ISSB Digital Taxonomy – General Update

ITCG July meeting
5 July 2023

Better Information, Better Decisions

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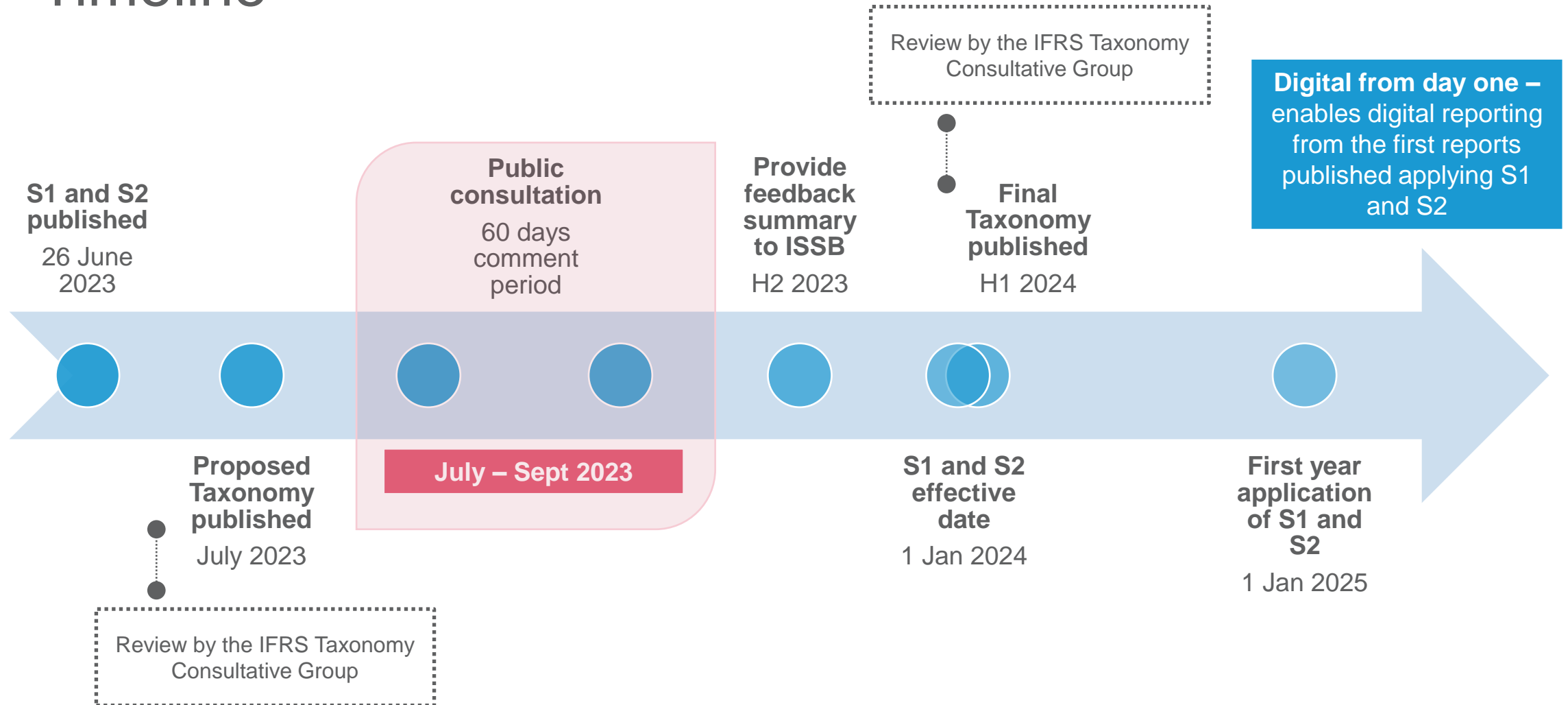
Purpose

Provide an outline of the plan for the upcoming public consultation on the Proposed ISSB Digital Taxonomy

Provide a preview of the proposal and seek preliminary feedback from the ITCG

Timeline

S1 and S2 published
26 June 2023

Proposed Taxonomy published
July 2023

Review by the IFRS Taxonomy Consultative Group

Public consultation
60 days comment period

July – Sept 2023

Provide feedback summary to ISSB
H2 2023

Review by the IFRS Taxonomy Consultative Group

Final Taxonomy published
H1 2024

S1 and S2 effective date
1 Jan 2024

Digital from day one – enables digital reporting from the first reports published applying S1 and S2

First year application of S1 and S2
1 Jan 2025

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Tagging narrative disclosures – level of granularity and categorical elements

Granularity in tagging narrative disclosures

- The principle is to create a distinct element for a block of narrative disclosures that are expected to be:
  - separately understandable to investors; and
  - easily identifiable by preparers for tagging

- Applying the principle, ISSB proposes a simple taxonomy structure that:
  - includes elements mainly to reflect first-level subparagraphs of S1 and S2 as those are expected to be understandable to investors as a separate piece of information; and
  - limits hierarchical structure by not creating elements at paragraph level and limiting the number of elements reflecting lower-level subparagraphs, therefore minimises the need for 'double tagging' which is complex for preparers

- The elements proposed for tagging narrative disclosures expected from the application of S1 and S2 include:
  - Approximately 100 elements to tag blocks of narrative information;
  - Categorical elements: approximately 35 Boolean and extensible enumerations elements

The most useful information that could be separately understandable to users generally reflects the **first-level sub-paragraph requirement(s)**

Element label		Element Type
	Disclosure of processes and related policies entity uses to identify, assess, prioritise and monitor sustainability-related risks **(IFRS S1.44(a), IFRS S2.25(a))**	Text block
	Disclosure of whether and how entity uses scenario analysis to inform its identification of sustainability-related risks **(IFRS S1.44(a)(iv), IFRS S2.25(ii))**	Text block
	Entity uses scenario analysis to inform its identification of sustainability-related risks **[true false] (IFRS S1.44(a)(iv))**	Boolean

The principle for creating distinct elements is met in limited circumstances for **lower-level subparagraphs requirement(s)**:
- Categorical elements which enable easy analysis of narrative information
- Information expected to be particularly important for users

Risk Management

(...)

Sustainability-related risks

We identify sustainability-related risks considering their strategic importance to the entity's business model and value chain over the short, medium and long term. To understand these risks further, we evaluate the impact and likelihood of each risk and opportunity. The impact and likelihood assessments determine our responses and also help us to prioritise risks.

To support our risk assessments, we set our risk appetite. Our risk appetite is informed by our assessment of the resilience of our strategy and business model against a wide range of outlooks, including the potential impacts of various possible energy transition pathways. We have determined that scenarios linked to the identified sustainability-related risks could lead to a severe but possible outcome.

(...)

Categorical elements

- To help investors with extracting and analysing narrative disclosures, the ISSB has introduced **categorical elements** in the Proposed ISSB Digital Taxonomy. These are:

  - Boolean elements ('true or false' answers); and

  - Extensible enumerations (a single or multiple choice from a list of options)

- Accompanying **textual elements** are also proposed because investors are expected to use the textual information disclosed when looking for more detail or nuance related to the disclosure represented by a categorical element

- To be clear, categorical elements are only to be used to tag information that is disclosed by an entity. For example, a preparer need not use a 'false' value to tag information that it does not disclose.

Boolean elements, for example:

Entity uses scenario analysis to inform its identification of sustainability-related risks (IFRS S1.44(a)(iv))

[True / False]

Extensible enumerations, for example:

Type of climate-related risk (IFRS S2.10(b))

[List: (1) Physical risk (2) Transition risk]

Reflection of relationship between S1 and S2

Corresponding requirements in S1 and S2

S1 and S2 includes **corresponding requirements** related to the core content of governance, strategy, risk management and metrics and targets. For example:

- **paragraph 32(a) of IFRS S1** requires an entity to disclose information about how the entity has responded to, or anticipates having to respond to, **sustainability-related risks and opportunities** in its strategy and decision-making; and

- **paragraph 14(a) of IFRS S2** requires an entity to disclose information about how the entity has responded to, or anticipates having to respond to, **climate-related risks and opportunities** in its strategy and decision-making, including (…).

A single set of elements for the corresponding requirements

	Element label	Reference
#1	Disclosure of how entity has responded to, and plans to respond to **risks and opportunities**	**IFRS S1.33(a)** **IFRS S2.14(a)**
#2	Disclosure of how the entity is resourcing, and plans to resource, activities disclosed in relation to entity's response to **climate-related risks and opportunities** in strategy and decision-making	**IFRS S2.14(b)**
#3	Disclosure of progress against plans entity has disclosed in previous reporting period	**IFRS S1.33(b)** **IFRS S2.14(c)**

- **A single set of elements** is proposed to reflect corresponding requirements in S1 and S2 to:
  - reflect that these requirements might result in the disclosure of common items of information (in that the S1 requirement encompasses the S2 requirement).
  - avoid the complexity of using two sets of elements to tag common items of information ('double tagging')
- This single set of elements have:
  - reference to **IFRS S1** and **IFRS S2** requirements;
  - element label often referring to **risks and opportunities**;
  - documentation label that refers to sustainability-related risks and opportunities (including climate-related risks and opportunities) and guidance label explaining that all climate-related risks and opportunities are sustainability-related risks and opportunities
- **Distinct elements** are proposed for specific disclosure requirements in S2 that are applicable to climate-related risks and opportunities

Other general features

Other general features of the Proposed ISSB Digital Taxonomy

Dimensional modelling

- Dimensional modelling is proposed to structure the logical relationships of:
  - entity-specific information (for example, sustainability-related metrics and targets or risks and opportunities); and
  - elements defined in the Proposed Taxonomy (for example, elements reflecting financed emissions disclosure requirements)

- Dimensional modelling creates a structure for entity-specific elements that helps users to understand them and use that information for analysis.

Industry-based metrics in S2

- Elements for industry-based metrics included in S2 are proposed to enable preparers to tag industry-based metrics disclosed in accordance with S2

- Based on equivalent elements in the SASB Taxonomy, updated to reflect targeted amendments made in S2

- Taxonomy entry points that allow access to elements reflecting S1 and S2 with or without elements reflecting industry-based metrics

Taxonomy architecture

- Following XBRL best practice to enable entities to use the Taxonomy together, for example with the IFRS Accounting Taxonomy, the SASB Taxonomy, or other taxonomies

Element grouping

- Elements are organised (grouped) in a way that facilitates navigation, understanding and use of the Taxonomy

Connections between disclosures

- Not explicitly modelled; information about such connections are expected to be captured using the taxonomy elements

Facilitating digital reporting of sustainability-related financial disclosures globally

![IFRS Sustainability logo]

Facilitating digital reporting of sustainability-related financial disclosures globally

The Proposed ISSB Digital Taxonomy is primarily designed to serve as a global baseline for tagging sustainability-related financial information.

- ISSB is working to deliver a global baseline of sustainability-related financial disclosures to meet needs of capital markets

- The ISSB Digital Taxonomy may support interoperability of ISSB's Standards with jurisdictional requirements and other sustainability-related standards, for example by helping investors identify sustainability-related financial information that meets the requirements of the ISSB Standards within reports that also address other sustainability-related standards.

- Interoperability between standards is a PRE-REQUISITE for interoperability between digital taxonomies.

- Some elements in the Proposed ISSB Digital Taxonomy include guidance labels to help preparers use those elements correctly.

- Further technical guidance being considered includes:
  - additional guidance labels
  - guidance to support preparers in the appropriate use of the ISSB Digital Taxonomy (including topical guidance, such as examples on how to use specific elements)
  - guidance to assist regulators in adopting the ISSB Digital Taxonomy to enable digital reporting in their jurisdictions

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