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## ISSB meeting

Date	<b>January 2023</b>
Project	<b>General Sustainability-related Disclosures</b>
Topic	<b>Metrics and Targets Objective</b>
Contacts	<b>Sam Wallace</b> ( <a href="mailto:sam.wallace@ifrs.org">sam.wallace@ifrs.org</a> )

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## Objective

1. This paper discusses the objective of the Metrics and Targets sections in Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ([draft] S1) and Exposure Draft IFRS S2 *Climate-Related Disclosures* ([draft] S2).
2. The objective of this paper is to clarify the objective in the Metrics and Targets sections in paragraph 27 of [draft] S1 and paragraph 29 of [draft] S2.

## Summary of the staff's recommendations

3. The staff recommends clarifying that the objective of disclosures on metrics and targets in [draft] S1 and [draft] S2 is to enable users to understand performance on sustainability-related risks and opportunities, including (but not limited to) how an entity measures, monitors and manages such risks and opportunities.

## Background

4. The staff have received some feedback that the drafting of the objective of the Metrics and Targets sections in [draft] S1 and [draft] S2 does not fully reflect the intent of disclosures around metrics and targets.
5. Both [draft] S1 and [draft] S2 contain an overarching objective in the first paragraph. In [draft] S1, the objective is:

The objective of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is to require an entity to disclose information about its significant sustainability-related risks and opportunities that is useful to the primary users of general purpose financial reporting when they [assess enterprise value and] decide whether to provide resources to the entity.

6. The objective in [draft] S2 is similar: "The objective of [draft] IFRS S2 *Climate-related Disclosures* is to require an entity to disclose information about its exposure to significant climate-related risks and opportunities..."
7. Following the structure of the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD recommendations), both [draft] S1 and [draft] 2 contain sections that describe required disclosures on Governance, Strategy, Risk Management, and Metrics and Targets. Each of these sections begins with a statement of the objective of the section. These objectives focus on enabling primary users of general purpose financial reporting to understand the entity's approach and management processes with respect to sustainability-related risks and opportunities and related to the theme of the section.

8. For example, the objective for the Governance section of [draft] S1 reads:

The objective of sustainability-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 sustainability-related risks and opportunities.

9. Similarly, the objective for the Metrics and Targets section of [draft] S1 reads:

The objective of sustainability-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 sustainability-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.

10. The staff has received some feedback that market participants may interpret the objective of disclosures around metrics and targets as being limited to disclosures on metrics and targets the entity uses. This interpretation would, in the staff's view, incorrectly limit an entity's disclosures to the metrics and targets that the entity already uses and exclude metrics required by IFRS Sustainability Disclosure Standards (but not used by the entity) even if that information was material for users of general purpose financial reporting.

## Staff analysis

11. The staff believes that the source of potential confusion arises from the fact that 'metrics' as a category of disclosures is slightly different than the other categories of disclosures in the TCFD recommendations. IFRS Sustainability Disclosure Standards do not state *how* an entity should conduct its governance, strategy, and risk management with respect to sustainability-related risks and opportunities. This means that the purpose of disclosures on governance, strategy, and risk management is to enable primary users to understand an entity's existing policies, processes, etc. Put simply, an entity is not required to put in place governance, strategy, risk management processes or targets as a result of applying IFRS Sustainability Disclosure Standards – rather, it is required to provide information about what its policies, practices and targets are.
12. With respect to the Metrics and Targets section, IFRS Sustainability Disclosure Standards, such as [draft] S2, require certain metrics to be disclosed. The staff believes that disclosure of these metrics is intended to be required (subject to materiality) regardless of whether the entity is using them to measure, monitor or manage its sustainability-related risks and opportunities. This reflects that the ISSB has sought to identify information that is expected to be relevant and necessary for investors.
13. For example, [draft] S2 requires preparers to disclose their greenhouse gas emissions. If a preparer is not measuring its greenhouse gas emissions (or otherwise using such information in the monitoring or management of its business), the staff believes that this information is still intended to be required for disclosure, subject to materiality.
14. The staff believes that this was the intent of the Metrics and Targets sections in [draft] S1 and [draft] S2. As a result, the staff is recommending a clarification to the objective of the Metrics and Targets sections, which we believe will be sufficient to resolve confusion on this issue.

## Staff recommendation

15. The staff recommends clarifying that the objective of disclosures on metrics and targets in [draft] S1 and [draft] S2 is to enable users to understand performance on sustainability-related risks and opportunities, including (but not limited to) how an entity measures, monitors and manages such risks and opportunities.

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## Questions for the ISSB

16. The staff present the following question for the ISSB.

### Question for the ISSB

1. Does the ISSB agree with the staff recommendation that the objective of disclosures on metrics and targets in [draft] S1 and [draft] S2 should be clarified to state that it is to enable users to understand performance on sustainability-related risks and opportunities, including (but not limited to) how an entity measures, monitors and manages such risks and opportunities?