Staff draft of IFRS Sustainability Disclosure Taxonomy

Narrative disclosures and information related to metrics and targets

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Topics

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Summary of questions for breakout session 3

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Narrative information – granularity of information

Question 1 ❓ Similar to Q4 in the staff request for feedback

A. Do you agree with the staff recommendation that, as a principle, distinct taxonomy elements should be created for narrative information that is expected to be both separately understandable to primary users of sustainability-related financial information, and easily identifiable for tagging?

B. Why or why not? If not, should taxonomy elements generally be provided to represent more detailed or less detailed narrative data sets? Why?

C. Would you suggest creating different elements than those suggested (reflecting proposed requirements at the level of paragraph and sub-paragraphs)?

Question 3 ❓ Question specific to ITCG members

A. How would tagging using 'nested' or **hierarchical 'text block' elements** work in practice? Is this structure helpful or problematic?
   - Impact on preparers – would it cause confusion and potentially inconsistent tagging?
   - Impact on users – does it provide useful information?
   - Impact on regulators – does it require changing tagging rules?

B. Are there any concerns about tagging using 'text block' elements of highly styled documents (in HTML format) including pictures or graphs?

Narrative information – categorical elements

Question 2 ❓ The same as Q5 in the staff request for feedback

Do you agree with the staff recommendation to use **categorical elements** for narrative disclosures that can be represented as either a true or false response or a choice from a list of responses? Why or why not?

Question 4 ❓ Question specific to ITCG members

A. Do you have any concerns related to the use of **categorical elements** for narrative disclosures in the **IFRS Accounting Taxonomy**, if the staff recommendation for using categorical elements is accepted by the ISSB and such elements are used in the IFRS Sustainability Disclosure Taxonomy? Why or why not?

B. Do you have any thoughts on the alternatives under consideration for introducing categorical elements in the IFRS Accounting Taxonomy explained on slide 21? Do you think we should consider other alternatives also? If so, which?

Modelling metrics and targets

Question 5 ❓

Do you agree with the staff recommendation to create elements, **equivalent to those in the SASB Taxonomy**, for defined metrics common to Sustainability Standards and SASB Standards in the Sustainability Taxonomy?

Why or why not? If not, what alternative approach would you suggest and why?

Question 6A ❓

Do you agree with the staff recommendation to model disclosures related to **entity-specific metrics and targets** using a dimensional approach?

Why or why not? If not, what alternative approach would you suggest and why?

Question 6B Question specific to ITCG members

How might we best **connect** the **disclosures** *about* entity-specific metrics and targets *to* the entity specific metric **values**?

Narrative disclosures in the taxonomy

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Granularity of information

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1. Granularity of narrative information

The issue

- Investors **use narrative information differently than numeric information**. For example, numbers are used to directly compare between companies and periods. **Narrative information** often **needs to be read in context** and **can be less directly comparable** than numerical information.
- Consequently, it is useful to capture each reported number separately. For example, an entity's profit or loss for the year. In contrast, larger pieces of text covering similar topics in a consistent way might be more useful than the smallest possible pieces of information (see next slide for more details).

Staff recommendation

The objective: creating distinct element for narrative information when information is:

- expected to be **separately understandable to users**; and
- **intended to be easily identified for tagging**.
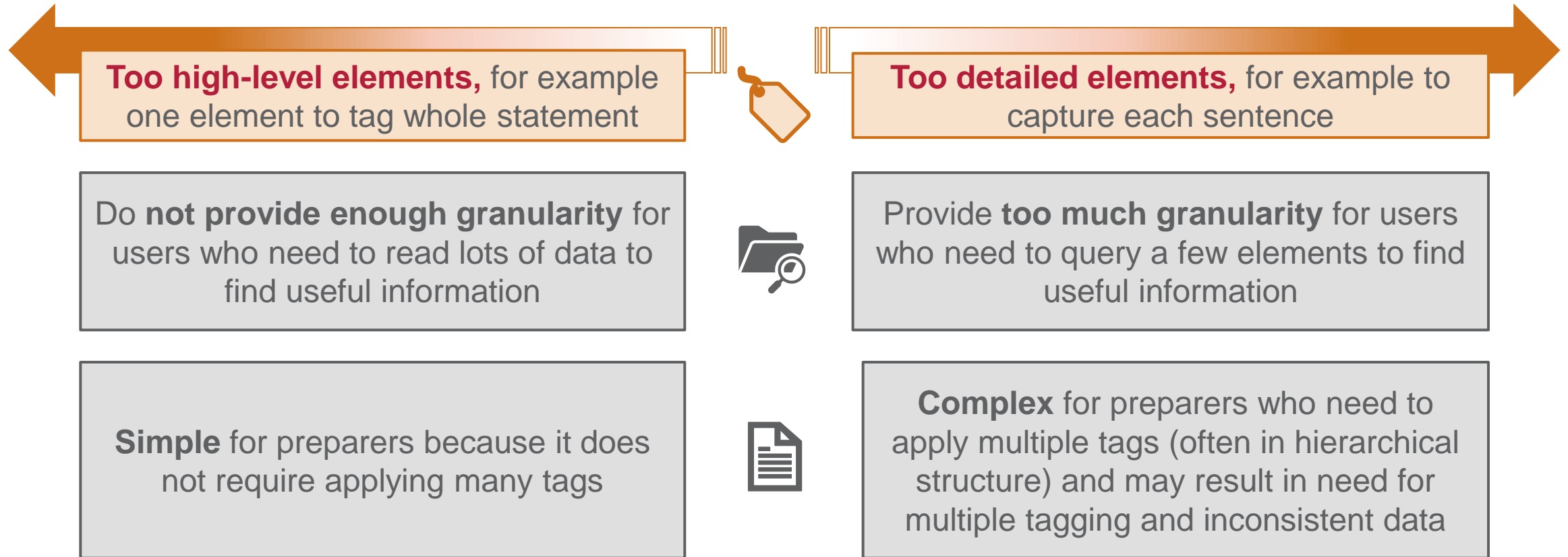
To meet the objective, the staff assessed it would need to create elements for :

- proposed requirements in **each sub-paragraph** because they typically result in relatively distinct and coherent disclosures; and
- proposed requirements **in paragraphs** that reflect disclosure objective and core content will capture any information not reflected in sub-paragraphs.

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1. Granularity of narrative information – illustration of an issue

Too high-level elements, for example one element to tag whole statement

Too detailed elements, for example to capture each sentence

Do **not provide enough granularity** for users who need to read lots of data to find useful information

Provide **too much granularity** for users who need to query a few elements to find useful information

Simple for preparers because it does not require applying many tags

Complex for preparers who need to apply multiple tags (often in hierarchical structure) and may result in need for multiple tagging and inconsistent data

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1. Granularity of narrative information

Alternatives rejected

Option 1: creating elements at paragraph level only
- Rejected because more granular information may be useful to users

Option 2: creating elements at a lower level than sub-paragraph level
- Rejected because proposed requirements at this level are not distinct enough and users are not likely be interested in this information. It will also increase burden for preparers to tag many levels of text.

Question 1 ❓	Similar to Q4 in the staff request for feedback

A. Do you agree with the staff recommendation that, as a principle, distinct taxonomy elements should be created for narrative information that is expected to be both separately understandable to primary users of sustainability-related financial information, and easily identifiable for tagging?

B. Why or why not? If not, should taxonomy elements generally be provided to represent more detailed or less detailed narrative data sets? Why?

C. Would you suggest creating different elements than those suggested (reflecting proposed requirements at the level of paragraph and sub-paragraphs)?

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Narrative disclosures
in the taxonomy

(2) Categorical elements

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2. Categorical elements

The issue

- **Some narrative disclosures are similar to numerical information** because they are directly comparable between entities and across periods.
- If such data were provided in **a categorical format (for example, a true/false format),** primary users would be able to quickly search databases for information and compare across different companies and for the same company across period, without needing to interpret the textual disclosures of each entity.

Staff recommendation

The staff recommends **introducing categorical elements** to the IFRS Sustainability Disclosure Taxonomy.
The staff recommends creating categorical elements when it is expected it would be useful to users to compare information between periods of time or to identify changes that might affect trend analysis.

The illustration of staff recommendations related to tagging narrative information is on the next slide.

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2. Examples of suggested categorical elements

💡 Categorical elements are **most useful** when the possible **list of answers can be standardised** ie responses can easily be identified in the Standards.

Boolean element type

Element label	List of answers for tagging	Reference
Sustainability-related performance metrics are included in remuneration policies	True / False	IFRS S1.13(f)
Entity applied new or amended Standard earlier than its mandatory effective date	True / False	IFRS S1.B1, IFRS S2.C1

Extensible enumeration element type

Element label	List of answers for tagging	Reference
Sustainability-related metric is absolute measure or expressed in relation to another metric	Absolute measure / Measure expressed in relation to another metric	IFRS S1.31(a)
Type of risk associated with climate-related scenarios used	Transition risk / Physical risk	IFRS S2.15(b)(i)(3)

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2. Categorical elements

Alternatives rejected

Option 1: creating text elements, similar to the IFRS Accounting Taxonomy
- Rejected because using categorical elements would better facilitate the use of digital information as users would not need to read text to quickly search database and compare information.
- If the staff recommendation is accepted by the ISSB and categorical elements are used in the IFRS Sustainability Disclosure Taxonomy, the **staff plans to consider** the use of such elements **in the IFRS Accounting Taxonomy** – see section on "Categorical elements in the IFRS Accounting Taxonomy".

Question 2 ❓ The same as Q5 in the staff request for feedback

Do you agree with the staff recommendation to use categorical elements for narrative disclosures that can be represented as either a true or false response or a choice from a list of responses? Why or why not?

The list of all proposed categorical elements is included in Appendix F of the Staff Request for Feedback.

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Narrative disclosures in the taxonomy

3 Illustration of tagging

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Sustainability disclosures in a report

Elements in the staff draft IFRS Sustainability Disclosure Taxonomy

Governance

Lorem ipsum dolor sit amet, consectetur adipiscing elit, sed do eiusmod tempor incididunt ut labore et ...

Setting targets

Duis aute irure dolor in reprehenderit in voluptate velit esse cillum dolore eu fugiat nulla pariatur.

Performance metrics are included in remuneration policies.

This is achieved by setting 10% of performance bonus contingent on achieving targeted reductions in key sustainability impact measures.

Excepteur sint occaecat cupidatat non proident, ...

Lorem ipsum dolor

Ut enim ad minim veniam, quis nostrud exercitation ullamco laboris nisi ut aliquip ex ea commodo ....

True

Text block: Disclosure about governance processes, controls and procedures used to monitor and manage sustainability-related risks and opportunities (IFRS S1 12)

Text block: Disclosure of how responsible body and its committees oversee setting of sustainability related targets and monitor progress (IFRS S1 13(f))

Boolean: Sustainability-related performance metrics are included in remuneration policies (IFRS S1 13(f))

Text block: Description of how sustainability-related performance metrics are included in remuneration policies (IFRS S1 13(f))

3. Tagging narrative information

Question 3 ❓	Question specific to ITCG members

A. How would tagging using 'nested' or hierarchical 'text block' elements work in practice? Is this structure helpful or problematic?

- Impact on preparers – would it cause confusion and potentially inconsistent tagging?

- Impact on users – does it provide useful information?

- Impact on regulators – does it require changing tagging rules?

B. Are there any concerns about tagging using 'text block' elements of highly styled documents (complex HTML documents), including pictures or graphs?

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Narrative disclosures in the taxonomy

4 A. Categorical elements in the <u>IFRS Accounting Taxonomy</u>

4. Categorical elements in the IFRS Accounting Taxonomy

The issue

- IFRS Accounting Taxonomy does not currently use categorical elements and instead uses text or text block elements. We have received suggestions to include categorical elements.
- The staff considered:
    - A. whether categorical elements should be implemented in the IFRS Accounting Taxonomy if the staff recommendation for using categorical elements is accepted by the ISSB and such elements are used in the IFRS Sustainability Disclosure Taxonomy.
    - B. how to introduce categorical elements in the IFRS Accounting Taxonomy.

Staff consideration

A. The staff is considering using categorical elements in the IFRS Accounting Taxonomy if such elements are used in the IFRS Sustainability Disclosure Taxonomy. This is because:
- Categorical elements better facilitate the use of digital information.
- The staff recommends consistent modelling for similar disclosures in the IFRS Accounting Taxonomy because it will make use of both taxonomies easier.

B. The staff is considering the different alternatives for introducing categorical elements in the IFRS Accounting Taxonomy. See slide 21.

See next slide for illustration of categorical elements in the IFRS Accounting Taxonomy.

4. Illustration of categorical elements in the IFRS Accounting Taxonomy

Existing text or text block element [and related reference]	Potential categorical element	Responses for the categorical element
Text: Information whether entity complied with any externally imposed capital requirements [IAS 1.135(d)]	*Boolean:* Whether entity complied with any externally imposed capital requirements [true / false]	True / False
Text block: Statement of IFRS compliance [IAS 1.16]	*Boolean:* Whether entity provided explicit and unreserved statement of IFRS compliance [true / false]	True / False
Text: Description of nature of benefits provided by plan [IAS 19.139(a)(i)]	*Extensible enumeration:* Description of nature of benefits provided by plan	Final salary defined benefit plan / Contribution-based plan with guarantee
Text: Description of type of retirement benefit plan [IAS 26.36(c)]	*Extensible enumeration:* Description of type of retirement benefit plan	Defined contribution plan / Defined benefit plan

4. Alternatives under consideration

Option 1: deprecate existing text elements and replace with new categorical elements

We will deprecate the existing text element and replace that with the new categorical element where the disclosure requirement could be met by providing a known or relatively limited number of options.

+ Size of the taxonomy will remain same.

— Change in the tagging practice.

Option 2: change element type of existing text type elements

We will not deprecate the existing text elements. We will just change the type of such elements from text to boolean/ enumeration.

+ Size of the taxonomy will remain same.

— Change in the tagging practice.

Option 3: keep existing text elements and create new categorical elements

We will not deprecate the existing text elements. In addition to the existing elements, we will create new categorical elements. So, essentially, there will be two elements for one disclosure requirement which is categorical.

+ Detailed information can be tagged. Fits with the IFRS Accounting Standards which provide flexibility to the preparers to provide more information.

— Bigger taxonomy. May lead to confusion and varying tagging practice.

4. Next steps and Questions

Next steps ⏭

The staff will:
- analyse further the alternatives for introducing categorical elements in the IFRS Accounting Taxonomy.
- review what categorical elements could be created in the IFRS Accounting Taxonomy.
- bring back this discussion with further research at a future ITCG meeting.

Question 4 ❓   **Question specific to ITCG members**

A. Do you have any concerns related to the use of categorical elements for narrative disclosures in the IFRS Accounting Taxonomy, if the staff recommendation for using categorical elements is accepted by the ISSB and such elements are used in the IFRS Sustainability Disclosure Taxonomy? Why or why not?

B. Do you have any thoughts on the alternatives under consideration for introducing categorical elements in the IFRS Accounting Taxonomy explained on slide 21? Do you think we should consider other alternatives also? If so, which?

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(5) Modelling metrics and targets

Industry-based metrics, consistent with SASB Standards

5. Modelling industry-based metrics

The issue

- The industry-based disclosure requirements related to **metrics** in the [draft] *Climate-related Disclosures S*tandard are **derived from the SASB Standards**.
  - Exposure Draft considers only requirements from SASB Standards for Climate-related risks and opportunities.
  - Some requirements from SASB Standards were amended, others added or removed. However the extent of changes was rather limited. Appendix B of the Exposure Draft provides the requirements, highlighting changes in comparison to the SASB Standards.
  - Exposure Draft includes SASB metric codes to help with transition to IFRS Sustainability Standards for those who are familiar with the SASB Standards.

The **staff considered the extent** to which the IFRS Sustainability Disclosure Taxonomy should be **consistent with the SASB Taxonomy**, and any relationship should be represented.

Reflecting relationship could **help stakeholders compare** digital information provided in accordance with SASB and ISSB requirements and **ease the transition** for preparers and users who are familiar with the SASB Taxonomy.

5. Modelling industry-based metrics

Staff recommendation

The staff recommends:
- creating elements that are **equivalent to the elements in the SASB Taxonomy**, using similar labels and names. However, adding **different namespace (ownership identifier)** in the element name which makes them technically not the same elements. See illustration in the table below.
- **using the same metric codes** in presentation structures and references of elements as those in the SASB Taxonomy (following similar requirements in the SASB and ISSB Standards). See table below.
- **following the SASB presentation structures**, modified when necessary, to fit the IFRS Taxonomy's technical architecture (please also **refer** to section discussing Taxonomy layout).

	SASB Taxonomy	Staff draft IFRS Sustainability Disclosure Taxonomy
Element label	Environmental And Social Risks Associated With Sourcing Priority Raw Materials [Text Block]	Environmental And Social Risks Associated With Sourcing Priority Raw Materials [Text Block]
Element name	sasb_EnvironmentalAndSocialRisksAssociatedWithSourcingPriorityRawMaterialsTextBlock	ifrs-sds_EnvironmentalAndSocialRisksAssociatedWithSourcingPriorityRawMaterialsTextBlock
Reference	Sustainability Accounting Standard 2018-10-01 CG-AA-440a.1a	IFRS S2 2022-03-31 CG-AA-440a.1a

5. Modelling industry-based metrics

Alternatives rejected

Option 1: reusing elements from SASB Taxonomy – following the same element names (including namespace) akin to cross-reference
- Rejected because only some elements could be used following the differences in the Standards
- It would not reflect that ISSB assumed responsibility for the definitions.

Option 2: ignoring relationship with the SASB Taxonomy
- Rejected because it would not take advantage of the work already done by the SASB
- The resulting Taxonomy would be similar to the SASB Taxonomy anyway

Question 5 ❓ | The same as Q6 in the staff request for feedback

Do you agree with the staff recommendation to create elements, equivalent to those in the SASB Taxonomy, for defined metrics common to Sustainability Standards and SASB Standards in the Sustainability Taxonomy?

Why or why not? If not, what alternative approach would you suggest and why?

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Modelling metrics

6

Entity-defined metrics and targets

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6. Modelling entity-defined metrics and targets

The issue

- Entity-defined metrics and targets are not defined in the Exposure Drafts but would be defined by each preparer. However, the Exposure Drafts include proposed requirements to disclose information to help primary users understand these metrics and targets.
- We assume an entity would create entity-specific elements to tag entity-specific metrics. The Taxonomy would need to provide structures that would help users to identify the metrics and targets and any related disclosures.

Staff recommendation

- The staff modelled the disclosures about entity-specific disclosures using a dimensional approach. The proposed disclosure requirements about entity-defined metrics and targets were represented as line items, the specific entity-specified metrics and targets of an entity would be identified by entity-specific members of a defined axis provided in the Taxonomy.
- This tagging would make it simple for entities to provide, and for users to extract and analyse, the required information for each target or metric.

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6. Illustration of staff recommendation for modelling targets

Climate-related targets [Axis]

Entity-specific elements reflecting targets:

	Target one	Target B	Zero net
Text block: Description of climate-related target (IFRS S2.23(b))	dfykcvbn	dhjnbcxdfgh	dfghnb
Text block: Description of metrics used to assess progress towards climate-related target (IFRS S2.23(a))	sdghj	dfgn	ssdfg
Extensible enumeration: Whether climate-related target is absolute target or intensity target (IFRS S2.23(c))	Absolute target	Absolute target	Intensity target
Text block: Description of objective of climate-related target (IFRS S2.23(d))	sdfghj	dfgb	sdfgh
Boolean: Climate-related target has been validated by third party [true false] (IFRS S2.23(e))	True	False	True

(…)

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6. Modelling entity-defined metrics and targets

Alternatives rejected

Option 1: not providing structures in the Taxonomy – but instead provide guidance on the naming pattern and set a suitable anchoring point to help users in the appropriate identification and understanding of entity-specific elements
- Rejected because entity-specific extension elements, even when well-anchored, can be more difficult to use and interpret than elements provided within the taxonomy, and the information relating to metrics and targets is likely to be of particular interest
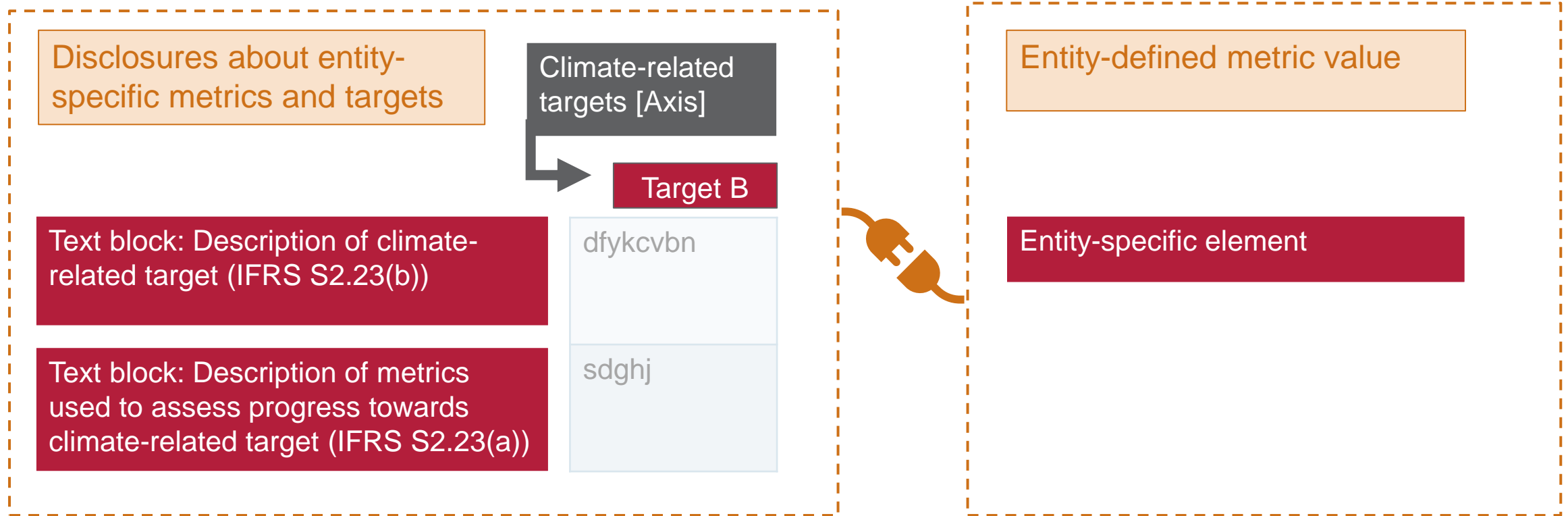
Question 6A ❓   The same as Q6 in the staff request for feedback

Do you agree with the staff recommendation to model disclosures related to entity-specific metrics and targets using a dimensional approach?

Why or why not? If not, what alternative approach would you suggest and why?

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6. Modelling entity-defined metrics and targets

Disclosures about entity-specific metrics and targets

Climate-related targets [Axis]

Target B

dfykcvbn

sdghj

Text block: Description of climate-related target (IFRS S2.23(b))

Text block: Description of metrics used to assess progress towards climate-related target (IFRS S2.23(a))

Entity-defined metric value

Entity-specific element

Question 6B

Question specific to ITCG members

How might we best *connect* the disclosures about entity-specific metrics and targets *to* the entity specific metric values?

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