
ISSB Meeting

Date	May 2024
Project	Maintenance of the SASB Standards
Topic	Sustainable Industry Classification System[®] (SICS[®])— Staff recommendations
Contacts	Will Meister, ISSB Technical Staff (william.meister@ifrs.org) Greg Waters, ISSB Technical Staff (greg.waters@ifrs.org)

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Objective

1. This paper provides the International Sustainability Standards Board (ISSB) with the staff's recommendations regarding the ISSB's approach to industry groupings in its industry-based materials, including the Sustainability Accounting Standards Board (SASB) Standards.
2. At this meeting, the ISSB is asked to decide on the staff's recommendations that:
 - (a) the ISSB's industry-based materials, including the SASB Standards, continue to be based on industry groupings of entities with similar impacts and dependencies on the non-financial capitals that serve as sources of value, as represented by the Sustainable Industry Classification System[®] (SICS[®]), for its next two-year work plan; and
 - (b) the ISSB considers enhancements to the industry groupings as developed in SICS during the ISSB's enhancements to the SASB Standards as part of its next two-year work plan.
3. The staff considers this to be an appropriate time for the ISSB to determine its approach to industry classification systems for the purpose of standard-setting,

following the ISSB's recent tentative decision to prioritise enhancements to the SASB Standards as part of its next two-year work plan, the intention to consider industry-based disclosures in its topic-based research and in consideration of the stakeholder comments related to SICS in recent consultations.

4. Background information on industry classification systems, SICS, and further analysis to support the staff's recommendations are included in Agenda Paper 6A.

Staff recommendations and rationale

First staff recommendation: continue using a sustainability-related approach for industry groupings, as represented by SICS

5. The staff recommends that the ISSB's industry-based materials, including the SASB Standards, continue to be based on industry groupings of entities with similar impacts and dependencies on the non-financial capitals that serve as sources of value, as represented by SICS, (also referred to as a '***sustainability-related approach***') for the ISSB's next two-year work plan.
6. **Purpose:** the staff believes that the continued use of a sustainability-related approach for industry groupings aligns with the ISSB's standard-setting objective of facilitating investors' ability to analyse and compare entities based on similar sustainability-related risks and opportunities. During recent consultations, some stakeholders raised concerns regarding SICS, including that it does not align with classification systems used in some jurisdictions for various types of official business, and some stakeholders suggested the ISSB use other classification systems for its standard-setting. However, these industry classification systems are designed to fulfil other purposes and not industry-based sustainability-related standard-setting, for which SICS was explicitly developed (see paragraphs 33-35 and 47-49 of Agenda Paper 6A for more details).

7. **Efficient and proportionate standard-setting:** a sustainability-related approach also provides the ISSB with an efficient and proportionate basis to conduct its standard-setting, including through its stakeholder outreach. Approaching standard-setting based on entities' shared sustainability profiles facilitates preparers' identification of sustainability-related risks and opportunities and the disclosure of related material information specific to defined industries. Furthermore, SICS was developed using a sustainability-related approach and the standard-setting process for the SASB Standards also informed enhancements to SICS (see paragraphs 50-54 of Agenda Paper 6A for more details).
8. **Compatibility:** the industry groupings included in SICS are compatible with other approaches to industry groupings, as shown through the work of other organisations to develop relational mappings between SICS and some official and market-based industry classification systems. Moreover, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* do not assign preparers to an industry nor require entities to prepare disclosures aligned with the specific industries as defined in SICS. Rather, each entity must apply judgement regarding industry selection, identification of sustainability-related risks and opportunities and disclosure of material information. The staff therefore believes that the use of SICS to aid the application of IFRS S1 and IFRS S2 does not preclude a preparer from using an alternative classification system for other purposes (see paragraphs 36-40 of Agenda Paper 6A for more details).
9. **Due process:** the continued use of a sustainability-related approach through SICS enables the industry classification system to be subject to the due process requirements of the IFRS Foundation and avoid reliance on a third party, which may have a different objective for any changes to the industry classification system (see paragraph 55 of Agenda Paper 6A for more details).
10. **Switching costs:** the continued use of a sustainability-related approach also avoids substantial switching costs, where moving to a different classification system could:

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- (a) from the ISSB’s perspective, distract from or delay efforts to make enhancements to the content of the SASB Standards and to research industry-based disclosures in its topic-based research during its next two-year work plan. Since a sustainability-related approach, as represented by SICS, serves as the foundational basis of the ISSB’s industry-based materials, the use of a different industry classification system would likely necessitate additional standard-setting to align the content in the industry-based materials to the new scope of industries (see paragraphs 56-58 of Agenda Paper 6A for more details); and
- (b) impact the investors, preparers, and other market participants who have embedded SICS into their processes, products and services, suggesting both that these stakeholders find utility in the system and that there would be substantial costs associated with any change to the approach used by the ISSB. A sustainability-related approach to industry classification is valued by investors in their decision-making processes and products, as seen through the market use of SICS (see paragraphs 59-62 of Agenda Paper 6A for more details).
11. While recognising stakeholders’ desire for the highest possible level of interoperability among sector-based sustainability disclosure standards, the staff believes the best way to make progress in this area is through enhancements to both SICS and the underlying disclosure requirements in the ISSB’s industry-based materials during the ISSB’s next two-year work plan.
- Second staff recommendation: consider enhancements to SICS as part of SASB Standards enhancements in the next two-year work plan***
12. The staff recommends that the ISSB considers enhancements to the industry groupings as developed in SICS during the ISSB’s enhancements to the SASB Standards as part of its next two-year work plan.

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13. The staff believes that as sustainability-related risks and opportunities and the economy continue to evolve, a system designed to group industries using a sustainability-related approach should evolve with it to maintain its relevance. Moreover, as with the previous development of the SASB Standards, enhancements made to these Standards in the next two-year work plan will likely contribute to improving the understanding of how to group industries based on their exposures to similar sustainability-related risks and opportunities.
14. The staff also acknowledges that through IFRS S1 and IFRS S2, the use of the SASB Standards will continue to broaden geographically and therefore it is important to consider potential opportunities for enhancing the international applicability of SICS.
15. The staff believes that the ISSB can best consider and respond to stakeholder feedback regarding SICS through future research and consultation.
16. Enhancements to SICS could involve:
- (a) enhancing its structure, such as through disaggregation or aggregation of various industries, or the addition of new industries;^{1, 2}
 - (b) consulting on the international applicability of industry groupings in the ISSB's industry-based materials, potentially with a focus on emerging markets;³ and
 - (c) evaluating revisions to the underlying content in the SASB Standards and IFRS S2 *Industry-based Guidance* with a view to facilitating application by entities with complex or diverse business activities (for example, bringing

¹ Since the industry descriptions and related guidance included in IFRS S2 *Industry-based Guidance* are designed to be identical to those in the SASB Standards, enhancements to SICS as part of SASB enhancements could have implications for the IFRS S2 *Industry-based Guidance*. If the ISSB determines that enhancements are warranted, and those enhancements introduce inconsistencies between the SASB Standards and the IFRS S2 *Industry-based Guidance*, the ISSB would likely need to consider making consequential amendments to the IFRS S2 *Industry-based Guidance*.

² In connection with making structural changes to SICS, the ISSB could consider developing principles it uses in determining when new industries should be added to SICS or other norms of maintaining and enhancing the classification system in connection with its standard-setting.

³ While the ISSB published amendments to the SASB Standards in 2023 that enhanced their international applicability, that work focused on replacing and removing references to specific jurisdictional laws and regulations in the metrics and technical protocols. More structural amendments to the SASB Standards, such as those to the scope of SICS industries or framing of disclosure topics, were beyond the project scope.

greater consistency to metrics that appear in multiple SASB Standards, where relevant).

17. In addition to research and standard-setting, the ISSB could consider supplemental activities related to the use of SICS and the SASB Standards, including through producing, or supporting third parties in producing, educational material (for example, material that helps entities self-identify the most relevant industry-based guidance) or relational mappings of SICS to other classification systems.

Questions for the ISSB

1. Does the ISSB have any comments or clarifying questions on the matters discussed in Agenda Papers 6A and 6B?
2. Does the ISSB agree with the staff recommendations that:
 - a. the ISSB's industry-based materials continue to be based on industry groupings of entities with similar impacts and dependencies on the non-financial capitals that serve as sources of value, as represented by SICS, for its next two-year work plan?
 - b. the ISSB consider enhancements to the industry groupings as developed in SICS during the ISSB's enhancements to the SASB Standards as part of its next two-year work plan?