IFRS Taxonomy Consultative Group (ITCG) meeting

Date	**1 February 2024**
Project	**IFRS Sustainability Disclosure Taxonomy**
Topic	**Proposed IFRS Sustainability Disclosure Taxonomy: Introduction session**
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Purpose

The purpose of this meeting is to discuss feedback that arises from the ITCG's review of the prospective IFRS Sustainability Disclosure Taxonomy*

Meeting format:

a) **Introduction session** – The staff will provide an overview about the main changes made in the prospective Taxonomy resulting from stakeholder feedback on the Proposed Taxonomy.

b) **Breakout session** – Each ITCG member will be assigned to a breakout group. This session is intended to help structure discussion of ITCG members' feedback on the prospective Taxonomy (see **Agenda Paper 7B** of ITCG February 2024 meeting)

c) **Report back session** – ITCG members will summarise and discuss the main points from each breakout session with the rest of the meeting participants.

* For brevity, we refer to the IFRS Sustainability Disclosures Taxonomy as the 'ISSB Taxonomy' or the 'Taxonomy' in this document.

Background information

- **In March 2022, the Chair and Vice-Chair published the Exposure Drafts** IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.

- **In May 2022, the IFRS Foundation published a Staff draft of the ISSB Taxonomy** representing the disclosure requirements proposed in the two Exposure Drafts. The staff draft was accompanied by a Request for Feedback soliciting public feedback on staff recommendations on fundamental matters that need to be considered early to enable the ISSB to publish the ISSB Taxonomy on a timely basis.

- **The deadline for comments on the Staff draft closed on 30 September 2022**. Stakeholder feedback was discussed by the **ISSB at its November 2022 meeting**.

- **In June 2023, the ISSB issued** IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.

- **In July 2023, the ISSB published the Proposed ISSB Taxonomy** for digital reporting reflecting the disclosure requirements in IFRS S1 and IFRS S2 for public consultation.

- **The deadline for comments on the Proposed Taxonomy closed on 26 September 2023.** The ISSB discussed stakeholder feedback on the Proposed Taxonomy at its **November 2023 meeting.** The ISSB discussed the main changes resulting from stakeholder feedback that will be made in the prospective ISSB Taxonomy at its **December 2023 meeting.**

Introduction session

Introduction session – Overview

The ISSB discussed **main changes to the prospective Taxonomy** resulting from stakeholder feedback on the Proposed Taxonomy in its <u>December 2023 meeting</u>.

As a result these changes have now been reflected in the prospective Taxonomy. They include changes relating to:

a) the approach to tagging **narrative information** (Slides 6–9);

b) the approach to **reflecting the relationship between IFRS S1 and IFRS S2** (Slides 10–14); and

c) the approach to tagging **metrics and targets** (Slides 15–18).

A. Narrative information – Proposal

- **Narrative information** often requires more context to be understood and useful. In considering the appropriate approach for tagging narrative information, the ISSB proposed creating a taxonomy structure that is designed to:

  Provide **investors** with blocks of narrative information that are useful for analysis (and which also support the use of AI tools such as large language models);

  Minimise the need for **preparers** to multiple tag the same information; and

  Support **global implementation and consistent application** of the Taxonomy by limiting hierarchical structure which could result in inconsistency in tagging practice among preparers or jurisdictions.

- The ISSB proposed a principle for creating taxonomy elements for narrative information at the lowest level of detail expected to be both **separately understandable to investors** and **readily identifiable for tagging**.

  The ISSB proposed this principle to strike the right balance between creating taxonomy elements that would result in information tagged being either too broad (information processing will be difficult) or too narrow (information context will be lost). Applying this principle, the ISSB proposed approximately **100 elements to tag blocks of narrative information.**

  The ISSB proposed creating taxonomy elements reflecting a single level of disclosure requirements to the extent possible, **limiting hierarchical structure** in its Taxonomy. For example, when an element is created to reflect a requirement in the sub-paragraph in the Standards, the ISSB generally did not propose creating elements reflecting a requirement in a level lower (or higher level) than sub-paragraphs

A. Narrative information – Feedback

Generally, stakeholders supported the aim of a **Taxonomy** designed to tag all information usefully while minimising the need for **multiple tagging** of the same information, because it will support the **global implementation and consistent application** of the Taxonomy.
Some respondents thought the proposals struck the right balance between providing useful information for investors and limiting burden on preparers. Some stakeholders supported the ISSB's intention to review emerging reporting practice and subsequently refine and enhance the Taxonomy, if necessary (for example, more granular elements could be introduced subsequently).

Common themes of stakeholder feedback:
- Some stakeholders (including a few respondents and some ITCG members) emphasised the importance of considering **interoperability with other taxonomies (including the forthcoming ESRS XBRL Taxonomy) in determining appropriate level of granularity** useful for investors to compare information with other sustainability-related standards; and
- Some data aggregators and regulators thought providing elements reflecting different levels of requirements in the Standard (other than sub-paragraph) **could provide more data for investors which could be grouped and analysed in different ways**.

A. Narrative information – Response

The staff recommends the ISSB **confirms** the principle for creating elements for narrative information at the lowest level of detail expected to be both **separately understandable to investors** and **readily identifiable for tagging.**

In response to stakeholder feedback, the staff recommends the ISSB **makes targeted amendments to the modelling** of some of the proposed taxonomy elements to refine and enhance their modelling (based on stakeholder feedback) and minimise the gap in how similar requirements in IFRS S2 and ESRS E1 are modelled in the ISSB Taxonomy and the forthcoming ESRS XBRL Taxonomy.

- Specifically, by **adding elements reflecting more granular aspects of requirements** when they are expected to help facilitate interoperability (see Slides 39-41 of AP7 of the ISSB December 2023 meeting for more information about these additional elements).

- Information tagged using these elements could help investors make appropriate comparison with similar type of information provided using other sustainability-related standards.

While considering changes to the Taxonomy that aim to help with interoperability with other sustainability-related standards, the staff noted that:

- Adding too many elements may make it **more difficult** for preparers to use the Taxonomy and for investors to obtain data at a level that is most useful for analysis.

- Adding elements reflecting lower-levels of requirements in the Standard may result in **adding hierarchical structure**.

A. Narrative information – Questions for ITCG
(for discussion in Breakout and Report back sessions)

1. Does ITCG agree that adding elements reflecting more granular aspects of requirements when they are expected to help facilitate interoperability would help investors' use of tagged information?

2. Does ITCG have other feedback on any aspect relating to the approach to tagging narrative information (Slides 6–8)?

B. Reflection of relationship between IFRS S1 and IFRS S2 – Background

- **'Corresponding requirements'** for the purposes of this discussion are IFRS S1 disclosure requirements that are also in IFRS S2 because they are relevant to climate-related risks and opportunities. Those requirements relate to the core content of governance, strategy, risk management and metrics and targets.

- The ISSB proposed **a single set of elements** in the proposed Taxonomy to reflect corresponding requirements in IFRS S1 and IFRS S2. This proposal:
  - Reflects that those requirements might result in, or be addressed by, common items of information; and
  - Avoids the complexity of tagging the same information twice.

- Information reflecting corresponding requirements may be provided by **each risk and opportunity.** A **dimensional model*** is proposed to:
  - Allow investors to extract information separately for each risk and opportunity; and
  - Help investors understand entity-specific elements used to identify sustainability-related risks and opportunities.

* A 'dimensional model' maps the reported information to a conceptual table, providing structure for entity-specific elements. This table reflects the logical structure of the data and does not specify or restrict the format of any disclosure.

B. Reflection of relationship between IFRS S1 and IFRS S2 – Feedback

Almost all respondents supported the proposals designed to tag all information once, with additional details provided by risks and opportunities identified by an entity, where applicable.

However, some stakeholders (including some investors) were **concerned about:**

1. **Comparability** between risks and opportunities identified by each entity; and
2. Not being able to easily **identify information related to climate separately** from other information

Some stakeholders suggested the Taxonomy should facilitate **identification of information related to climate separately** from other information.

Stakeholders said that identifying entity-specific risks and opportunities as climate-related **may help with comparability** between entities and it may **help with interoperability between various reporting frameworks** because it may allow easier comparison of information grouped as climate-related.

B. Reflection of relationship between IFRS S1 and IFRS S2 – Response (1)

The staff recommends the ISSB **confirms** the proposals to:

- **Create a single set of elements** to reflect the corresponding requirements; and

- **Use a dimensional model** to reflect potential disaggregation of information by each risk and/or opportunity (for example an entity may provide information about its sustainability-related risks and opportunities by each risk and/or opportunity or on an integrated basis).

In response to stakeholder feedback, the staff recommends the ISSB **introduces a mechanism** that would enable investors to identify the topic(s) of a sustainability-related risk or opportunity when such information is provided and tagged.

- Specifically, the staff recommends adding an **extensible enumeration*** reflecting the topic(s) of a sustainability-related risk or opportunity and **adding 'Climate'** into the list of defined topic(s).

* Extensible enumeration would allow an entity to choose specified answers from a list (and create entity-specific answers when appropriate)

B. Reflection of relationship between IFRS S1 and IFRS S2 – Response (2)

The ISSB may add more topics in the Taxonomy in future, to reflect **future Standards** or **'common practice'** (disclosures that are commonly reported by entities in practice when applying IFRS Standards but are not explicitly referred to in the Standards).

The staff also considered a suggestion to add a list of defined topic(s), other than Climate. The staff noted that:

- The ISSB Standards do not specify a list of topics of sustainability-related risks and opportunities that is required to be disclosed by an entity; and

- Adding any generic list of topics could result in conflict with future ISSB Standards (that is, the topics of future ISSB Standards).

B. Reflection of relationship between IFRS S1 and IFRS S2 – Questions for ITCG
(for discussion in Breakout and Report back sessions)

1. Does ITCG agree that having elements for tagging disclosure about the topic(s) of a sustainability-related risk or opportunity would be useful (Slides 12–13)?

2. Does ITCG have other feedback on any aspect relating to the approach to modelling the relationship between IFRS S1 and IFRS S2 (Slides 10–13)?

C. Metrics and targets – Background

- Some metrics, such as the **climate-related cross-industry metrics** and **industry-based metrics,** are specified by IFRS S2. Therefore, they are modelled separately for each concept. An entity is expected to tag these metrics, if disclosed, using the appropriate taxonomy elements provided in the Taxonomy.

- Some metrics, such as the **non-climate-related industry-based metrics**, are not specified by the ISSB Standards. However, IFRS S1 requires an entity to refer and consider the SASB Standards for industry-based metrics not related to climate. In the same way preparers would be encouraged to use the **SASB Taxonomy** to tag those metrics.

- Some metrics and all targets are **developed by an entity** (that is, not defined in the Standards). For the purpose of this discussion, we refer to these metrics and targets as **'entity-defined metrics and targets'.**

  - Entity-defined metrics and targets are not defined in the ISSB Standards and are therefore not explicitly modelled as individual known concepts in the Taxonomy. Instead, in the proposed Taxonomy, preparers are expected to create **entity-defined elements (extensions)** to represent entity-defined aspects of disclosures, including for metrics and targets.

- The ISSB proposed modelling disclosure requirements related to entity-defined metrics and targets using a dimensional approach to representing information about such metrics and targets, to help make it **easier for preparers to use entity-defined elements** and to help **investors' analysis of information** about metrics or targets tagged using entity-defined elements.

C. Metrics and targets – Feedback

A few regulators said they were concerned **preparers might not use extensions appropriately** which would decrease the quality of digital reporting. Of these regulators, some said that the ISSB should **limit the use of extensions** and some said the ISSB should **encourage consistent use**.

A few stakeholders suggested other ways of modelling information related to entity-defined metrics and targets to encourage consistent tagging, including
- Adding **elements** that could be used to tag **values of metrics and targets** (rather than relying on entities creating elements which are more difficult to use for analysis);
- Using **extensible enumerations** for tagging **information about the link** between metrics and targets
Stakeholders also asked for **guidance** on tagging metrics, for example how to use the SASB Taxonomy alongside the ISSB Taxonomy.

C. Metrics and targets – Response

In response to stakeholder feedback, the staff recommends the ISSB **adds the following line items** to explicitly model the values of entity-defined metrics and targets in the Taxonomy:

- **'text' type element** for tagging textual values;

- **'decimal' type element** for tagging numerical values (currency, length, volume, ratios, etc); and

- **'percentage' type element** for tagging percentage values (to avoid 'scaling' issues due to incorrect usage of decimal element for tagging percentages).

The staff also recommends the ISSB **changes the data type** of the element used for tagging the link between metrics and targets to extensible enumeration.

Additionally, the staff recommends the ISSB adds some elements to some cross-industry metric categories in IFRS S2 to facilitate comparability of similar types of information. Further it will also help facilitate interoperability with the forthcoming ESRS XBRL Taxonomy.

- More specifically, by **adding 'monetary' and 'percentage' examples or both** to some cross-industry metric categories in IFRS S2 (see Slides 42-43 of AP7 of the ISSB December 2023 meeting for more information)

C. Metrics and targets – Questions for ITCG
(for discussion in Breakout and Report back sessions)

1. Does ITCG agree that the elements reflecting the values of entity-defined metrics and targets in the Taxonomy would be useful?

   a) Does ITCG agree that the values described in Slide 17 would be suitable for tagging almost all entity-defined metrics and targets?

   b) If not, is there any other element type that ITCG thinks would be useful to add?

2. Does ITCG have other feedback on any aspect relating to the approach to tagging metrics and targets (Slides 15–18)?

D. Other topics

- **Fact-fact links**: The Standards require the disclosure of information that allows users to understand several kinds of connections between disclosed information. In many cases the specific items of information to be connected are fundamentally entity- and report- specific. In other words, which specific items are connected to which others is part of the reported information itself and cannot be specified by the Standard. Therefore, they cannot be defined individually in the Taxonomy. There is a mechanism in the XBRL Standard that preparers can use for tagging, allowing the tagging of disclosure of links between any items of information. We are considering recommending preparers provide such information in their reports.

- **Taxonomy labels**: We plan to update various aspects of the Taxonomy labels including shortening verbose standard labels and updating a few guidance labels.

Question for ITCG (for discussion in Breakout and Report back sessions):

- Does ITCG have feedback on any other aspect of the prospective Taxonomy?
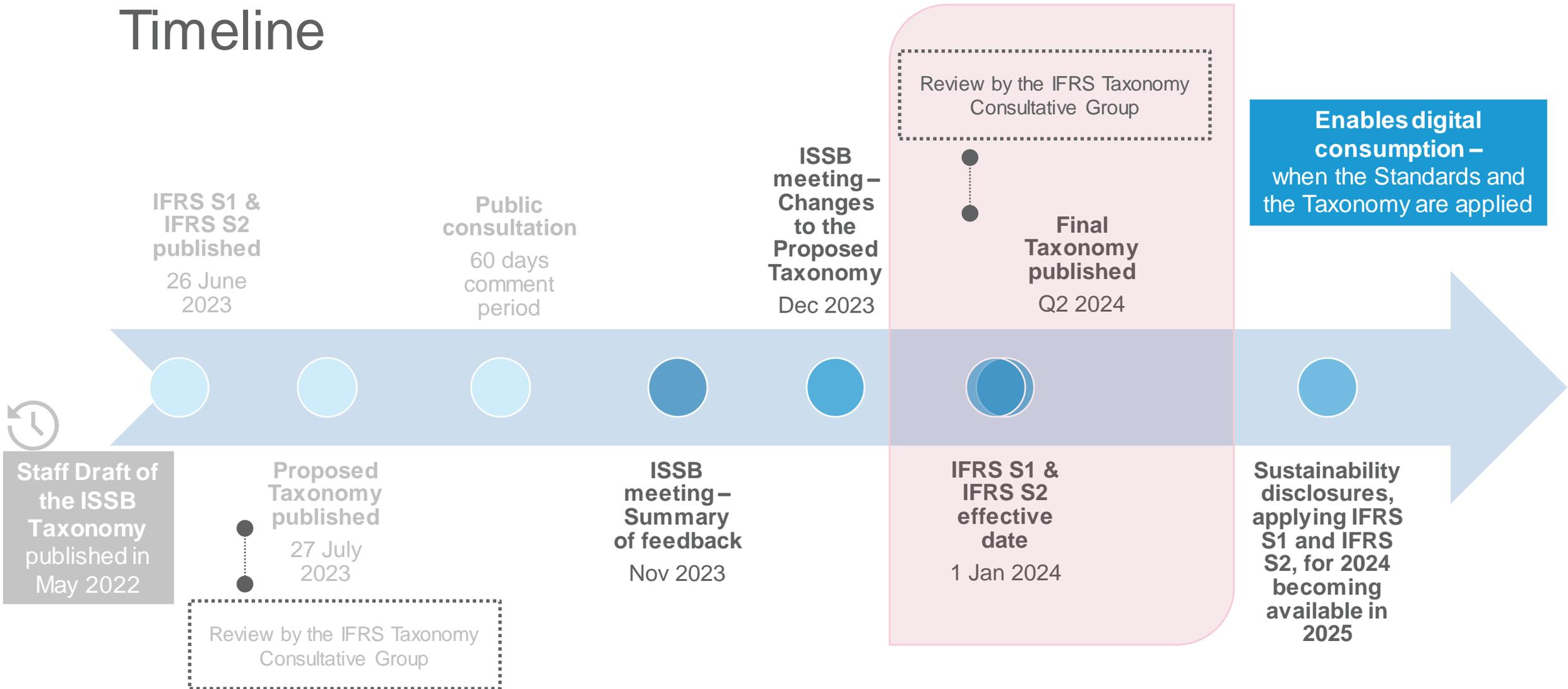
Next steps and timeline

Next steps

- The staff will consider feedback from ITCG and start preparing the ISSB Taxonomy files and due process document for **approval by the ISSB** by means of a ballot

- Subject to approval by the ISSB, the staff will prepare a final version of the ISSB Taxonomy files and due process documents for publication (expected in Q2 2024)

Timeline

Staff Draft of the ISSB Taxonomy published in May 2022

IFRS S1 & IFRS S2 published
26 June 2023

Proposed Taxonomy published
27 July 2023

Review by the IFRS Taxonomy Consultative Group

Public consultation
60 days comment period

ISSB meeting – Summary of feedback
Nov 2023

ISSB meeting – Changes to the Proposed Taxonomy
Dec 2023

Review by the IFRS Taxonomy Consultative Group

Final Taxonomy published
Q2 2024

IFRS S1 & IFRS S2 effective date
1 Jan 2024

Enables digital consumption – when the Standards and the Taxonomy are applied

Sustainability disclosures, applying IFRS S1 and IFRS S2, for 2024 becoming available in 2025

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