

IFRS Foundation Trustees meeting

Due Process Oversight Committee

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ISSB—Process in developing the TRWG recommendations

Purpose

1. This paper provides the DPOC with the context of the process undertaken in the development of the Technical Readiness Working Group (TRWG)¹ recommendations and the existing standards and frameworks that the ISSB will build its initial work from. The paper also provides information about the work that has followed the 3 November 2021 publication of the TRWG’s prototype standards on General Requirements and Climate-Related Disclosures to develop these prototypes into ISSB exposure drafts.

Question for the DPOC

Do the DPOC require any additional context regarding the process for the development of the General Requirements and Climate-Related Disclosures Exposure Drafts to further assist their oversight?

Background

2. In response to the feedback received to the September 2020 Consultation Paper on Sustainability Reporting the Trustees acknowledged that they:

expect the new board to build upon the well-established work of the TCFD and the work of leading standard-setters in sustainability and integrated reporting focused on enterprise value. [...] the four pillars of the TCFD framework represent core elements of how organisations operate and that further work on the level of metrics has been conducted by other leading standard-setters in sustainability and integrated reporting focused on enterprise value. [...], the Trustees [...] established a technical readiness working group to facilitate the work of a new board to build on the work of existing initiatives, as well as to

¹ Members of the TRWG were the Climate Disclosure Standards Board (CDSB), the International Accounting Standards Board (IASB), the Task Force for Climate-Related Financial Disclosures (TCFD), the Value Reporting Foundation (VRF) and the World Economic Forum’s International Business Council (WEF IBC).

review how technical expertise and content might be made available to the new board under the IFRS Foundation's governance structure, to facilitate consolidation and reduce fragmentation in sustainability reporting standards. [and] invited the technical readiness working group to consider recommendations on the adaptability of the Foundation's due process to enable the new board to undertake its initial standard-setting efforts working on a timely basis, but without sacrificing due process.

3. At their October 2021 meeting the DPOC received an update on the progress of the TRWG in developing its deliverables, including recommendations on due process for the ISSB. At that October meeting the DPOC requested further context about the process used to develop the TRWG recommendations and the procedures used to develop the standards and frameworks that the TRWG recommendations are based upon.
4. Currently the Chair and Vice-Chair of the ISSB are working on the basis that they will utilise the option provided in the IFRS Foundation *Constitution* to publish the General Requirements and Climate-Related Disclosures Exposure Drafts. Following the 1 March 2022 DPOC meeting, the Chair and the Vice-Chair will make a final determination about whether they will utilise this option. This decision is subject to the oversight of the DPOC. Accordingly, if this option is taken, a 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. This paper provides the DPOC with context intended to inform their oversight responsibility in this regard.

TRWG recommendations

6. The TRWG was established to integrate and build on the work of relevant initiatives focused on meeting investors' information needs, with the purpose of providing technical recommendations for consideration by the ISSB. With that purpose the TRWG pursued eight workstreams:
 - (a) [General Requirements for Disclosure of Sustainability-related Financial Information](#) (General Requirements Prototype);
 - (b) [Climate-related Disclosures Prototype](#) (Climate-Related Disclosures Prototype);
 - (c) Conceptual guidelines for standard-setting;
 - (d) Architecture of standards;

- (e) Other items to inform standard-setting agenda;
 - (f) Due process characteristics;
 - (g) Digitisation strategy; and
 - (h) Connectivity between the IASB and the ISSB.
7. The output of the first two workstreams listed above were published on the IFRS Foundation website on 3 November 2021 to provide stakeholders with further understanding of the work of the TRWG and for stakeholders to gain further context regarding the recommendations upon which the ISSB's initial work will be based.

TRWG processes to develop recommendations

- 8. The TRWG deliverables were developed through a process of collaboration around the common ambition set out by the IFRS Foundation. The two prototypes—the General Requirements and Climate-Related Disclosures Prototypes—build on the work by the TRWG's individual member organisations, the market-informed and market-tested tools and resources that have emerged from that work, and the individual and collective expertise established through the development and implementation of these resources.
- 9. More specifically, the General Requirements and the Climate-Related Disclosures Prototypes represent the evolution of the December 2020 paper published by a group of five standard-setters and framework providers² focused on corporate sustainability and integrated reporting. The paper, *Reporting on Enterprise Value*, responded to calls for clarity for a coherent and comprehensive system of corporate disclosure. The paper illustrated with a prototype climate-related financial disclosure standard how complementary frameworks, standards and platforms, building upon the elements set out by the Financial Stability Board's Task Force for Climate-related Financial Disclosures (TCFD), could provide a basis for developing global standards that enable disclosure of sustainability matters relevant to assessing enterprise value and making investment decisions.

² CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB).

10. This paper was also the genesis of the General Requirements Prototype. This is also based on the IFRS Accounting Standard IAS 1 *Presentation of Financial Statements*—and where applicable requirements are consistent with those for IFRS Accounting Standards, the proposed wording in the Prototype has been based on the equivalent wording in IAS 1.
11. The TRWG, using the content from the *Reporting on Enterprise Value* paper as its starting point, developed the General Requirements and Climate-Related Disclosure Prototypes. From March through to November 2021, the technical specialists of the TRWG refined and enhanced the prototypes and developed its other workstreams. Participants of the TRWG met regularly between May and October 2021. The technical recommendations were developed at working level meetings participated in by technical specialists from member organisations. This technical work was overseen by the Executive Directors of the member organisations who met fortnightly. The overall work of the TRWG was overseen by the CEOs of the TRWG members chaired by the IFRS Foundation Trustee Michel Madelain, who met with counterparts from member organisations monthly to discuss the advancement of the TRWG's work.
12. The TRWG also incorporated input from the Technical Experts Group established by IOSCO, to help ensure the General Requirements and Climate-Related Disclosure Prototypes, alongside the other deliverables of the TRWG, are ‘fit for purpose’ in meeting the core information needs of global capital markets. A high-level introduction to this assessment was published in June 2021 in IOSCO’s *Report on Sustainability-related Issuer Disclosures*. Targeted market outreach was also conducted with TRWG members’ stakeholders in September 2021, with the purpose of identifying and addressing any significant matters relating to the operability and clarity of the prototypes. The TRWG endeavoured to address this feedback in the prototypes published on 3 November 2021. In addition, any comments received from IOSCO and from the targeted market outreach that were unresolved or warranted further consideration have been provided to the ISSB and its initial technical staff on an anonymised basis.
13. The two prototypes, and the other TRWG deliverables, are intended to serve as technical and operational input for the ISSB’s consideration. They were intended to

enable the ISSB to move quickly to issue exposure drafts for priority issues, namely on general requirements and climate-related disclosures. In addition, their work sets out a potential basis for future standard-setting on other sustainability matters including recommendations for the ISSB's future agenda priorities.

14. The recommendations from the TRWG are provided for consideration by the ISSB. The ISSB will determine next steps and any proposed standards—including *any* proposals based on the TRWG's recommendations—will be subject to the due process of the ISSB. As part of the amendments to the IFRS Foundation *Constitution* to reflect the establishment of the ISSB, the Trustees provided the ISSB with a targeted and transitional provision. This permits the ISSB Chair and the Vice-Chair before the ISSB is quorate to publish for public comment exposure drafts on climate-related disclosures and/or general requirements for disclosure of sustainability-related financial information.

TRWG members due process mapping exercise

15. The members of the TRWG undertook a due process mapping exercise with the objectives of illustrating:
 - (a) the due process procedures that existing standards/frameworks produced by TRWG member organisations have been through; and
 - (b) where the due process procedures of the TRWG member organisations differ, and why, for future consideration of the ISSB's due process.
16. The mapping exercise has provided the context of the due process utilised to develop the standards and frameworks that underpin the TRWG recommendations.
17. An overview of the due process procedures used to develop the standards and frameworks that inform the TRWG recommendations is included in Annex A. This also summarises (where possible) the market uptake of the standards and frameworks and where they have been utilised in the TRWG recommendations.
18. Some key commonalities across the TRWG members processes are evident:
 - (a) the standards/frameworks have been subject to public consultation;

- (b) consultative groups that bring specific expertise have been utilised by TRWG member organisations in the standard/framework-setting processes;
 - (c) feedback to the consultation is considered and redeliberated; 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.
19. The standards and frameworks upon which the TRWG recommendations are built have been subject to public consultation and redeliberation. These standards and frameworks have also been used in practice. This provided TRWG members with evidence of support from stakeholders that those standards and frameworks are capable of being applied and can result in the provision of useful information for investors about sustainability-related matters.

Development of ISSB exposure drafts

20. Since November 2021 some additional work has continued to be undertaken on the prototype documents. This work is being undertaken by individuals who were previously part of the group working on the prototypes for the TRWG – some of whom are now members of the technical staff of the ISSB (including as a result of the consolidation of CDSB) and includes staff from the VRF. This work has been undertaken under the guidance of the ISSB Chair and the incoming Vice-Chair. The work has been focussed on advancing the prototypes and transforming them into two exposure drafts on General Requirements for Disclosure of Sustainability-related Financial Information and Climate-related Disclosures. This work entails:
- (a) refining the drafting of the proposed standards (including to improve clarity);
 - (b) developing invitation for comment documents which set out questions for stakeholders to respond to (this will also be supported by the option for stakeholders to submit their response via a survey);

- (c) developing a basis for conclusions for each exposure draft to provide stakeholders with additional context regarding the proposed standards; and
 - (d) developing a staff draft of the accompanying digital Taxonomy to the exposure drafts (which would facilitate digital capture of the disclosures required by the exposure drafts).
21. There are two areas of the climate document where the exposure draft will include proposals that were not included in the Climate-Related Disclosures Prototype and which introduce new materials that are not taken directly from existing materials from TRWG members. The two areas are changes that propose modifications to existing SASB climate-related industry specific requirements. One set of refinements is proposed to internationalise a subset of the SASB industry specific metrics and the second set of changes proposes the addition of metrics relevant to financed emissions. The proposed internationalisation changes have been included to facilitate application of the requirements for international preparers. The financed emission proposals have been included to address identified information needs of investors.
22. The changes relating to internationalising a subset of the SASB industry specific metrics are informed by a [long-standing project](#) developed by the Value Reporting Foundation. The addition of metrics relevant to financed emissions have been informed by the work of other relevant bodies (including the Partnership for Carbon Accounting Financials (PCAF) and the [TCFD](#)) on the harmonising of greenhouse gas (GHG) accounting methods to allow financial organisations to consistently measure GHG emissions financed by their loans and investments (referred to as financed emissions). Because these aspects of the proposals are new additions relative to the other industry-specific requirements which simply incorporate the SASB industry-specific climate-related requirements without adjustment, the exposure draft would draw attention to them separately and targeted questions would be asked about these proposed additions. By including these in the exposure drafts, the ISSB would benefit from obtaining feedback on these modifications on a timely basis. For the internationalisation proposals, the ISSB would also benefit from the opportunity to get feedback on the approach taken to internationalisation, which will be information that will be useful for its future standard-setting activities as it works with other SASB industry-specific requirements.

23. The ISSB Chair and the Vice-Chair will determine if they use the option provided by the Trustees in the revised *Constitution* to publish the exposure drafts before the ISSB reaches a quorum. A further assessment of the process used to develop the exposure drafts will be presented to the DPOC for consideration, including the decision of the Chair and the Vice-Chair on the comment letter periods. If the Chair and the Vice-Chair envisage a comment period shorter than 120 days, the DPOC's approval will be required. If the Chair and the Vice-Chair utilise the option to publish the exposure drafts, it is anticipated they will be ready to be published in March 2022.

Annex A

Due process in developing existing standards and frameworks

CDSB Framework

- A1 Prior to its consolidation into the IFRS Foundation, the Climate Disclosure Standards Board (CDSB) was an international consortium of business and environmental NGOs committed to advancing and aligning the global mainstream corporate reporting model to equate natural and social capital with financial capital. The CDSB provided companies a framework for reporting environmental and social information with the same rigour as financial information.
- A2 The CDSB Framework was developed by the CDSB Secretariat and overseen by the [CDSB Technical Working Group](#) which was the primary body for developing and revising the text of the CDSB Framework and undertaking the consultation process with support from the CDSB secretariat. This Group was comprised of individual experts from organisations on a pro-bono basis. The work of the CDSB Technical Working Group was governed by a [terms of reference](#) and is overseen by the [CDSB Board](#). Members of the CDSB Board Members of the Board serve as representatives of their organisation with the role of providing:
- (a) advise on CDSB's mission, strategy and operations;
 - (b) thought leadership, intellectual contribution and insights relating to CDSB's strategic direction, initiatives and activities;
 - (c) weight, credibility, independence and institutional backing to the CDSB's profile; and
 - (d) the advancement of CDSB's mission.
- A3 The work of the CDSB Board was governed by a [terms of reference](#). The CDSB Board was ultimately responsible for approval of the CDSB Framework, but considered recommendations made by the Technical Working Group. The development of the CDSB Framework was subject to the CDSB's [due process procedures](#) that are overseen by the CDSB Board.

- A4 The [CDSB Framework](#) (originally published in 2010) sets out an approach to reporting environmental information in mainstream reports. In 2015, following two public consultations, the CDSB Framework was expanded to also incorporate environmental matters. In 2018, the CDSB Framework was amended to further meet user needs around climate risks and opportunities. Due to changing market demands, the CDSB Framework has been refined and updated to ensure universal applicability in 2019. The last update to the CDSB Framework in January 2022 has been expanded to also cover social matters, following a public consultation. The CDSB Framework was utilised by the TCFD in its [initial development of the TCFD Framework in 2016](#).
- A5 The CDSB Framework has been utilised by the work of the TRWG prominently in governance, strategy, risk management elements of the cross-industry disclosures of the climate prototype. More recent CDSB's publications on biodiversity, water and social matters helped inform the TRWG recommendations on the ISSB's early standard-setting agenda.

TCFD Framework

- A6 The Financial Stability Board established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. The original Task Force was comprised of 32 global members representing a broad range of economic sectors and financial markets and a careful balance of users and preparers of climate-related financial disclosures.
- A7 In 2017, the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation. These recommendations were informed by a public consultation to solicit additional feedback on the Phase I Report. In total, 203 participants from 24 countries responded to the public consultation. Respondents represented the financial sector, non-financial sectors, NGOs, and other organisations.

- A8 There is significant market uptake of the TCFD Framework. As of October 6, 2021, the Task Force had over 2,600 supporters globally, including 1,069 financial institutions, responsible for assets of \$194 trillion. TCFD supporters now span 89 countries and jurisdictions and nearly all sectors of the economy, with a combined market capitalization of over \$25 trillion — a 99% increase since last year (see [TCFD 2021 Status Report](#)).
- A9 The TCFD Framework has been utilised significantly in the TRWG recommendations on climate-related financial disclosures. Specifically, the core elements of the Framework (Governance, Strategy, Risk Management, Metrics and Targets) form the structure of which an entity will disclose climate-related information. These core elements are replicated in the TRWG's recommendations on the architecture of ISSB standards, which recommend an entity should disclosure material sustainability-related information across governance, strategy, risk management, and metrics and targets.

Value Reporting Foundation

SASB Standards

- A10 The Sustainability Accounting Standards Board (SASB) has developed a complete set of 77 Industry Standards. In November 2018, SASB published these Standards, providing a complete set of globally applicable industry-specific Standards which identify the minimal set of financially material sustainability topics and their associated metrics for the typical company in an industry.
- A11 Following the merger with the Integrated International Reporting Council (IIRC) the SASB became the Value Reporting Foundation but has operated in a governance structure like the IFRS Foundation in the development of its standards. This includes a board of non-executive directors ("the Foundation Board") and a standard-setting board ("the SASB Standards Board"). The SASB Standards Board develops, issues, and maintains SASB Standards. The Foundation Board oversees the strategy, finances, and operations of the entire organisation, and appoints the members of the SASB Standards Board.
- A12 The Value Reporting Foundation's Board is responsible for overseeing the SASB Standards Board's compliance with the organisation's due process requirements. As

set out in the [SASB Rules of Procedure](#), standard-setting activities are transparent and follow careful due process, including extensive consultation with companies, investors, and relevant experts.

A13 SASB Standards have significant market uptake and the Value Reporting Foundation monitor the use of SASB Standards with figures updated monthly. The current findings illustrate:

- (a) 258 institutional investors—representing \$76T AUM and 23 countries—support SASB and/or use SASB Standards to inform their investment decision-making; and
- (b) Over 1500 companies have implemented the SASB Standards in public company communications, as of the end of 2021, with growth rates in implementation at around 150% YoY.
- (c) Regulators in some jurisdictions have begun to mandate the use of SASB Standards, including in Chile and Colombia.

A14 The SASB Standards have specifically been utilised to inform the TRWG recommendations regarding the disclosure sustainability-related information with industry specificity. The clearest example of this can be found in the industry disclosure requirements included in the Climate-related Disclosures Prototype. These industry disclosure requirements are exclusively based on the SASB Standards, and they include the disclosure topics that identify significant climate-related risks and opportunities for each industry, as well as metrics that measure performance for each disclosure topic.

IR Framework

A15 The International <IR> Framework and Integrated Thinking Principles have been developed and are used around the world, 75 countries, to advance communication about value creation, preservation and erosion. the [International Integrated Reporting Framework Board](#) which is comprised of experts in integrated reporting recommends for approval any revision, modification or other update to the <IR> Framework, as well as providing input on other guidance material relating to integrated reporting or integrated thinking.

- A16 The <IR> Framework Board implements the due process as outlined in the organisation's Procedures Handbook. The Integrated Reporting and Integrated Thinking Oversight Committee ('Oversight Committee') to the Board of Directors of the Value Reporting Foundation owns the due process through its oversight activities. In discharging this responsibility, the Oversight Committee periodically attends <IR> Framework Board meetings to oversee the processes followed and to ensure the due process of revisions to the <IR> Framework.
- A17 The <IR> Framework will be a critical element of the ongoing work of the ISSB and the IASB in the interconnectivity between sustainability-related reporting and financial reporting.

World Economic Forum's International Business Council Metrics

- A18 The World Economic Forum's International Business Council (WEF IBC) is not a standard or framework setter but is a grouping of more than 140 CEOs of global companies who view sustainability and the Sustainable Development Goals (SDGs) as critical to long-term business value creation. The IBC developed a set of metrics for companies to demonstrate and communicate their sustainable business performance and long-term value creation in a clear, comparable way to investors and other stakeholders.
- A19 The WEF and the IBC — in collaboration with the Big 4 professional services organizations Deloitte, EY, PWC and KPMG — presented a Consultation Draft Report at Davos in [January 2020](#). The report identified a set of industry-agnostic, material ESG metrics and reporting requirements that could be reflected in the mainstream annual reports of companies. Following an extensive consultation with more than 200 companies, investors, standard setters and other key stakeholders, the refined set of metrics were released at the IBC's meeting in August 2020. In [September 2020](#), the final report, including the refined set of metrics was published. The WEF IBC metrics build exclusively on current standards and frameworks, most notably the TCFD Framework and further informed the TRWG recommendations, including the published prototype standards.
- A20 By March 2021, over 70 companies had committed to reporting against the WEF-IBC Stakeholder Capitalism Metrics. A letter of [26 March 2021](#) set out the WEF

IBC's planned 'concrete' actions and the WEF IBC issued a press release on [5 November 2021](#), which explains its role as a co-convenor of the TRWG, as well as an offer to be a sounding board to provide inputs through the consultation mechanisms of the ISSB.