
ISSB meeting

Date **July 2022**
Project **ISSB consultation on agenda priorities (2022)**
Topic **Project introduction and overview**
Contacts **Greg Bartholomew** (greg.bartholomew@thevrf.org)
Rommie Johnson (rommie.johnson@thevrf.org)

This paper has been prepared for discussion at a public meeting of the International Sustainability Standards Board (ISSB). This paper does not represent the views of the ISSB or any individual ISSB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Sustainability Disclosure Standards. The ISSB's technical decisions are made in public and are reported in the ISSB *Update*.

Objective

1. The International Sustainability Standards Board (ISSB) will develop and pursue its initial work plan subject to public consultation on agenda priorities. To support the consultation, the ISSB intends to publish a Request for Information in the second half of 2022 to gather views on:
 - (a) the strategic direction and balance of ISSB activities;
 - (b) the suitability of proposed criteria for assessing the priority of sustainability-related matters (including topics, industries and activities) that could be added to the ISSB's work plan; and
 - (c) a proposed list of sustainability-related matters (including topics, industries and activities) that could be added to the ISSB's work plan.
2. The purpose of this meeting is to:
 - (a) apprise the ISSB of the staff's proposed approach to the project;
 - (b) present a preliminary list of identified items to consider as we prepare the Request for Information, based on Agenda Paper 1A—*Items to be considered in development of Request for Information*; and
 - (c) begin discussion of both the approach and the preliminary list of items to consider and solicit board members' views that will help shape the general direction and specific proposals included in the Request for Information.
3. The feedback received will inform a subsequent discussion with the ISSB at a later decision-making meeting.

Structure of the paper

4. This paper is structured as follows:

- (a) Overview of the project (paragraphs 5–23);
 - (i) Strategic balance (paragraphs 8–16);
 - (ii) Criteria for assessing proposals (paragraphs 17–20);
 - (iii) Potential priority matters (paragraphs 21–23);
- (b) Overview of the approach (paragraphs 24–25);
- (c) Steps already completed (paragraphs 26–30);
 - (i) Sourcing information (paragraphs 27–28);
 - (ii) Identifying market needs (paragraphs 29–30);
- (d) Approach going forward (paragraphs 1–35);
 - (i) Defining the scope of proposals (paragraph 32);
 - (ii) Assessment of the proposals against criteria (paragraph 33);
 - (iii) Prioritisation of key matters (paragraph 34);
 - (iv) Publication of Request for Information (paragraph 35);
- (e) Questions for the ISSB (paragraph 36)

Overview of the project

5. The public consultation on agenda priorities is intended to help shape the ISSB's thinking about matters to be addressed and to inform the allocation of the ISSB's time in standard-setting and related activities. The staff propose that the consultation address the ISSB's work for the first two years following the consultation. Two years is a shorter time frame than what is typically considered in an agenda consultation for financial accounting standard-setting, such as that undertaken by the International Accounting Standards Board (IASB), which seeks to set out a five-year work plan. The proposed near-term approach reflects three key considerations:
- (a) first, as the ISSB commences its ongoing standard-setting programme, its ability to accommodate emerging priorities will be constrained in the near term by those projects to which it is already committed, which include:
 - (i) finalising [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and providing potential implementation support to stakeholders
 - (ii) finalising [draft] IFRS S2 *Climate-related Disclosures*
 - (iii) developing the IFRS Sustainability Disclosure Taxonomy

- (iv) enhancing the international applicability of the Sustainability Accounting Standards Board (SASB) Standards
 - (b) second, sustainability-related risks and opportunities, by their nature, tend to emerge and evolve—sometimes rapidly—requiring the ISSB to allow itself enough capacity in its work plan and flexibility in its activities to respond to a dynamic market in a reasonable time frame.
 - (c) third, sustainability-related reporting and adoption of the ISSB’s standards is still developing, and thus, the future work of the ISSB may need to be adjusted to reflect these developments.
6. While the ISSB is required by the IFRS *Constitution* to carry out a public consultation on its technical agenda at least every five years, the ISSB expects to launch its next such consultation sooner, likely before the projects included in the initial work plan are completed.
7. With the objective of identifying near-term priorities, the Request for Information will seek public input on several key items:
- (a) strategic balance;
 - (b) criteria for assessing proposals; and
 - (c) a short, preliminary list of potential priority matters.

Strategic balance

8. As the ISSB looks to commence its ongoing standard-setting programme, the Request for Information will seek public input on the overall balance of its main activities—that is, what proportion of the ISSB’s focus should be allocated to advancing and enhancing existing materials (including the SASB Standards, the International Integrated Reporting Framework and the Climate Disclosure Standards Board (CDSB) Framework and associated application guidance) and what proportion should be allocated to developing new materials to address emerging or evolving matters. An increase in the allocation of resources to one activity would mean that fewer resources would be available for the other.
9. The Request for Information will also seek stakeholder input on what proportion of the ISSB’s focus should be allocated to other activities that could affect all aspects of the ISSB’s work, including:
- (a) stakeholder engagement;
 - (b) supporting implementation and application of the IFRS Sustainability Disclosure Standards;
 - (c) digital reporting;
 - (d) connectivity and collaboration with the IASB; and
 - (e) interoperability with other sustainability-related standards.

10. Items (d) and (e) represent efforts by the ISSB to coordinate its work with other standard-setting bodies to facilitate the delivery of a coherent and comprehensive system of financial and non-financial disclosure to users of corporate reporting.

Connectivity and collaboration with the IASB

11. Sustainability-related financial disclosures provide insights to investors into matters that may or may not be reported in the financial statements. Together, sustainability-related financial disclosures and financial statements are intended to provide investors with a connected financial reporting package to inform their investment decisions, enabling them to assess the entity's ability to create value and generate cash flows over time.
12. The need for connectivity between sustainability-related financial disclosures and the financial statements—and the resulting need for the ISSB and the IASB to collaborate in their work—has been highlighted by respondents to the recent IFRS Foundation Trustees' consultation on targeted amendments to the IFRS Foundation *Constitution* to accommodate the creation of the ISSB, the IASB's Third Agenda Consultation and the IASB's recent consultation on its current Management Commentary project.
13. This collaboration between the boards, with the aim to enable connected reporting, could take various forms, such as:
- (a) Collaboration to:
 - (i) scope the boards' respective requirements so that they are compatible, and avoid inconsistencies and conflicts between IFRS Accounting Standards and IFRS Sustainability Disclosure Standards;
 - (ii) ensure consistent use of cross-cutting concepts and terminology in the boards' respective requirements; and
 - (iii) support the application of the boards' connected requirements.
 - (b) A joint project on requirements that enable connected discussion and analysis of financial statements and sustainability-related financial disclosures, building on innovations developed in the IASB's current Management Commentary project, in response to stakeholder feedback in that project.
 - (c) As described in an IFRS Foundation press release [Integrated Reporting— articulating a future path](#), collaboration to build on and integrate the International <IR> Framework into the boards' standard-setting projects. This work may be undertaken in conjunction with work on the IASB's Management Commentary project.
 - (d) Working together to ensure that the information required by the two boards is complementary, does not conflict and meets the needs of users of general purpose financial reporting when considered as a whole.
14. A listing of potential projects to be undertaken in coordination with the IASB is included in paragraphs 86-95 of Agenda Paper 1A—*Items to be considered in development of Request for Information*.

Interoperability with other sustainability-related standards

15. In establishing a global baseline of sustainability-related financial disclosure, the ISSB has affirmed its intention to pursue significant interoperability with widely used jurisdictional and voluntary standards in order to minimise fragmentation of reporting requirements, reduce reporting burdens and enable the availability of consistent sustainability information for users.
16. For example, in March 2022, the ISSB signed a Memorandum of Understanding with the Global Reporting Initiative (GRI), committing the two organisations to seek to coordinate work programmes and standard-setting activities where appropriate. Such coordination can help preparers more efficiently and effectively address distinct perspectives and user objectives, including those of investors (ISSB) and a broader set of stakeholders (GRI).

Criteria for assessing proposals

17. The Request for Information will further seek public input on the suitability of the criteria that the ISSB uses to assess proposals for inclusion in its work plan. The staff propose that the criteria be based on those used by the IASB to evaluate potential projects for inclusion in its work plan.
18. The criteria are:
 - (a) the importance of the matter to investors;
 - (b) whether there is any deficiency in the way companies disclose information on the matter;
 - (c) the type of companies that the matter is likely to affect, including whether the matter is more prevalent in some industries or jurisdictions than others;
 - (d) how pervasive or acute the matter is likely to be for companies;
 - (e) the potential project's interaction with other projects on the ISSB's work plan (or on the IASB's work plan);
 - (f) the complexity and feasibility of the potential project and its solutions; and
 - (g) the capacity of the ISSB and its stakeholders to make timely progress on the potential project.
19. Staff suggests that the ISSB may wish to consider an additional criterion focused on the relevance of the matter to the reporting requirements in force in international jurisdictions. Although such a criterion would depart from the approach used by the IASB, it may be appropriate to do so given the importance to the ISSB of establishing a global baseline of disclosure requirements that are interoperable with those of jurisdictional regulators.
20. It may also be helpful to refine the first criteria listed above to focus on the importance for investors in assessing enterprise value.

Potential priority matters

21. Finally, the Request for Information will also seek public input on a short, preliminary list of priority matters for potential inclusion in the ISSB's near-term work plan. In preparing the list for consultation, the ISSB will consider a range of sources and inputs, with a particular emphasis on the many years of technical activities and market outreach of its recently or soon-to-be consolidated organisations, the CDSB and the Value Reporting Foundation (including SASB Standards and the International Integrated Reporting Framework), respectively, and the input of its advisory bodies and standing consultative groups. Consideration will also be given to the recommendations of the IFRS Foundation's Technical Readiness Working Group (TRWG)¹, whose deliverables to the ISSB included recommendations on potential agenda items.
22. A description of the broadly defined items that have surfaced from an initial assessment of these inputs is included in Agenda Paper 1A—*Items to be considered in development of Request for Information*.
23. A description of the staff's approach to identify, refine and prioritise these preliminary items, propose potential solutions, and seek the ISSB's assessments of which to include in the Request for Information is included in paragraphs 24–30.

Overview of the approach

24. Developing a list of potential priority matters to include in the Request for Information will involve the following steps:
 - (a) sourcing information (*completed*)
 - (b) identifying market needs (*completed*)
 - (c) defining the scope of proposals
 - (d) assessment of the proposals against criteria
 - (e) prioritisation of key matters
 - (f) publication of Request for Information
25. The outcomes of the first two steps in this process, a preliminary list of broadly defined items to consider, are included in Agenda Paper 1A—*Items to be considered in development of Request for Information*.

¹ The TRWG was formed by the IFRS Foundation Trustees to provide a running start for the ISSB. The organisations participating in the TRWG were the IASB, CDSB, VRF, the Financial Stability Board's Task Force on Climate-related Financial Disclosures and the World Economic Forum and its Measuring Stakeholder Capital Initiative. Recommendations of the TRWG were published in November 2021 within the [Summary of the Technical Readiness Working Group's Programme of Work](#).

Steps already completed

26. Staff has already undertaken early steps to advance this project as follows.

Sourcing information

27. To identify matters for consideration by the ISSB, a wide range of internal and external sources of input were reviewed. The internal materials included public feedback on the *Consultation Paper on Sustainability Reporting* issued in September 2020 by the IFRS Foundation Trustees, public feedback received thus far on [draft] IFRS S1 *General Requirements for the Disclosure of Sustainability-related Financial Information* and [draft] IFRS S2 *Climate-related Disclosures*, the agenda priorities of the IFRS Foundation's recently or soon-to-be consolidated entities (CDSB and the Value Reporting Foundation, respectively), and the input of key consultative and advisory bodies, including the TRWG.
28. Meanwhile, external materials were also reviewed, including the standards, guidance, recommendations, and work plans published by other sustainability standard setters and framework providers, the work of market-led initiatives focused on the measurement and disclosure of sustainability-related information, regulatory and policy developments in international jurisdictions, the stated priorities of investor coalitions, and the disclosures made by entities in a range of industries and geographic contexts.

Example: A coalition of institutional investors has published a research paper detailing how water quality and availability affect the financial position, performance and cash flows of portfolio companies.

Identifying market needs

29. Having compiled a preliminary list of broadly defined items to consider, staff then systematically evaluated the importance of each item in a capital markets context. Considerations in this step included whether the item:
- (a) was prevalent in the internal and external sources of input reviewed;
 - (b) is covered in existing standards or guidance or commonly addressed in the disclosures of relevant entities;
 - (c) reflects significant exposure to changing investor expectations, emerging or evolving government regulation, shifts in societal norms or macroeconomic trends, such as resource constraints and technological innovation;
 - (d) is prominent in shareholder engagements, including proposals; or
 - (e) demonstrates significant, evidence-based implications for enterprise value.

30. Although each of these aspects was considered, an item may be assessed as a potential priority by satisfying one or more—but not necessarily all—aspects. For example, an item might be a potential priority if it was prevalent in all sources of input but hasn't been the subject of a shareholder proposal.

Example: A survey of source materials might reveal that water risk is identified as a priority by many regulators and capital markets participants and is commonly addressed in company disclosure, but not in a standardized or decision-useful way.

Approach going forward

31. Starting with the list of preliminary items to consider identified in the step described in paragraphs 29–30 and using the input provided by the ISSB during this meeting, staff will proceed with the remaining steps in the process as follows.

Defining the scope of proposals

32. Each item will have been assessed in the previous step to enable a sharper focus on the subset of items—or key aspects of an item—most relevant to capital markets. In this step, staff will develop and describe specific proposals, based on its own analysis and the ISSB's input. This step may involve additional research and consultation, where necessary or appropriate, with the aim of building an understanding of the following characteristics of potential projects:
- (a) **problem definition:** what is the pain point for capital markets participants?
 - (b) **rationale:** why should a solution to this problem be prioritised? (for example, urgency, pervasiveness, effect)
 - (c) **stakeholders:** which segments of global capital markets would be affected? (for example, type of market participant, jurisdiction, industry, size)
 - (d) **potential solution(s):** what possible paths forward can be identified or have been suggested? (Where solutions are unclear or lack consensus, a research project may be recommended as an initial step before considering whether to move to formal standard-setting.)
 - (e) **indicative size of project:** how resource-intensive would it be for the ISSB to pursue the proposal? (large, medium, small)

Example: Research might indicate a range of different water risks driven by limited natural water availability, competition for water resources, watershed pollution and water-related regulations—each of which may affect different business models. An industry-based project may be proposed to enhance understanding of “net water risk,” where net risk is a measure of total exposure offset by the actions taken to mitigate exposure.

Assessment of the proposals against criteria

33. Once proposals have been prepared, they will be assessed against a set of criteria for inclusion in the Request for Information, which will present the ISSB's preliminary view of its agenda priorities. These criteria include:
- (a) the importance of the matter to investors;
 - (b) whether there is any deficiency in the way companies currently disclose information on the matter;
 - (c) the type of companies that the matter is likely to affect, including whether it is more prevalent in some jurisdictions than others;
 - (d) how pervasive or acute the matter is likely to be for companies;
 - (e) the potential project's interaction with other projects on the ISSB's (or IASB's) work plan;
 - (f) the complexity and feasibility of the potential project and its solutions; and
 - (g) the capacity of the ISSB and its stakeholders to make timely progress on the potential project.

Example: If the ISSB views water-related risk as meeting many of the criteria, it may vote to include the proposal in the RFI.

Prioritisation of key matters

34. At an upcoming meeting, the ISSB will be presented with a proposed 'short list' of potential priority sustainability-related matters—along with staff analysis—for consideration, deliberation and relative prioritisation in the context of its strategic priorities. The ISSB will consider the resourcing needs of the proposals individually and collectively given its capacity, reserving space on its agenda for emerging issues, joint projects with the IASB or other matters that may arise.

Publication of Request for Information

35. The Request for Information will be a document published by the ISSB so will be subject to balloting. The objective is to publish this document in the fourth quarter of 2022.

Questions for the ISSB

36. Staff presents the following questions for the ISSB.

Questions for the ISSB:

Project and process

1. Does the ISSB have any questions or comments on the contents of this paper?
Specifically:
 - a. is any information unclear?
 - b. has the staff omitted any information you would like to consider?
 - c. should the staff further consider any points or criteria in developing the project plan?
 - d. do you have any initial comments or suggestions about next steps for this project?

Strategic balance

2. Does the ISSB have any questions or comments on the considerations related to the ISSB's strategic balance included in paragraphs 8–16?
3. Are there additional items that are not included in this paper that should be considered related to the strategic balance of the ISSB?

Criteria for assessment

4. Are the proposed criteria for assessing the priority of projects appropriate to use (see paragraph 18)? Why or why not?
5. Should the ISSB consider any other criteria? If so, what additional criteria should be considered and why?