
IFRS Foundation Trustees meeting – Due Process Oversight Committee

Date **February 2023**
Topic **Due process Lifecycle Review of the development of IFRS S1 and IFRS S2**
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This document is prepared for discussion at a public meeting of the IFRS Foundation Trustees' Due Process Oversight Committee (DPOC). The Trustees are responsible for governance of the IFRS Foundation, oversight of the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB), and for delivery of the IFRS Foundation's objectives as set out in the IFRS Foundation *Constitution*.

Purpose

1. This paper:
 - (a) Summarises the due process steps taken in the development of IFRS S1 *General Requirements for the Disclosure of Sustainability Related Information* (IFRS S1) and IFRS S2 *Climate-Related Disclosures* (IFRS S2); and
 - (b) Seeks the DPOC's confirmation that all mandatory due process steps have been undertaken in the development of IFRS S1 and IFRS S2 and that the ISSB can progress to issue the Standards.
2. At its February 2023 meeting the ISSB determined that all mandatory due process steps have been completed in the development of IFRS S1 and IFRS S2 and that it has completed sufficient consultation and analysis to proceed to the balloting phase to finalise the drafting of the Standards.
3. This Due Process 'Lifecycle' Review forms part of the DPOC's oversight of the development of an IFRS Standard as outlined in paragraph 2.12 of the *Due Process Handbook*. The staff are seeking the DPOC's confirmation that all mandatory due process steps have been undertaken in the development of IFRS S1 and S2.
4. The DPOC was provided with the ISSB board paper that served as the basis of the ISSB's February discussion of due process by email on 9 February 2023. For convenience this is reproduced as agenda paper 1D(i) for this meeting. That paper outlines:
 - (a) the due process steps that have been taken in developing IFRS S1 and IFRS S2; and
 - (b) the technical staff's assessment of whether IFRS S1 or IFRS S2 should be re-exposed for public comment as per the criteria outlined in 6.25-6.29 of the *Handbook*.
5. Appendix A to this paper summarises the involvement of the DPOC throughout the development of IFRS S1 and IFRS S2.

Question for the DPOC

Does the DPOC agree that all mandatory due process steps have been undertaken in the development of IFRS S1 and IFRS S2 and that the ISSB can progress to issue ?

Background to IFRS S1 and IFRS S2

6. IFRS S1 will set out the core content for a complete set of sustainability-related financial disclosures, establishing a comprehensive baseline of sustainability-related financial information. To comply with

its requirements, an entity will disclose material information about all sustainability-related risks and opportunities to which it is exposed—provided they are relevant to users of general-purpose financial reporting (investors). IFRS S2 will require an entity to provide material information about its climate-related risks and opportunities. IFRS S2 will require an entity to disclose information that would enable an investor to assess the effect of climate-related risks and opportunities on the entity.

Due process applied in the development of IFRS S1 and IFRS S2

Overview

7. The due process steps applied in the development of IFRS S1 and IFRS S2 are summarised in the ISSB board paper (agenda paper 1D(i)). The table in Appendix A to that paper sets out how the ISSB has complied with the due process steps required to finalise a Standard.
8. The development of IFRS S1 and IFRS S2 has followed the due process outlined in the *Handbook* for the development of an IFRS Standard except that the development of the two Exposure Drafts did not take place in public meetings. Instead, the Exposure Drafts were published under a special provision that the Trustees added to the IFRS Foundation *Constitution (Constitution)* in October 2021 and which enabled the Chair and the Vice-Chair to publish them in March 2022 prior to the ISSB being quorate.
9. The Trustees decided that this special provision was appropriate given the two Standards would build on prototypes developed by the Technical Readiness Working Group (TRWG). The TRWG had been working under the Foundation's leadership since April 2021 (and with input from a Technical Experts Group created by IOSCO) to provide the ISSB with a 'running start' to its standard-setting.
10. The TRWG's work itself evolved from work published in December 2020 by a group of five standard-setters and framework-providers focused on corporate sustainability and integrated reporting. The main components of the Exposure Draft were therefore based on work that had been subject to extensive public consultation and redeliberation and that had garnered significant market uptake (notably the TCFD recommendations and the SASB Standards).
11. The *Constitution* also required the DPOC to oversee any decision of the Chair and the Vice-Chair to use the special provision. Accordingly the DPOC had two separate discussions related to its use.
12. First, at its meeting on 1 March 2022, the DPOC assessed:
 - (a) the process undertaken in the development of the TRWG prototypes, including considering the processes in the development of the standards and frameworks that the Prototypes themselves built upon; and
 - (b) the work since November 2021 developing the Prototypes into ISSB exposure drafts ([agenda paper 1E](#) for the 1 March 2022 meeting)
13. Second, at its meeting on 21 March 2022, the DPOC considered the Chair and Vice-Chair's rationale behind their intention to utilise the special provision to publish the Exposure Drafts prior to the ISSB being quorate ([agenda paper 1B](#) for the 21 March 2022 meeting). The Chair and Vice-Chair confirmed that the Exposure Drafts were substantially aligned with the TRWG prototypes, which as noted themselves built on a solid base of materials used quite extensively around the world. This thereby reduced the risk that a quorate ISSB would propose a very different set of requirements.

14. The DPOC concluded that it did not object to the Chair and the Vice-Chair publishing the Exposure Drafts which were therefore published on 31 March 2022 with the usual 120-day comment period specified in the *Handbook* for an exposure draft.
15. Subsequent to the publication of the Exposure Drafts the due process as outlined in the *Handbook* has been applied in full.

Consultation, feedback and deliberation

16. As reported to the DPOC in October 2022, the ISSB received 720 comment letters on IFRS S1 and 690 comment letters on IFRS S2, and the ISSB and staff undertook significant outreach during the comment letter period. The ISSB has further supplemented this feedback and consultation by consulting the various ISSB and Foundation advisory and consultative bodies, and undertaking further outreach following the consultation period (summarised in paragraphs 23–30 of the ISSB board paper).
17. The ISSB considered an initial analysis of the feedback at its September 2022 meeting. Between October 2022 and February 2023 (including two additional virtual meetings at the start of November), the ISSB has conducted its deliberations of the substantive technical matters in public meetings informed by the feedback received, culminating in various key decisions on technical matters (see paragraph 16 of the ISSB board paper). During this period the ISSB has undertaken significant work to update stakeholders of their decision making through updates on the IFRS Foundation website and through the publication of podcasts and short videos.

Consideration of whether to re-expose the proposals

18. At its February 2023 meeting, the ISSB considered the staff's analysis about whether IFRS S1 and IFRS S2 should be re-exposed against the criteria in the *Handbook*. That analysis is set out in paragraphs 13–22 of the ISSB board paper (agenda paper 1D(i)). A key element of the re-exposure criteria in the *Handbook* relating to the changes being made to the proposals is set out in paragraph 6.26 of the *Handbook*:

It is inevitable that the final proposals will include changes from those originally proposed. The fact that there are changes does not compel the [ISSB] to re-expose the proposals. The [ISSB] needs to consider whether the revised proposals include any fundamental changes on which respondents have not had the opportunity to comment because they were not contemplated or discussed in the basis for conclusions accompanying the exposure draft. The [ISSB] also needs to consider whether it will learn anything new by re-exposing the proposals. If the [ISSB] is satisfied that the revised proposals respond to the feedback received and that it is unlikely that re-exposure will reveal any new concerns, it should proceed to finalise the proposed requirements.

18. During the ISSB discussion, ISSB members emphasised the:
 - (a) recent nature of the extensive feedback received on the exposure drafts (including additional targeted outreach during the deliberations);
 - (b) importance to ensure thorough process in the finalisation of the standards including the external editorial review for fatal flaw purposes; and

- (c) thoroughness of the process for the ISSB to develop material to support the implementation of IFRS S1 and S2.

19. At the conclusion of its discussion, the ISSB agreed with the staff's conclusion that the changes made to [draft] S1 and [draft] S2 in deliberations are in response to feedback received on the exposure drafts, and as such that the revised proposals do not include any fundamental changes on which respondents have not had the opportunity to comment. The ISSB therefore agreed that it could proceed to finalise the two Standards without re-exposure.

ISSB next steps

20. As noted, at its February meeting the ISSB decided:

- (a) it is satisfied that all the mandatory due process steps have been met in developing IFRS S1 and IFRS S2; and
- (b) to grant the staff permission to begin the balloting process for IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.

21. In addition, no ISSB member raised an intention to dissent from the publication of IFRS S1 or IFRS S2.

22. Accordingly the ISSB has begun the balloting phase to finalise and publish the Standards (subject to the DPOC's confirmation at this meeting). This process will entail:

- (a) Advancing drafts of the Standards and the effects analysis report to be reviewed and balloted by each ISSB member;
- (b) Providing advanced drafts with selected external parties for fatal flaw review; and
- (c) Publishing IFRS S1 and IFRS S2 toward the end of Q2 2023.

Appendix A – DPOC engagement during the Development of IFRS S1 and S2

DPOC Meeting	DPOC Discussion
1 March 2022	<p>The DPOC assessed the due process undertaken in the development of the TRWG Prototypes, including considering the due processes in the development of the standards and frameworks that the Prototypes built upon. Also at its 1 March 2022 meeting, the DPOC considered the due process to be applied by the ISSB in its standard setting. The DPOC noted that respondents to the Trustees' 2020 Consultation Paper on Sustainability Reporting had said that a key motivating factor behind them encouraging the IFRS Foundation to establish the ISSB was the transparent due process applied by the IASB. This was reiterated by the TRWG's recommendations to the Trustees on the due process to be applied by the ISSB.</p> <p>Informed by this feedback, the DPOC decided that before updating the <i>Handbook</i> to reflect formally the establishment of the ISSB:</p> <ul style="list-style-type: none"> the ISSB will apply the due process specified in the <i>Handbook</i> for the IASB for corresponding technical activities, in addition to the due process specified for the ISSB in the <i>Constitution</i>. the DPOC will work proactively with the ISSB leadership to consider whether any adaptations are required to the IASB's due process for the ISSB, drawing on the input from the Technical Readiness Working Group's recommendations and the ISSB's developing experience.
21 March 2022	<p>The DPOC were briefed by the ISSB Chair and Vice-Chair about their intention to publish exposure drafts on General Requirements and Climate-Related Disclosures before the ISSB was quorate and their rationale for doing so. The DPOC confirmed that it did not object to the decision of the ISSB Chair and Vice-Chair to publish the exposure drafts.</p>
June 2022	<p>The DPOC were updated on the ISSB's work including on the extensive outreach activities undertaken since the publication of the two Exposure Drafts on 31 March 2022.</p>
October 2022	<p>The DPOC received a general update on the work of the ISSB including work progressing IFRS S1 and IFRS S2; the staff Request for Feedback on the staff draft of the IFRS Sustainability Disclosure Taxonomy; and the work of the ISSB Consultative Groups including how they have been consulted in the development of IFRS S1 and IFRS S2.</p>
March 2023	<p>The DPOC are receiving this 'Lifecycle' review which forms part of the DPOC's oversight of the development of an IFRS Standard as outlined in paragraph 2.12 of the <i>Due Process Handbook</i>.</p>