightly different to the corresponding wording in IAS 8 ('shall refer to', and 'consider the applicability of'). The wording in IAS 8 may better reflect the intention that these materials must be used as a reference for *consideration,* to assist in the development of appropriate disclosures.

62. It is also important to note that the specific terminology used, 'shall' versus 'may,' could present or reduce potential challenges for jurisdictional adoption. For example, referring to and/or requiring the use of materials that are not published by the ISSB or governed by the IFRS Foundation, may make incorporation in legislation or regulation more difficult in some jurisdictions.

Staff recommendations

63. The six staff recommendations that follow are intended to address the following questions:

(a) Staff recommendation 1: Does the general approach on referencing materials to identify sustainability-related risks and opportunities and related disclosures (in addition to or in the absence of IFRS Sustainability Disclosure Standards) need to be amended?

(b) Staff recommendation 2: Are the overarching requirements that apply when using other materials appropriate and sufficiently clear?

(c) Staff recommendation 3: How should the SASB Standards be referenced?

(d) Staff recommendation 4: How should the CDSB Standards be referenced?

(e) Staff recommendation 5: Should the open-ended references be maintained ('the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting' and 'the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies')?

(f) Staff recommendation 6: Should the sources of guidance reference the GRI Standards and/or ESRS?

Staff recommendation 1—Overall approach

64. The staff recommends that the ISSB:

(a) Confirm the general approach used in [draft] S1 to reference materials other than IFRS Sustainability Disclosure Standards (paragraphs 50-54 in [draft] S1)—noting specific modifications recommended by the staff below;

(b) Provide further clarity on what is required when considering the materials referenced and the possible implications—specifically, state that a preparer is generally expected to have a process in place to consider the materials and that this process may result in not applying the materials (based on the objectives and other requirements throughout [draft] S1); and

(c) Clarify for each of the materials referenced, if a preparer is required to consider these materials or if consideration is permitted as an option—in other words, use ‘shall consider’ or ‘may consider’.

65. The staff believes that the general approach taken in [draft] S1 supports the objective of [draft] S1 and is necessary to enable entities to meet the requirement to provide disclosures about sustainability-related risks and opportunities in the absence of a specific IFRS Sustainability Disclosure Standard and should be maintained. This includes the distinction between the identification of sustainability-related risks and opportunities (paragraph 51 in [draft] S1) and the identification of disclosures about sustainability-related risks and opportunities (paragraph 54 in [draft] S1). The staff recommends the ISSB consider drafting clarifications to emphasise that these materials are also intended to help assist preparers understand the range of sustainability-related risks and opportunities that are meant to be within the scope of [draft] S1 (in addition to helping preparers identify specific sustainability-related risks and opportunities for disclosure and the actual disclosures to provide about each risk and opportunity).

66. While several concerns were raised about the proposed requirements in paragraphs 50-54 in [draft] S1, the staff believes that many of these concerns can and should be addressed through the targeted modifications described in staff recommendations 3-6 below.

67. However, an overarching modification (or clarification) that the staff recommends is described in paragraph 64(b) above. The staff believes that amending [draft] S1 to clarify what it means to ‘consider’ the materials listed will be helpful for a variety of stakeholders. This includes stating that the consideration of materials is generally expected to occur through a process that a preparer has in place. This also includes explicitly acknowledging that while entities are required to consider certain materials, this does not mean these materials must be applied. For example, in accordance with paragraph 53 of [draft] S1, entities are required to provide disclosures that are relevant to the decision-making needs of users of general purpose financial reporting and that faithfully represent the entity’s risks and opportunities in relation to the specific sustainability-related risk or opportunity. If it is determined that the materials considered would not result in disclosures that meet these requirements, then the materials should not be applied. The staff believes that this was the intent of [draft] S1 and explicitly confirming such will help clarify the meaning of ‘shall consider’ and thereby reduce some concerns without altering the intent of the requirements.

68. Lastly, as described in paragraph 64(c) above, the staff believes that the ISSB should clearly distinguish between materials that are required to be considered (‘shall consider’) versus the materials that may be considered where such consideration is permitted but not required (‘may consider’). The staff has provided specific recommendations using this distinction in staff recommendations 3-6 and notes that there is precedent for this distinction in IAS 8.

Staff recommendation 2—Overarching requirements for using other materials

69. The staff recommends that the ISSB confirm the requirements in paragraph 53 of [draft] S1. For example, in developing disclosures in the absence of an IFRS Sustainability Disclosure Standard and using any of the materials referenced to produce disclosures, the result must be disclosures that:

(a) are relevant to the decision-making needs of users of general purpose financial reporting;

(b) faithfully represent the entity’s risks and opportunities in relation to the specific sustainability-related risk or opportunity; and

(c) are neutral.

70. The staff notes that additional drafting clarifications could emphasise that, if other materials are used to inform disclosures, then this does not alter the requirement to not reduce the understandability of its sustainability-related financial disclosures by obscuring material information with immaterial information.

71. Lastly, the staff notes the importance of this recommendation when the ISSB considers staff recommendation 6 below related to the GRI Standards and ESRS.

Staff recommendation 3—SASB Standards

72. The staff recommends that the ISSB confirm the requirement to consider the SASB Standards as proposed in paragraphs 51(a) and 54 in [draft] S1.

73. The result would be that, in addition to IFRS Sustainability Disclosure Standards, an entity shall consider the disclosure topics in the SASB Standards to identify sustainability-related risks and opportunities for disclosure (consistent with paragraph 51(a) in [draft] S1). Furthermore, in the absence of a specific IFRS Sustainability Disclosure Standard and to the extent it does not conflict with IFRS Sustainability Disclosure Standards, an entity shall consider the metrics associated with the disclosure topics in the SASB Standards in determining the disclosures to provide for each sustainability-related risk and opportunity (paragraph 54 in [draft] S1).

74. The staff summarises the following key points to support this recommendation:

   (a) The SASB Standards were developed with the same objective of [draft] S1, to facilitate the disclosure of sustainability-related financial information to meet the needs of primary users of general purpose financial reporting, and the SASB disclosure topics and associated metrics generally match the structure of [draft] S1 requirements (identified sustainability-related risks and opportunities, as well as material information about each risk or opportunity);

   (b) Feedback, particularly from users of general purpose financial reporting, generally supported a strong role for the SASB Standards, including broad statements of support on integrating and building on the SASB Standards in [draft] S1 and other IFRS Sustainability Disclosure Standards;

   (c) There is currently widespread market use of the SASB Standards (see Agenda paper 6 *Industry-based materials* from the October ISSB meeting) which supports the usefulness of these disclosures and facilitates transition to IFRS Sustainability Disclosure Standards;

   (d) The specificity of the SASB Standards is particularly helpful to guide preparers in understanding which sustainability-related risks and opportunities are useful to provide information about and in developing disclosures—in other words, the disclosure topics in the SASB Standards can help preparers understand the range of sustainability-related risks and opportunities that are intended to be included within the scope of [draft] S1 in a pragmatic manner;

   (e) The comparability of disclosures resulting from [draft] S1 can be improved by requiring that the SASB Standards are considered, given the specificity of the disclosure topics and associated metrics in the SASB Standards;

   (f) The ISSB has ongoing work to improve the international applicability of the SASB Standards.

75. The staff notes that [some] respondents to [draft] S1 and [draft] S2 have questioned whether the disclosures provided will be relevant and decision useful in all jurisdictions. However, it is noted that the recommendation is to confirm that the SASB Standards shall be *considered* in identifying

sustainability-related risks and opportunities and in developing disclosures. If in considering the SASB Standards an entity were to determine that application would not result in the provision of information that meets the requirements of [draft] S1, including that the information is relevant for users of general purpose financial reporting, then the SASB Standards need not be applied.

76. The staff believes that, taken together with the other recommendations in this paper, many of the concerns from the consultation will be mitigated. For example, providing more clarity on what 'shall consider' means, including an explicit statement that this is distinct from a requirement to apply the SASB Standards, is expected to reduce some concerns.

Staff recommendation 4—CDSB Framework

77. The staff recommends that the ISSB amend the reference to the CDSB Framework application guidance (paragraphs 51(b) and 54 in [draft] S1) to state that preparers *may consider* this resource both in the identification of sustainability-related risks and opportunities and the identification of disclosures about those risks and opportunities (amend from 'shall consider' to 'may consider').

78. The CDSB Framework application guidance is an important resource that, in the staff's view, is a useful resource to identify sustainability-related risks and opportunities and disclosures. Like the SASB Standards, the CDSB Framework is aimed at an investor audience. The principles behind this framework were central to the development of [draft] S1, and the ISSB has in the past expressed its desire to prioritise the use of resources for which it is the custodian. Moreover, the CDSB Framework has specific application guidance for water- and biodiversity-related disclosures, thematic topics that are listed as items to be considered in the development of a request for information on agenda priorities and that would help address sustainability-related risks and opportunities not addressed by [draft] S2. Given that the ISSB may address these topics with standard setting in the future, but has not yet, related disclosure guidance may be particularly useful to preparers in the meantime.

79. The staff notes that by allowing entities to refer to the CDSB materials they will benefit from the relevant sources of information included within the materials. However, respondents to [draft] S1 noted that a long list of materials that *shall be considered* could increase the burden on preparers, so it is important to assess whether the incremental benefit of requiring these materials to be considered is warranted. On balance, the staff believes that it is more appropriate to allow these materials to be used rather than requiring them to be considered.

Staff recommendation 5—Open-ended references

80. The staff recommends that the ISSB amend the references to 'other standard-setting bodies' (paragraphs 51(c) and 54 in [draft] S1) and 'entities that operate in the same industries or geographies' (paragraphs 51(d) and 54) to state that preparers may consider such, both in the identification of sustainability-related risks and opportunities and the identification of disclosures about risks and opportunities, but that such consideration is not required (amend from 'shall consider' to 'may consider').

81. The staff notes that by allowing entities to refer to other investor-focused materials, this provides further assistance and flexibility to preparers. These open-ended sources broaden the scope of materials that preparers may reference to support the identification of sustainability-related risks and opportunities and related disclosures. This may also reduce transition costs and the reporting burden for preparers, especially if they are already using other investor focused materials to provide disclosures that also meet the objective of [draft] S1.

82. Amending [draft] S1 to state that preparers may consider these sources would address feedback that requiring preparers to consider an extensive list of open-ended sources of material would increase the reporting burden for preparers and complexities for assurance providers.

Staff recommendation 6—GRI Standards and ESRS

83. The staff recommends that the ISSB amend the sources of guidance to explicitly state that preparers may consider the GRI Standards and ESRS to identify disclosures about sustainability-related risks and opportunities that meet the objectives of [draft] S1. However, the staff does not recommend including these materials as a source in the identification of sustainability-related risks and opportunities. This differs slightly from staff recommendations 4 and 5, as the staff has recommended that preparers, for example, 'may consider' the CDSB Framework both for identifying sustainability-related risks and opportunities and for identifying disclosures about these risks and opportunities. The staff believes this slightly different approach is warranted given the investor focus of the CDSB Framework.

84. Given the importance of the GRI Standards and ESRS broadly speaking, referencing them in the sources of guidance could help to improve interoperability and reduce the burden for preparers, especially those who are already using the GRI Standards or those who may be mandated to comply with ESRS. However, unlike the SASB Standards and the CDSB Framework, the GRI Standards and ESRS are not primarily intended to meet the information needs of primary users of general purpose financial reporting.

85. However, the use of these frameworks can produce information that is useful to investors, as a subset of the overall disclosures. This is because both the GRI Standards and ESRS are intended to meet broader information needs including investor information needs. This may be especially true when there is not an applicable IFRS standard to identify the types of information within a sustainability topic that may be material. Even if an entity uses the SASB Standards to identify metrics, preparers may find it useful to apply other standards like these to identify additional material information. And in many cases, preparers may be using one or both of these standards to produce disclosures, so enabling disclosures from these materials to also be used to comply with IFRS Sustainability Disclosure Standards when they meet investor needs could help to reduce the reporting burden.

86. It is noted that this would be a change from the proposals in [draft S1] which limited the use of standards to those designed to meet the needs of users of general purpose financial reporting. It was not intended that standards written to meet broader stakeholder needs be permitted to be used given the risk that disclosures could be selected from within those materials designed with a broader focus that do not meet the needs of investors. However, given the practical benefits for preparers of being able to source disclosures from the GRI Standards and ESRS and the protections provided by the requirement in [draft] S1 about the required characteristics of the disclosures that must be developed (including that they are relevant to users of general purpose financial reporting), the staff believe that on balance it would be appropriate to refer to these particular sources. It is also noted that these materials can only be referenced to the extent that an IFRS Sustainability Disclosure Standard is not available—so for example S2 must be applied for reporting on climate-related risks and opportunities and the GRI and ESRS requirements will not be applicable.

87. The staff note the range of sustainability-related risks and opportunities covered by both the GRI Standards and ESRS make them particularly useful in the context of [draft] S1, in that the materials referenced in paragraphs 51-54 of [draft] S1 are included in order to enable entities to meet the requirement to provide material information on all sustainability-related risks and opportunities. Some may query the inclusion of the requirements from a single jurisdiction. Staff note that this reflects the breadth of ESRSs being developed. Staff also note that the materials being considered for inclusion in

these references in [draft] S1 reflect the current landscape of sustainability reporting and that it will probably be necessary to consider adjustments to the list in the future (including considering whether a separate reference to SASB Standards is still applicable given the manner in which the ISSB builds on those standards).

Illustration of staff recommendations 3-6

88. The tables below serve as an illustration of staff recommendations 3-6 in aggregate. These tables are provided to help illustrate this set of staff recommendations together rather than for specific drafting feedback.

Identifying sustainability-related risks and opportunities

Shall consider	the disclosure topics in the industry-based SASB Standards
May consider	the CDSB Framework application guidance for water- and biodiversity-related disclosures
	the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting
	the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies

Identifying disclosures, including metrics, about sustainability-related risks and opportunities

Shall consider	the metrics associated with the disclosure topics included in the industry-based SASB Standards
May consider	the CDSB Framework application guidance for water- and biodiversity-related disclosures
	the GRI Standards
	the European Sustainability Reporting Standards
	the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting
	the metrics used by entities in the same industries or geographies

Achieving an optimal balance

89. The staff has developed the recommendations above in an effort to achieve an optimal balance related to the costs and benefits of referencing materials that better enable preparers to produce disclosures that accomplish the objectives of [draft] S1. For example, the staff has taken a disciplined approach in its recommendations on the materials that must be considered in acknowledgement of the burden that this places on preparers and in the context of the benefits that such requirements are likely to provide users of general purpose financial reporting.

90. The staff assessed many alternatives in developing its recommendations above. Many iterations have been assessed that relate to alternatives on 'shall consider' versus 'may consider', as well as what can be further amended or clarified in this section of [draft] S1 based on the feedback received through the consultation.

91. Overall, the staff believes that its recommendations achieve an optimal balance while recognising that various alternative options exist, each of which alters the costs and benefits of [draft] S1 based on the factors and considerations discussed throughout this paper. In sum, the staff encourages the ISSB to consider the staff recommendations holistically to achieve an optimal balance.

Questions for the ISSB

92. The staff presents these questions for the ISSB.

Questions for the ISSB	
1.	Does the ISSB have any questions or comments about the matters described in this paper?
2.	Does the ISSB agree with the staff's recommendations on the matters described in this paper?

Next steps

93. Specifically on the sources of guidance, the staff notes that it may bring a recommendation to the ISSB in a subsequent meeting on paragraph 55 in [draft] S1. The staff is conducting further analysis of relevant feedback received and this will enable any recommendations on paragraph 55 to be based on the outcomes of the ISSB's decisions made in connection with this board paper.

94. More generally, the staff plans to present further analysis along with recommendations (based on the outcomes of this meeting) on additional decisions and/or more comprehensive decisions related to the fundamental concepts and terms in [draft] S1 in a subsequent meeting. Further research or outreach may be required for some of those matters.