

IFRS Foundation Trustees meeting

Due Process Oversight Committee

Frankfurt

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Agenda Ref 1D

Contacts

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Initial due process for the ISSB

Purpose

1. The purpose of this paper to make initial recommendations to the DPOC on the due process to be applied by the ISSB and the proposed approach to updating in due course the IFRS Foundation *Due Process Handbook (Handbook)* to reflect the establishment of the ISSB.

Recommendations to the DPOC

2. The staff recommend that the DPOC issue a public statement via the public summary of this DPOC meeting explaining that:
 - (a) the ISSB will apply the due process specified for the IASB in the *Handbook* for corresponding technical activities, subject to any differences that are determined necessary and that have been approved by the DPOC, in addition to the due process specified for the ISSB in the IFRS Foundation *Constitution*;
 - (b) the ISSB's technical activities will be subject to oversight by the DPOC in the same way as the IASB's; and
 - (c) the *Handbook* will be updated to reflect the establishment of the ISSB following a public consultation once the ISSB's standard-setting structures and processes are sufficiently established. The public consultation will occur no later than 2023.

Due Process to be applied by the ISSB prior to updating the *Due Process Handbook*

3. Key principles of due process have already been specified for the ISSB in the revised *Constitution* (these constitutional due process principles are included in Annex B). For the IASB, the equivalent constitutional principles are expanded upon in the more detailed due process procedures specified in the *Handbook*.
4. The DPOC has previously acknowledged that the ISSB's due process will necessarily develop over time as the ISSB begins operating and its structures and processes are put in place and developed.
5. The DPOC therefore previously agreed in principle that the *Handbook* should be updated to reflect the establishment of the ISSB once the ISSB's structures and processes reach a degree of maturity.
6. The ISSB will soon become quorate and begin operating as a board. There needs to be clarity for the ISSB and stakeholders about the due process the ISSB will apply beyond the due process specified for it in the *Constitution*.
7. Respondents to the Trustees' 2020 *Consultation Paper on Sustainability Reporting* were clear that a key motivating factor for encouraging the IFRS Foundation to establish the ISSB was the transparent due process applied by the IASB. The Trustees recommended in their Feedback Statement to that consultation that the DPOC consider how the IASB's existing due process could be adapted for the ISSB in the light of the need for urgent action. This approach was broadly supported in the responses to the Trustees' Exposure Draft of proposed changes to the IFRS Foundation *Constitution* to establish the ISSB. An immediate need for urgency has been met by the Trustees specifying a temporary and targeted option in the *Constitution* to allow the ISSB Chair and the Vice-Chair to issue specified documents (see agenda paper 1C for this meeting). The *Constitution* also contains a mechanism to have a shortened comment period for an ISSB exposure draft.
8. The Trustees tasked the Technical Readiness Working Group (TRWG) to develop recommendations for the ISSB's due process for the DPOC's consideration. These recommendations are provided in Annex A.
9. The TRWG recommendations on due process reiterate much of the feedback to the Trustees' consultations—namely that the IFRS Foundation has a respected due

process and that the ISSB's due process be built upon the IASB's. They note that focus areas in updating the *Handbook* for the ISSB may be:

- (a) regarding the need for agile due process in the maintenance of industry metrics related to ISSB Sustainability Disclosure Standards; and
 - (b) to assist in the connectivity between the work of the ISSB and the IASB.
10. Given the broad support for the IASB's existing due process and its applicability to the work of the ISSB, the staff think that as a starting point, the ISSB should apply the corresponding due process specified for the IASB. This is consistent with the DPOC's discussions at its June 2021 meeting at which it noted the need for a thorough due process and that the IASB's existing due process is robust and thorough.
 11. Further, bearing in mind the ISSB's likely initial work, the staff do not see any immediate need for the DPOC to make adaptations to the IASB's due process for the ISSB's corresponding technical activities. The two specific matters noted above by the TRWG can be considered in the future.
 12. Therefore, for clarity, the staff recommend the DPOC explicitly state that in addition to the due process specified for the ISSB in the IFRS Foundation *Constitution*, the ISSB will apply the due process specified for the IASB in the *Handbook* for corresponding technical activities.
 13. As the ISSB advances its initial work, the DPOC will need to monitor the application of the due process in the *Handbook*. If before the *Handbook* is updated (see the next section starting at paragraph 14) there is the need for any adaptations to this due process for the ISSB as it becomes fully operational and matures, such adaptations will be overseen by and approved by the DPOC. This is also consistent with the DPOC's discussion in June 2021 at which it agreed that the ISSB's due process would not necessarily be identical to the IASB's but the DPOC would need to be clear about the reason for any differences between the two.

Questions for the DPOC

Do DPOC members agree:

- 1) the ISSB should apply the due process specified for the IASB in the *Handbook* for corresponding technical activities, in addition to the due process specified for the ISSB in the *Constitution*; and
- 2) to monitor the need for any adaptations to the due process in the *Handbook* for the ISSB—and if necessary to make and approve those adaptations—until it updates the *Handbook* to reflect the establishment of the ISSB?

Updating the *Due Process Handbook* to reflect the establishment of the ISSB

14. Throughout the remainder of 2022 the structures for the ISSB’s standard-setting will be established including:
 - (a) bringing the ISSB to a quorum and subsequently bringing the board to its full complement; and
 - (b) establishing advisory bodies enabling a formal mechanism to ensure stakeholder input into the standard-setting process.
15. The staff recommend that the DPOC undertake its detailed assessment of the proposed updates to the *Handbook* to reflect the establishment of the ISSB once these structures are established and are operating. This will enable the DPOC to base its initial assessment of the extent of that update informed by the early work of the ISSB and the TRWG’s recommendations on due process. The update of the *Handbook* will also be informed by a public consultation. The staff note that updating the *Handbook* also provides the DPOC with the opportunity to assess if any of the IASB’s processes could or should be updated in line with the development of the ISSB’s due process.
16. If the DPOC agrees with such an approach, it follow an indicative timeline as follows:
 - (a) H2 2022–H1 2023: undertake detailed assessment of the development of specific due process procedures for the ISSB;
 - (b) H2 2023: undertake public consultation of proposed revised *Handbook* reflecting establishment of the ISSB;

- (c) H2 2023–H1 2024: finalise and publish updated *Handbook*.
17. The staff also recommend stating now that public consultation on an updated *Handbook* will occur no later than 2023.

Questions for the DPOC

Do the DPOC agree:

- 1) to propose updates to the *Handbook* to reflect the establishment of the ISSB once the ISSB's standard-setting structures are sufficiently established; and
- 2) for the public consultation on the proposed updates to the *Handbook* to occur no later than 2023?

Next steps

18. Following the 1 March 2022 meeting of the DPOC, the ISSB Chair and the Vice-Chair will consider whether to utilise the option provided in the IFRS Foundation *Constitution* to publish the General Requirements and Climate-Related Disclosures Exposure Drafts, in consultation with any appointed ISSB members. This decision is subject to the oversight of the DPOC. Accordingly if this option is taken, a DPOC meeting will be called for the DPOC to review the basis for the decision and to confirm that it does not object to the publication of the Exposure Drafts.
19. In the coming months the ISSB Chair and the Vice-Chair will also consider if they will utilise the option to publish a request for information to obtain public input to assist the ISSB in developing its work plan, in consultation with any appointed ISSB members. This decision will also be subject to the same DPOC oversight as explained in paragraph 18 and as stipulated in paragraph 57 of the *Constitution*.

Annex A—TRWG due process recommendations

Introduction

1. Considerations on the potential due process procedures for the new board is one of the TRWG's eight workstreams. The transparent due process practices of the IFRS Foundation was a critical factor in stakeholders' support for establishing the International Sustainability Standards Board (ISSB) under the IFRS Foundation's governance structure. Typically, stakeholders noted that the ISSB's due process should largely be based on that of the International Accounting Standards Board (IASB). TRWG members mapped their due process against that of the IFRS Foundation's and found various commonalities which are discussed further below.
2. The IFRS Foundation's Due Process Oversight Committee (DPOC) were updated of the TRWG's intention to consider the due process of the proposed ISSB at their June 2021 meeting. The DPOC broadly agreed with a proposed approach at that meeting that a formal consultation on due process procedures for the proposed ISSB should be undertaken only once its structure and processes reach a sufficient degree of maturity. The DPOC acknowledged the TRWG's consideration of due process would be very useful in informing the DPOC's future consideration of ISSB due process.
3. The DPOC emphasised the importance of a robust due process for the proposed ISSB and acknowledged the Foundation's existing due process as a reason many stakeholders had called for the Foundation to develop sustainability disclosure standards. The DPOC also acknowledged that given stakeholder demands for the new Board's standards, it would need to advance its standard-setting in a timely way, but it is critical the new Board develops its standards following a rigorous, transparent and high-quality process. The DPOC considered that the due process for the ISSB would not necessarily be identical to the IASB's. However, the IASB's existing process is robust and thorough, and therefore the DPOC and the ISSB would need to be clear about the reason for any differences.

Key observations

4. Sustainability reporting is unlike financial reporting: it is evolving rapidly, both in terms of policy development that would benefit from standards and the type of standard-setting in response to that need. There is much more quantitative data available today than even a few years ago, and quantitative techniques are becoming more sophisticated and more focused. Narrative disclosures alone no longer satisfy users: they expect quantitative data (including forward-looking data based on scenario analyses or probability-weighted estimates) as well as narrative disclosures¹. These factors imply that the ISSB will be operating in a highly evolutionary environment and

¹ Consistent with this theme, the frameworks and standards produced by TRWG member organisations have increasingly incorporated quantitative metrics. For example, TCFD utilise cross-industry metrics, WEF IBC's work is aimed to include as many metrics as possible and the SASB Standards are around 75% quantitative.

must position itself to be as agile as possible, within the confines of rigorous, transparent, consultative and accountable standard-setting.

5. Following the thorough due process procedures necessary to create its initial suite of standards, the ISSB will have to maintain the standards to ensure they remain up to date and fit for market use. This is likely (at least in the early years) to be even more demanding than with the IASB's maintenance of IFRS Standards given the rapidly evolving nature and extent of sustainability reporting practices and the likely nature of ISSB's standards (for example, including industry-specific disclosure requirements and metrics tailored to the activities of preparers). It is likely as practice continues to develop that the industry-specific disclosure requirements will need to be updated regularly. While market uptake of the frameworks and standards produced by TRWG member organisations has grown considerably in recent years, the ISSB Standards as mandatory reporting standards will be a new language for preparers, auditors and users. Therefore, it is also likely that interpretive issues will also arise in due course. Overall, the ISSB will need to have appropriate due process tools available to it to appropriately maintain its standards. However, these agile due process tools need to respect at least the minimum due process for a project as defined in the IFRS Foundation's *Constitution* and its *Due Process Handbook*.
6. The proposed amendments to the IFRS Foundation *Constitution* attracted considerable feedback on the importance for interconnectivity between the ISSB and the IASB, as sustainability reporting is inextricably linked to financial reporting. Therefore, the *Due Process Handbook* should also seek to accommodate cross-Board cooperation so that financial aspects of sustainability reporting projects and sustainability disclosure consequences of financial reporting can be identified early and co-developed by the IASB and ISSB.

Mapping exercise

7. The members of the TRWG have undertaken a due process mapping exercise with the objective/s of illustrating:
 - a. the due process procedures that existing standards/frameworks produced by TRWG member organisations (see Appendix A) have been through; and
 - b. where the due process procedures of the TRWG member organisations differ, and why, for future consideration of ISSB's due process.
8. The detailed results of the mapping exercise will be shared with the staff of the IFRS Foundation and the Trustees' DPOC in addition to these recommendations. Based on the due process mapping results, some key commonalities across the TRWG members processes are evident:
 - a. the standards/frameworks developed by TRWG member organisations are/have been subject to public consultation;
 - b. consultative groups that bring specific expertise are/have been utilised by TRWG member organisations through the framework development or standard-setting processes;
 - c. feedback to consultation is considered and redeliberated and amendments are made based on that feedback and redeliberation; and

- d. due process procedures are supported by minimum safeguards of due process in the case of (CDSB, IASB and VRF), where consultation may be shortened but not waived entirely.
9. The mapping exercise has further illustrated the TRWG members' existing consultation networks could be very useful to the work of the ISSB. The IFRS Foundation will need to consider how best to utilise the networks to establish quickly consultative bodies that can provide input into the ISSB's early standard setting work. These networks will expand beyond the IASB's existing network focussed on financial reporting.
10. The mapping exercise illustrated that the standards and frameworks upon which the ISSB will build its work have been subject to public consultation and redeliberation. This has provided the various TRWG sub-groups with evidence of consensus among constituents that the standards and frameworks would address the reporting issues identified effectively, and thus provided a foundation on which the TRWG could build. However, none of this negates the necessity of formal due process and exposure by the ISSB.

Recommended areas of common due process between the IASB and the ISSB

11. As the DPOC have acknowledged and as was proposed by the Trustees as part of the proposed changes to the IFRS Foundation *Constitution* the ISSB's due process will be largely based on the IASB's. The TRWG would like to highlight the following elements of due process that should be common to the IASB and ISSB (in addition to the due process principles already outlined in the IFRS Foundation Constitution):
 - a. Fundamental principles: Transparency, Full and Fair Consultation and Accountability;
 - b. Quintennial Agenda Consultation with the possibility of future 'joint' agenda consultations by the two Boards;
 - c. Conceptual Framework: the ISSB to build upon the TRWG's recommendations for its standard setting to be based on clear conceptual principles—whether shared with the IASB or issued separately and with common components (see Conceptual Guidelines recommendations);
 - d. Agenda-setting process: for example, the criteria for new ISSB Standards, major and targeted amendments;
 - e. Consultation documents: Discussion Papers (not always required) and Exposure Drafts (mandatory) seeking public input;
 - f. Consultation periods: subject to minimum safeguards (for example the 30-day minimum for matters that are narrow in scope and urgent (paragraph 6.7) and the 'emergency' powers in the IFRS Foundation's current *Due Process Handbook* paragraph 6.8) comment periods should be proportionate with the novelty, complexity and extent of the proposed ISSB Standard;
 - g. Other consultation activities: subject to the extent and complexity of a standard-setting project, other fora for collecting constituents' views may be necessary, including public roundtables, field work, etc.
 - h. Deliberations and re-deliberations: Public technical meetings; public access to ISSB meeting papers; comment letters on the public record;
 - i. Document approval: Super-majority for Exposure Drafts and final ISSB Standards; confirmed by written ballot;
 - j. Standing consultative bodies and consultation mechanisms:

- i. Some existing IFRS Foundation consultation bodies (for example the IFRS Advisory Council) can have sustainability expertise added via the regular turnover of members. The development of the ISSB's other consultative bodies can draw from the experience and expertise of the TRWG member organisations consultative groups.
- ii. Ensuring regional and jurisdictional input into the standard-setting process will be vital, therefore an Accounting Standards Advisory Forum (ASAF) or equivalent for the ISSB will be important. Given that there are few jurisdiction-specific sustainability standard-setters, a mixture of Treaty Organisations, Multilaterals and UN Agencies might also be assembled to further inform the ISSB's standard-setting process.

Conclusion

12. The members of the TRWG reiterate the importance of thorough and transparent due process procedures for the ISSB to be built upon the IASB's established and respected due process. If the ISSB's is going to succeed in obtaining the necessary support for its standards globally its legitimacy as a standard-setter starts with a transparent standard-setting process which encourages public consultation and is subject to independent governance oversight and accountability to public authorities.

Frameworks, Standards, and other Key Resources Produced by TRWG Member Organisations

- CDSB
 - CDSB Framework
- TCFD
 - TCFD Recommendations
- IASB
 - IFRS Standards
- Value Reporting Foundation
 - <IR> Framework
 - SASB Standards
- World Economic Forum
 - Towards Common Metrics and Consistent Reporting of Sustainable Value Creation

Annex B—Due Process Procedures for the ISSB included in the IFRS Foundation Constitution

- 53 The ISSB shall meet at such times and locations as it determines; meetings of the ISSB shall be open to the public, but certain discussions (normally only about selection, appointment and other personnel issues) may be held in private at the discretion of the ISSB.
- 54 Each member of the ISSB shall have one vote. On both technical and other matters, voting by proxy shall not be permitted nor shall members of the ISSB be entitled to appoint alternates to attend meetings. In the event of a tied vote, on a decision that is to be made by a simple majority of the members of the ISSB present at a meeting in person or by telecommunications, the Chair shall have an additional casting vote.
- 55 The publication of an Exposure Draft or issuing of an IFRS Sustainability Disclosure Standard shall require approval by eight members of the ISSB if it comprises 13 members or fewer, or by nine members if it comprises 14 members. As an interim measure, and until the ISSB comprises at least 12 members, the publication of an Exposure Draft or an IFRS Sustainability Disclosure Standard shall require approval by a simple majority of the ISSB plus one member. Other decisions of the ISSB, including the publication of a Discussion Paper, shall require a simple majority of the members of the ISSB present at a meeting that is attended by at least 60 per cent of the members of the ISSB, in person or by telecommunications.
- 56 Until the ISSB comprises its minimum of eight members, the Chair and the Vice-Chair(s), in consultation with any appointed members, may publish:
- (a) a request for information to obtain public input to assist the ISSB in developing its work plan; and
 - (b) Exposure Drafts for public comment on climate-related disclosures and/or general requirements for disclosure of sustainability-related financial information.
- 57 The decisions of the Chair and the Vice-Chair(s) to publish the documents specified in section 56 shall be subject to oversight by the Trustees' Due Process Oversight Committee. After publication, the ISSB shall review the comments made on each document and make further decisions on the related projects in accordance with the ISSB's usual procedures as outlined in sections 53–55 and 58.
- 58 The ISSB shall:
- (a) have complete responsibility for all ISSB technical matters, including the preparation and issuing of IFRS Sustainability Disclosure Standards and Exposure Drafts, each of which shall include any dissenting opinions;
 - (b) publish an Exposure Draft on all projects and normally publish a discussion document for public comment on major projects in accordance with procedures approved by the Trustees;

- (c) in exceptional circumstances, and only after formally requesting and receiving approval from 75 per cent of the Trustees, reduce, but not dispense with, the public comment period on an Exposure Draft to below the minimum specified in procedures approved by the Trustees or, in the absence of any such approved procedures for the ISSB, reduce the public comment period to below the minimum in the IFRS Foundation Due Process Handbook for an Exposure Draft published by the IASB;
- (d) have full discretion in developing and pursuing its technical agenda, subject to:
 - (i) consulting the Trustees (consistently with section 16(d)) and the Advisory Council (consistently with section 61); and
 - (ii) carrying out a public consultation at least every five years from the date of the most recent public agenda consultation;
- (e) have full discretion over project assignments on technical matters; in organising the conduct of its work, the ISSB may outsource detailed research or other work to national standard-setters or other organisations;
- (f) establish procedures for reviewing comments made within a reasonable period on documents published for comment;
- (g) normally form working groups or other types of specialist advisory groups to give advice on major projects;
- (h) consult the Advisory Council on major projects, agenda decisions and work priorities;
- (i) with the IASB, establish procedures for working with the IASB with the objective of developing IFRS Sustainability Disclosure Standards that are compatible, and avoid inconsistencies and conflicts, with IFRS Accounting Standards;
- (j) normally publish a Basis for Conclusions with an IFRS Sustainability Disclosure Standard or an Exposure Draft;
- (k) consider holding public hearings to discuss proposed IFRS Sustainability Disclosure Standards, although there is no requirement to hold public hearings for every project;
- (l) consider undertaking field tests (both in developed countries and in emerging markets) to ensure that proposed IFRS Sustainability Disclosure Standards are practical and workable in all environments, although there is no requirement to undertake field tests for every project; and
- (m) give reasons if it does not follow any of the non-mandatory procedures set out in (b), (g), (j), (k) and (l).

59 The authoritative text of any Exposure Draft or IFRS Sustainability Disclosure Standard shall be that published by the ISSB in the English language. The ISSB may publish authorised translations or give authority to others to publish translations of the authoritative text of Exposure Drafts and IFRS Sustainability Disclosure Standards.