
Global Preparers Forum meeting

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Topic **ISSB Update**

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An update from the International Sustainability Standards Board

February 2023

BETTER INFORMATION FOR BETTER DECISIONS

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ISSB builds on investor-focused standards and frameworks

Simplifying the sustainability disclosure landscape

consolidated into the IFRS Foundation



**CDSB
Framework**



ISSB Standards built off market-leading, widely adopted frameworks and standards.

ISSB objectives



Develop standards for a **global baseline of sustainability disclosures** meeting information needs of global investors



Enable companies to provide comprehensive, decision-useful sustainability information to global capital markets



Deliver a common language of sustainability disclosures, with the flexibility for regional ‘**building blocks**’ to be added by regulators when necessary **to meet local and multi-stakeholder information needs.**

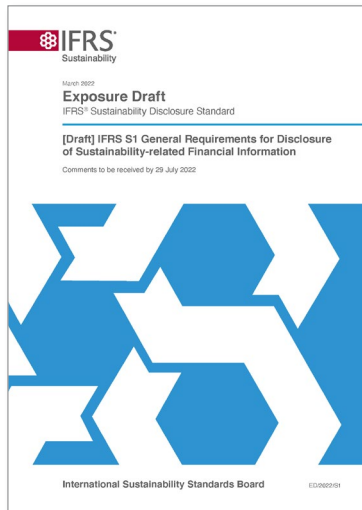
Reasons to prepare for the ISSB Standards

1. **Cost-effective:** Developed with efficiency in mind
2. **Decision-useful:** Designed to provide the right information to support investor decision-making
3. **Market-informed:** Rigorous, international due process to deliver a common language for efficient disclosure.

Projects in the ISSB work plan

	Next milestone
Consultation on Agenda Priorities	Publish Request for Information
General Sustainability-related Disclosures (S1)	Issue S1 (final standard)
Climate-related Disclosures (S2)	Issue S2 (final standard)
IFRS Sustainability Disclosure Taxonomy	Publish Proposed IFRS Sustainability Disclosure Taxonomy (exposure draft)
Maintenance of the SASB Standards	Publish Proposed methodology for improving the international applicability (exposure draft)
Inherited SASB Standards Projects	Publish exposure drafts for projects that were at advanced stage at the time of the VRF consolidation

Key concepts in S1



- GAAP agnostic and therefore applicable across jurisdictions
- Asks for disclosure of material information about sustainability-related risks and opportunities to meet investor information needs
- Sets out *general* reporting requirements; other ISSB Standards (eg S2 climate standard) set out specific disclosures on particular matters
- Refers to other standards and frameworks in absence of a specific ISSB standard



Emphasises need for **consistency and connections** between financial statements and sustainability disclosures



Financial statements and sustainability disclosures published **at the same time**, but with transitional relief



Does **not specify a location** for disclosure within general purpose financial reporting and **allows for additional information**, to facilitate application in different jurisdictions

Materiality: meeting investor needs

IFRS Sustainability Disclosure Standards use the same definition of *material* as IFRS Accounting Standards to ensure investors understand sustainability risks and opportunities relevant to their investment decisions, and there is strong linkage with the financial statements:

“Information is material if omitting, misstating or obscuring it could reasonably be expected to influence investor decisions.”



How does the ISSB’s definition of ‘materiality’ compare to the definition in the US SEC Climate Proposal and to the definition in the European Sustainability Reporting Standards (ESRS)?

US SEC

- Like the ISSB, would primarily apply the **same disclosure threshold as the financial statements** (based on the US Supreme Court precedent)
- Some disclosures required regardless of materiality (Scope 1 and Scope 2 GHG emissions)
- Financial impact disclosures subject to 1% threshold

ESRS

- Uses the concept of “**double materiality**,” which means a disclosure is material if it is material from an “**impact**” perspective (e.g. affects employees, customers, vendors, environment), a **financial** perspective (e.g. investors, creditors) or a combination of **both**
- Climate disclosures all mandatory

Financial value and sustainability

A company's ability to deliver financial **value** for **investors** is inextricably **linked to...**

...
Stakeholders
with whom it
works and
serves



...
Society
in which it
operates



...
Natural
resources
upon which it
draws



Builds on concepts from the **Integrated Reporting Framework**

S1: Sources of guidance for companies to use



Which risks & opportunities?

To identify **risks and opportunities** to report, a company uses ISSB Standards **and shall consider:**

- Industry-specific SASB Standards

Companies may also consider:

- CDSB Framework application guidance
- industry practice
- materials of investor-focused standard setters



Which metrics?

In the absence of a specific ISSB Standard, to determine **what to disclose** a company **shall consider:**

- Industry-specific SASB Standards

Companies may also consider to the extent meets investor information needs:

- CDSB Framework application guidance
- industry practice
- materials of investor-focused standard setters
- GRI Standards
- European ESRS

Proportionality

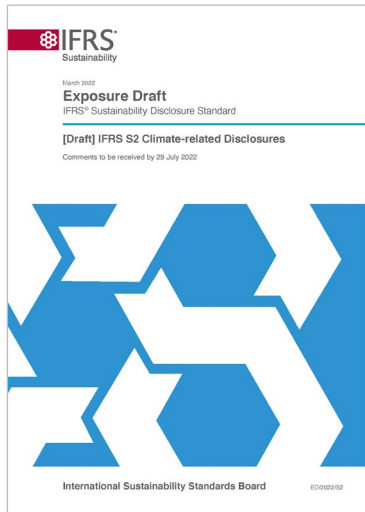
Mechanisms to address challenges faced by companies with fewer resources

- Use of existing **terminology and concepts**
- Enable provision of:
 - information that is **reasonable and supportable and is available without undue cost or effort**
 - **qualitative scenario analysis and qualitative information (rather than quantitative)**
- Provision of:
 - **guidance** within the Standards and educational materials
 - **sources of guidance** to identify sustainability-related risks and opportunities, and metrics
- Steps to balance valid concerns about giving away **competitive advantage** to competitors with ensuring this is not used as an excuse to avoid disclosing material information.
- **Reliefs:** Timing of reporting (1 year); measurement of Scope 1, 2 and 3 (Scope 3 not required 1st year); Applying GHG Protocol Corporate Standard in specific circumstances; Comparative reporting (1st year)



S2: Climate

Climate-related Disclosures Standard: S2



- Used in accordance with S1
- Disclosure of material information about climate-related risks and opportunities
- Incorporates TCFD Recommendations and guidance
- Includes requirement to provide industry-specific disclosures
- Industry-specific metrics included as illustrative guidance, taken from SASB Standards
- Requires material disclosure of information about:
 - Physical risks (eg flood risk)
 - Transition risks (eg regulatory change)
 - Climate-related opportunities (eg new technology)



Transition planning

Emissions targets and use of carbon offsets



Climate resilience

Resilience of business strategy in multiple scenarios



Scope 1-3 emissions

Requirement to disclose GHG emissions in accordance with the GHG Protocol Corporate Standard

Scope 3 GHG emissions: requirements

S2 will require:

- ✓ Scope 3 GHG emissions, when material
- ✓ Which of 15 categories of Scope 3
- ✓ Use of *GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard*
- ✓ How and why the entity has used specific inputs, assumptions and estimation techniques to measure its GHG emissions, and information about changes



Furthermore, companies with emissions associated with investments (category 15) will be required to provide additional disclosures for financed emissions, as part of Scope 3 GHG emissions disclosures.

This is applicable for companies that are in, or have activities associated with, the following industries:

- Asset Management & Custody Activities;
- Commercial Banks
- Insurance, for their investment activities

Scope 3 GHG emissions: relief and support



Relief: Temporary exemption from this disclosure when first applying S2



Relief: Permission to include information obtained from companies in the value chain with a different reporting cycle



Relief: Use of reasonable and supportable information that is available without undue cost or effort



Guidance: The ISSB will provide framework for Scope 3 measurement that incorporates use of estimation

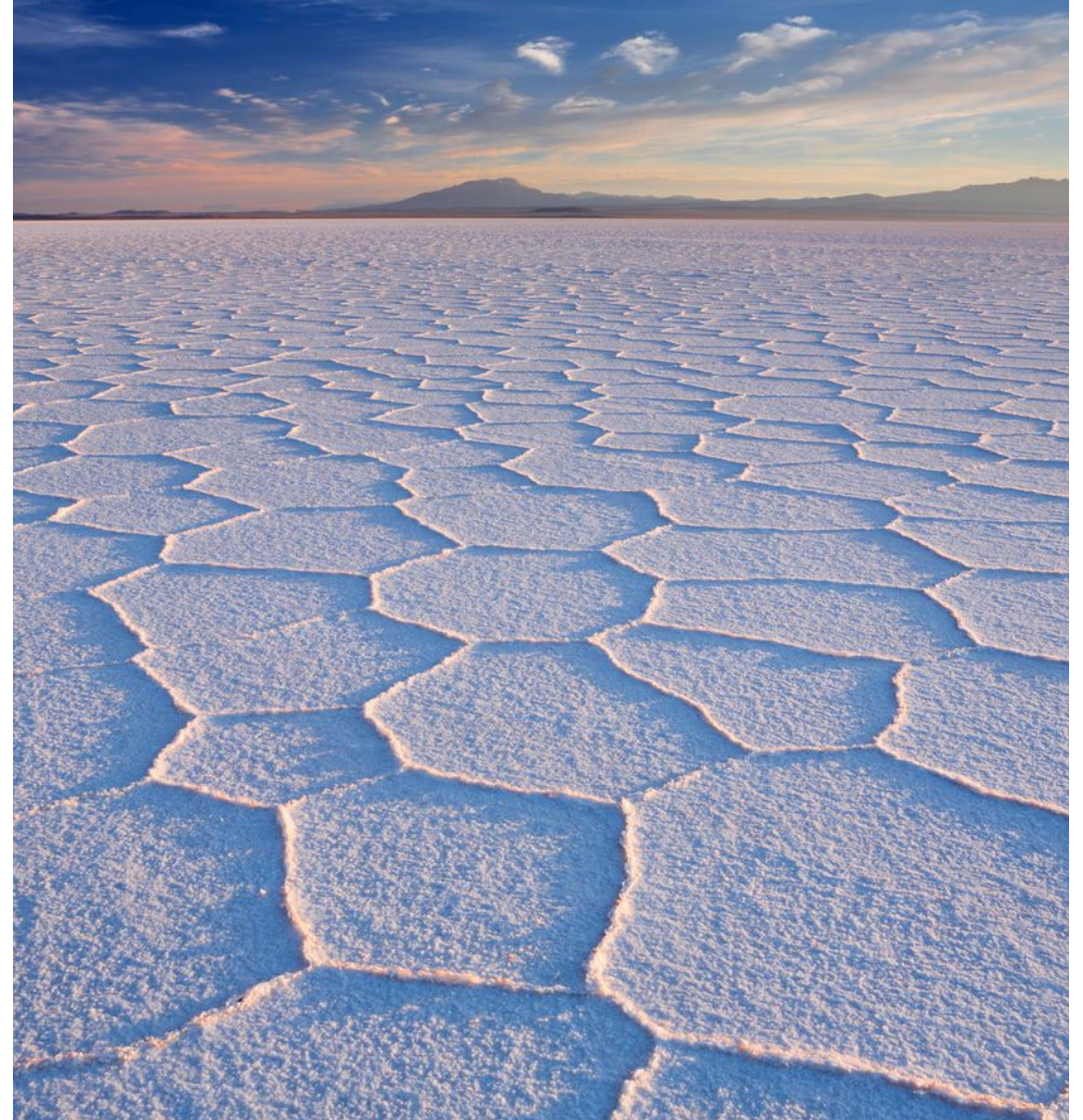


We recognise that companies need help, as best practice continues to develop, in measuring Scope 3 GHG emissions. The ISSB believes the reliefs and guidance...will provide companies with the time to get their processes in place, and the guidance to support this disclosure.

Sue Lloyd
Vice-Chair of the ISSB

Achieving efficiency through interoperability is a critical focus

- **Ongoing dialogue with jurisdictions**, eg the European Commission, working on jurisdiction-specific disclosure requirements
- Many redeliberation decisions – eg enterprise value, Scope 3 – **support interoperability**
- Adopted the **TCFD architecture** to drive interoperability
- Working with **GRI** to deliver a seamless sustainability reporting regime
- CDP to align platform to IFRS S2, **reducing market fragmentation** for CDP users



Next steps



2023 path to issuing S1 and S2



ISSB members
took decisions
based on
consultation
feedback

Staff working to
ensure the
Standards and
guidance reflect
decisions made

‘Balloting’ – ISSB
members confirm
the Standards are
written accurately

Final editing,
translating,
digital tagging

**S1, S2
issued
toward end
of Q2 2023**

Priorities

Steps to **deliver, strengthen and enhance adoption and application** of S1 and S2:

- balloting process
- digital taxonomy
- capacity building
- regulatory adoption, working with IOSCO and jurisdictions
- voluntary application, working with companies and investors

Work to:

- **enhance international applicability** of SASB Standards
- **connect climate and nature** by researching incremental enhancements to disclosures required by S2

Focus on:

- **connectivity** with financial statements, joint project with IASB
- delivering a seamless sustainability reporting regime through interoperability with **GRI Standards**



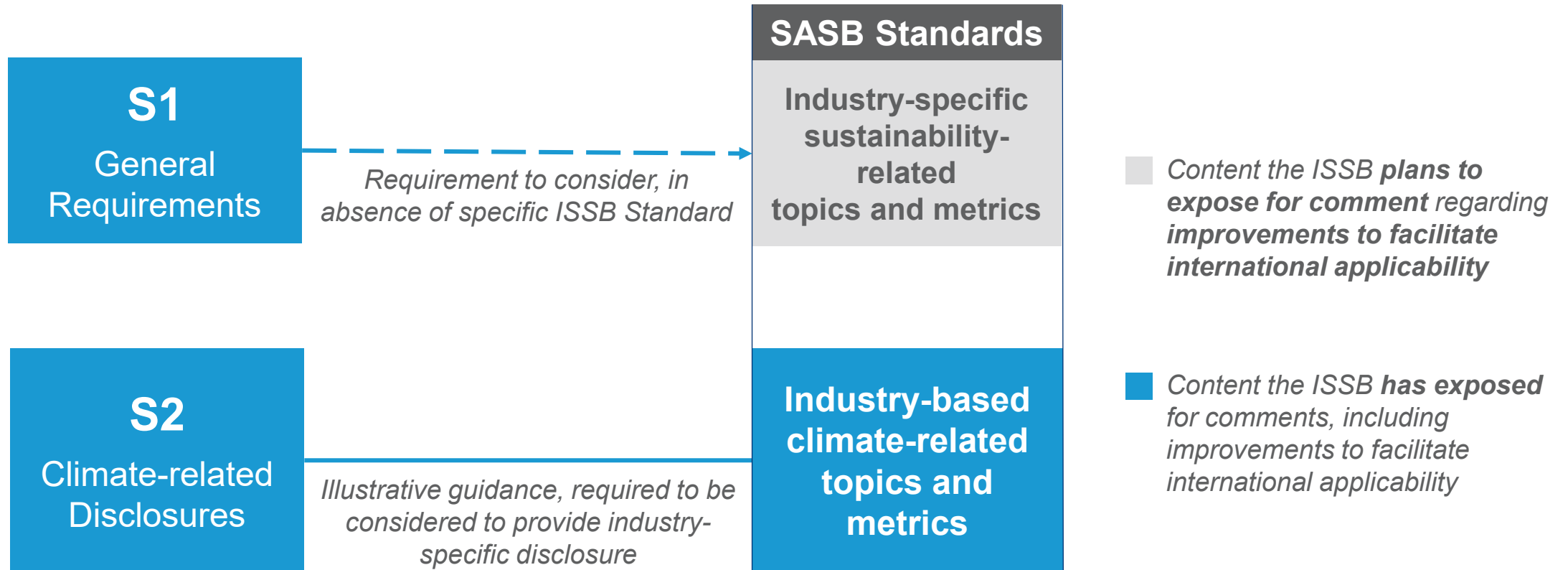
Agenda consultation in Q2

ISSB to hold public consultation on four projects to **further understand** standard-setting priorities:










- biodiversity, ecosystems and ecosystem services
- human capital
- human rights
- connectivity in reporting (with the IASB)



SASB Standards: the path forward



Summary: What's in your toolkit?

2023		2024	
	S1 and S2 available*		S1 and S2 available*
	Apply to advance industry-based disclosure		Required to consider for S1 application, in absence of specific ISSB Standard
	Apply to structure disclosure and for cross-industry climate disclosure		Optional guidance, in absence of specific ISSB Standard
	Use to guide disclosure on biodiversity and water		Use to support connectivity between S1 and IFRS Accounting Standards or other GAAP
	Use to understand connection between sustainability and financial value creation		

**Fully incorporates TCFD*

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