
IFRS Foundation Trustees meeting – Due Process Oversight Committee

Date **October 2022**
Topic **Due process for maintaining and enhancing SASB Standards**
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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 seeks the DPOC's approval for the proposed process for the International Sustainability Standards Board (ISSB) to maintain, evolve and enhance the Sustainability Accounting Standards Board (SASB) Standards that do not form part of IFRS Sustainability Disclosure Standards. This paper outlines the proposed process for the ISSB to:
 - (a) Make amendments to the SASB Standards;
 - (b) Improve the international applicability of the SASB Standards; and
 - (c) Align the SASB Standards with the updated metrics included in Appendix B of IFRS S2 *Climate-Related Disclosures*.
2. Appendix A sets out a diagrammatic representation of how the SASB Standards relate to the IFRS Sustainability Disclosure Standards. This paper is discussing amendments made to the *SASB Standards*. It is not discussing the process for the ISSB to incorporate elements of SASB Standards into IFRS Sustainability Disclosure Standards. That process will be subject to existing IFRS Foundation due process, as was done in relation to the incorporation of the industry-based metrics (based on the SASB Standards) in Appendix B of [draft] IFRS S2 *Climate-Related Disclosures* (the Climate Exposure Draft).

Recommendations to the DPOC

3. Staff recommend the following:
 - (a) That the ISSB be responsible for approving proposed and final amendments to the SASB Standards utilising a board advisor group comprising at least three and no more than five ISSB members. The ISSB will be asked to ratify proposed exposure drafts and final amendments provided to the ISSB by that board advisor group.
 - (b) That the ISSB consult on the *process and methodology* for improving the international applicability of the SASB Standards initially rather than exposing the particular individual amendments for comment, to be followed by an advanced draft of proposed amendments for public review.
 - (c) That the ISSB rely on the due process applied by exposing the Climate Exposure Draft for comment when subsequently it aligns the SASB Standards with the final amendments made to the SASB metrics included in the Climate Standard (ie no further consultation would be required).

Background

4. At its early March 2022 meeting the DPOC determined that the ISSB will apply the due process specified in the *Due Process Handbook* (Handbook) for the International Accounting Standards Board (IASB) for corresponding technical activities, in addition to the due process specified for the ISSB in the IFRS Foundation *Constitution*¹. It was also determined that 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. The DPOC noted that adaptations might be required in advance of formally updating the Handbook—these would be discussed and approved by the DPOC and clearly communicated to stakeholders.
5. It is noted that prior to consolidation with the IFRS Foundation, proposed amendments to the SASB Standards were subject to public consultation of typically 90 days but no less than 60 through the publication of exposure drafts by the SASB in accordance with its due process.
6. On 31 March 2022, the ISSB Chair and Vice-Chair published Exposure Drafts on General Requirements and Climate-Related Disclosures. Both those exposure drafts built upon the SASB Standards:
 - (a) The SASB Standards provided the source of the industry-based *requirements* in Appendix B of the Climate Exposure Draft.
 - (b) The General Requirements Exposure Draft proposed that in the absence of a specific IFRS Sustainability Disclosure Standard, that entities shall consider the SASB Standards (amongst other materials) as *supporting material* to identify sustainability-related risks and opportunities and to develop relevant disclosures. Thus, the SASB Standards are not required to be applied by those using IFRS Sustainability Disclosure Standards.
7. Along with the release of the exposure drafts on 31 March, the ISSB Chair and Vice-Chair also communicated plans for building upon the SASB Standards. In that document it was noted that on consolidation of the Value Reporting Foundation (VRF) (which occurred on 1 August 2022), the ISSB would assume responsibility for the SASB Standards. This process will include making amendments to the SASB Standards separate from the development of IFRS Sustainability Disclosure Standards including:
 - (a) Building upon the industry-based metrics of the SASB Standards in its future standard-setting beyond climate; and
 - (b) Improving the international applicability of the SASB Standards.
8. This paper sets out the proposed processes for this work.

Process for the ISSB to make amendments to the SASB Standards

9. The SASB Standards that have not been incorporated into an IFRS Sustainability Disclosure Standard still have an important role because they are referenced as supporting materials in proposed IFRS S1 – General Requirements (for an illustration of the role of the SASB Standards in relation to draft IFRS S1 and IFRS S2 see Appendix A). Unlike an IFRS Sustainability Disclosure Standard they are not

¹ This was a targeted addition allowing the Chair and Vice-Chair to publish the initial exposure drafts and agenda consultation prior to the ISSB being quorate.

required to be applied by stakeholders but are more in the nature of illustrative examples. As a consequence, there is no directly applicable due process set out in the Handbook that is relevant.

10. The staff have sought to build on concepts in the Handbook to recommend an approach to the DPOC that reflects that these materials are not *required* to be applied by stakeholders but ensures appropriate transparency and inclusiveness given the importance of the SASB Standards in the application of IFRS S1. In particular, the staff have built on two features of the *Due Process Handbook*—the process for developing IASB Education Material which includes review by three Board members and the ratification process used by the IASB on the publication of final Interpretations developed on their behalf by the Interpretations Committee.

11. Paragraphs 8.9 and 8.10 of the Handbook outline the process to develop IASB Education Material and explain:

8.9 *The development of educational material does not take place in public meetings and is not subjected to the public scrutiny that is given to the development of IFRS Standards. Nonetheless, educational material is subject to quality assurance processes reflecting the nature and complexity of the material [...]*

8.10 *In order to meet the assurances in paragraph 8.9, educational material is subjected to at least the following level of review:*

(a) high-level summaries of the requirements in an IFRS Standard, such as introductory webcasts on a new Standard, are reviewed by a Board member;

(b) more detailed materials explaining the requirements in a Standard, such as a webcast on specific aspects of a Standard, are reviewed by two Board members; and

(c) material explaining or illustrating how the requirements in a Standard might be applied to particular transactions or other circumstances, such as a new example demonstrating how the requirements might be applied to a particular fact pattern, are reviewed by three Board members.

12. Paragraphs 7.23 and 7.26 of the Handbook outline the process of the IASB ratification process for the publication of final IFRIC Interpretations which following ratification is issued by the IASB:

7.23 *[...]The [IASB] votes to ratify an IFRIC Interpretation in a public meeting. Ratification requires a supermajority, the same level of support by [IASB] members as is required for a new or amended IFRS Standard.*

7.26 *Ratified IFRIC Interpretations are issued by the Board.*

Using a Board advisor group to develop recommendations for amending SASB Standards

13. The ISSB is responsible for any amendments to the SASB Standards following consolidation of the VRF. However, the SASB Standards are not the equivalent of ISSB Standards. Thus, a streamlined process is proposed to maximise the efficiency of the process for the ISSB amending the SASB Standards. In short, the proposed process would result in the ISSB discussing and voting on any proposed exposure drafts or final amendments to the SASB Standards based on recommendations developed by and presented to the ISSB by an advisory group of ISSB members. The proposed process is outlined below.

14. The staff recommend that a group of ISSB members be identified that would be responsible for working with the staff to develop proposed amendments to the SASB Standards (a SASB Standards

Board Advisor Group). The SASB Standards Board Advisor Group would make recommendations to the ISSB of changes to the SASB Standards for approval by the ISSB (approval is discussed below in paragraphs 17–21). The work undertaken by the SASB Standards Board Advisor Group would be as agreed by the ISSB in accordance with the ISSB's agenda.

15. The staff propose that the SASB Standards Board Advisor Group comprise at least three ISSB members but no more than five. The minimum size would be consistent with the number of board members required to review educational material that goes beyond just explaining existing requirements (see paragraph 11) and the maximum size is set by the requirements in paragraph 3.14 of the Handbook with respect to the number of board members that can meet in private to discuss technical matters.
16. The staff think that establishing a SASB Standards Board Advisor Group of the ISSB would enable greater efficiency for the ISSB to maintain, enhance and evolve the SASB Standards on a timely basis while enabling the ISSB as a whole to focus on developing IFRS Sustainability Disclosure Standards. The staff recommend that the ISSB Chair and Vice-Chairs determine the membership of the SASB Standards Board Advisor Group (taking into account conflict considerations). Such an approach is in line with how the IASB reviews educational material by allocating specific Board members to review the material, or in the allocation of Board members as Board Advisors on specific topics they have expertise in.

Recommendations to the ISSB, public consultation and ISSB ratification

17. While SASB Standards Board Advisor Group discussions would not be public, the recommendations of the Group would be presented to the ISSB in public Board papers for public discussion providing transparency.
18. The SASB Standards Board Advisor Group would be responsible for developing exposure drafts of proposed amendments to the SASB Standards for public consultation, considering the feedback to the exposure drafts and developing the final amendments to the SASB Standards. The proposed exposure drafts and proposed final amendments would be provided to the ISSB along with the recommendations of the SASB Standards Board Advisor Group with an explanation of the basis for their recommendations. The staff recommend that proposed exposure drafts and proposed final amendments should be subject to a 'ratification' process by the (full) ISSB.
19. This would draw on the existing process for the development of an IFRIC Interpretation by the IFRS Interpretations Committee and the involvement of the IASB. As outlined in paragraphs 7.23–7.26 of the Handbook, when the Interpretations Committee has approved an IFRIC Interpretation it is submitted to the IASB for ratification in a public meeting. Ratification requires a supermajority vote, ie the same level of support as for approving exposure drafts and Standards. The staff think that applying the same ratification process to exposure draft and final amendments to the SASB Standards provides an appropriate balance between transparency, consultation and efficiency. This would result in the ISSB being responsible for the proposed and final amendments to the SASB Standards consistent with undertaking this responsibility on consolidation of the Value Reporting Foundation.
20. The staff recommends that the comment period for exposure drafts in relation to amendments to the SASB Standards be based on the period allowed for exposure drafts for amendments to IFRS Accounting Standards and IFRS Sustainability Disclosure Standards. Thus, the comment period would be no less than 120 days, with the ability to have a shorter period, of no less than 30 days if the update is narrow in scope (subject to DPOC approval).

21. The staff recommends this approach to amending the SASB Standards given their status within the ISSB literature as non-mandatory supporting material (ie they are not IFRS Sustainability Disclosure Standards). This approach would enable the ISSB to address amendments to the SASB Standards on a more timely basis and allow more time for the full board to develop IFRS Sustainability Disclosure Standards while still ensuring that the ISSB as a whole is engaged in and responsible for approving proposed and final amendments to the SASB Standards.

Question 1

Does the DPOC agree:

That the ISSB establish a Board Advisor Group of at least three and no more than five ISSB members that will be responsible for developing and recommending amendments to the SASB Standards that would then be subject to approval by the ISSB;

and

For the SASB Standards Board Advisor Group and the ISSB to use the process set out in paragraphs 17–21 to update SASB Standards?

Improving the international applicability of the SASB standards

22. As noted, Appendix B of the Climate Exposure Draft included industry-based requirements derived from SASB Standards—these were subject to proposed targeted revisions to improve the international applicability of some metrics and disclosure topics. To ensure the international applicability of the SASB Standards referred to as supporting material in draft IFRS S1 (General Requirements), there is a need to propose corresponding amendments to the remaining portion of the SASB Standards (ie the remaining requirements in the SASB Standards that are not climate-related and thus were not incorporated into the Climate Exposure Draft). While the work to improve the international applicability of the SASB Standards pre-dates the consolidation of the VRF into the IFRS Foundation, it was accelerated in order to draft the content in Appendix B of the Climate Exposure Draft.
23. The general approach utilised to maintain references in SASB Standards that previously referred to jurisdictional specific regulation/legislation has been to make revisions in one of two ways:
- Replace with a reference to an internationally applicable standard, definition or calculation method; or
 - Refer to a general definition.

If an appropriate international or general reference is not available, then the reference to the jurisdictional regulation/framework is maintained.

24. There is a high volume of SASB material that will be affected by these proposed changes—Appendix B of the Climate Exposure Draft incorporated about one third of the SASB materials so two thirds is still subject to this process. Given the volume of materials and the specified, procedural nature of the proposed changes to the SASB Standards, the staff recommend that the ISSB publish an exposure draft that explains the *process and methodology* for the changes along with examples of those changes and asks for comment on the *process*, rather than consulting on the marked-up amendments of the proposed changes to references throughout the SASB Standards. It is also proposed that prior to finalisation of the resulting amendments (which would reflect feedback received), an advanced staff draft of the proposed amendments should be uploaded onto the IFRS Foundation website to allow stakeholders to review the document in full to identify any fatal flaws. This is noted as a possible

approach for due process documents in paragraph 3.31 of the Handbook which explains posting documents for fatal flaw review on the website (3.31 – drafts for editorial review).

25. The timeline for this work is important. The proposed approach for consulting would enable the work to advance in an efficient manner. This approach would enable amendments to be completed prior to IFRS S1 (General Requirements) coming into effect. This is important given that [draft] IFRS S1 referenced the SASB Standards as supporting materials to be used to provide disclosures in the absence of a specific ISSB Standard (ie for matters beyond climate) and it is expected that final IFRS S1 will similarly reference the SASB Standards.
26. The purpose of the proposed amendments is simply to consult on the very specific question of how US-specific references should be amended to be more globally applicable. In this consultation the ISSB would not be requesting broader feedback on the SASB Standards. If a full marked up version of the SASB Standards² were exposed for comment it is likely to imply that feedback is sought on the SASB Standards more generally. The proposed approach for the exposure draft would more clearly communicate the focused purpose of the consultation to stakeholders. This would also be a more accessible document for stakeholders and a less burdensome document for them to engage with and comment on. The staff notes that engagement with stakeholders is planned including with industry experts to obtain feedback on the basis of the exposure draft.
27. If the DPOC agrees with the proposed use of the SASB Standards Board Advisor Group outlined above, this Group would be responsible for working with the staff to prepare the exposure draft for recommendation to the ISSB and to confirm with the ISSB that they ratify the document for publication and that this process also be used to finalise subsequent amendments.

Question 2

Does the DPOC agree with the proposed approach to consulting on potential amendments to improve the international applicability of the SASB Standards ie that the exposure draft request feedback on the proposed *process and methodology* for updating US-based references for more internationally applicable references to be followed by an advanced draft of proposed amendments for public review?

Alignment of Appendix B with SASB Standards

28. As discussed, Appendix B of the Climate Exposure Draft sets out the industry-based requirements that an entity shall apply when it identifies climate as a significant sustainability-related risk or opportunity. These requirements were built upon the SASB Standards, specifically the industry-based metrics relevant to the disclosure of climate-related information. Adaptations were made to the industry-based metrics following the advancement of the work of the Technical Readiness Working Group and including those intended to facilitate:
 - (a) Improved international applicability;
 - (b) disclosure of financed and facilitated emissions, and
 - (c) the addition of signposting and illustrative examples to assist preparers in providing connected information.

² Excluding the climate components already included in the Climate Exposure draft.

29. It is noted that when the final Climate Standard is issued there will be climate-related materials in both the SASB Standards and the IFRS Sustainability Disclosure Standards. The analysis that follows reflects the continuation of the SASB Standards at this time.
30. Prior to consolidation, changes to the SASB Standards were the subject of exposure drafts published by the SASB. The SASB did not propose equivalent changes to those in Appendix B of the Climate Exposure Draft prior to the ISSB inheriting the governance of the SASB Standards. On the assumption that the ISSB confirms Appendix B of the Climate Exposure Draft in finalising the Climate Standard (IFRS S2) there will be climate-related materials in the SASB Standards and in Appendix B. In order to avoid having multiple versions of the climate-related materials, it will be necessary to align the final changes made to the industry-based materials in Appendix B by the ISSB with the corresponding disclosures in the SASB Standards.
31. The proposed amendments have been informed by significant stakeholder feedback as part of the Climate Exposure Draft. As a result, the staff recommend that the ISSB rely on that due process to update the SASB Standards so that they are consistent with changes agreed by the ISSB in finalising the Climate Exposure Draft.
32. The staff also note that in future instances when the ISSB proposes incorporating elements from the SASB standards in IFRS Sustainability Disclosure Standards and in doing so amends those elements, the ISSB will include the consequential amendments to the corresponding SASB Standards as part of its Exposure Draft. This will enable those amendments to be made to the SASB Standards when the ISSB finalises the Exposure Draft to avoid multiple versions of materials.

Question 3

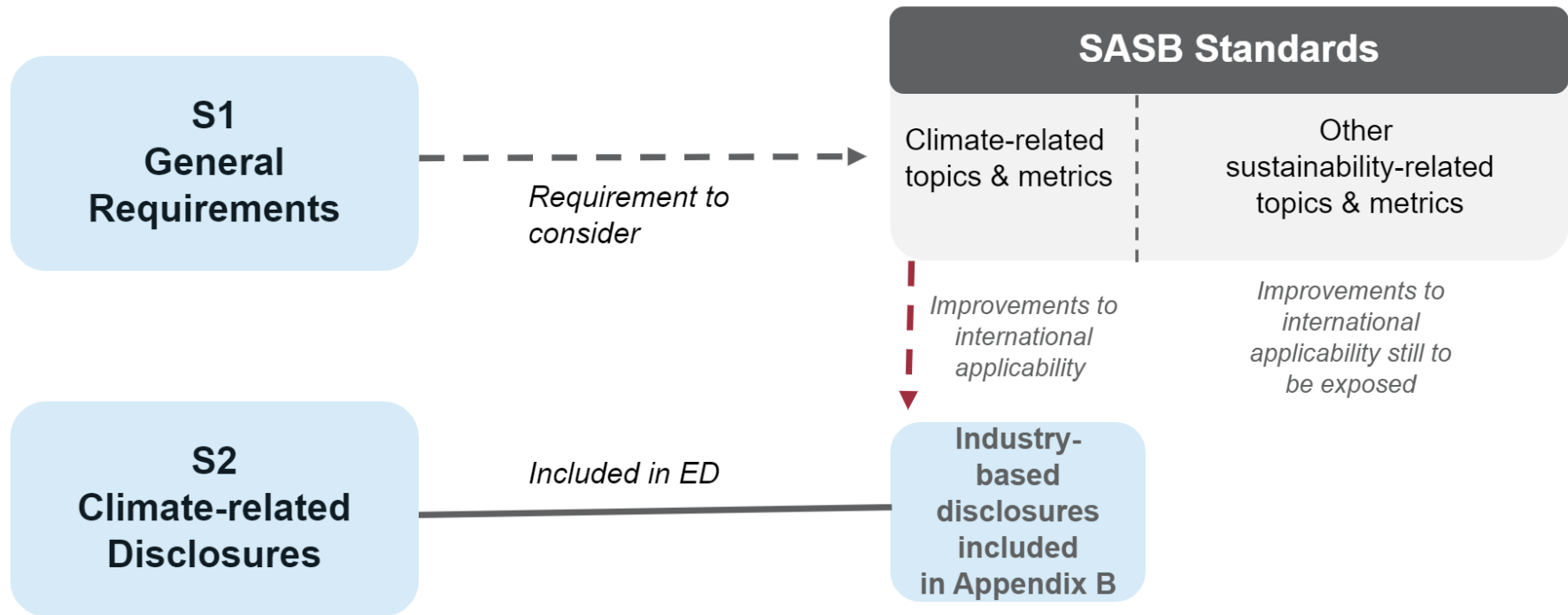
Does the DPOC agree that the ISSB can rely on the due process undertaken in issuing the Climate Exposure Draft as a basis for making corresponding changes to the SASB Standards?

Next steps

33. If the DPOC agrees to the recommendations set out in this paper, the ISSB Chair and Vice-Chairs intend to determine the composition of the SASB Board Advisor Group promptly so that the Group can begin its work.

Appendix A

Role of SASB Standards in IFRS Sustainability Disclosure Standards



 Illustrates content that has been exposed for public comment by the ISSB and is subject to existing IFRS Foundation due process.

 Illustrates the SASB Standards to be subject to the proposed due process set out in this paper.