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## ISSB Meeting

Date	<b>October 2022</b>
Project	<b>ISSB Consultation on Agenda Priorities</b>
Topic	<b>Update on Planned Approach</b>
Contacts	<b>Greg Bartholomew (<a href="mailto:greg.bartholomew@ifrs.org">greg.bartholomew@ifrs.org</a>)</b> <b>Rommie Johnson (<a href="mailto:rommie.johnson@ifrs.org">rommie.johnson@ifrs.org</a>)</b>

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<sup>®</sup> Sustainability Disclosure Standards. The ISSB's technical decisions are made in public and are reported in the ISSB *Update*.

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## Objective

1. This paper provides the International Sustainability Standard Board (ISSB) with an update on the planned approach to and timing of its consultation on agenda priorities and the publication of a request for information.
2. The ISSB will not be asked to make any decisions in this session. However, ISSB members will have the opportunity to provide their thoughts and feedback on the planned approach which will inform a subsequent discussion with the ISSB at a later decision-making meeting.

## Structure of the paper

3. This paper is structured as follows:
  - (a) Background (paragraph 4)
  - (b) Feedback received (paragraphs 5-7)
  - (c) Recommended approach (paragraphs 8-25)
    - (i) Building on our foundation (paragraphs 10-21)
    - (ii) New research and standard-setting (paragraphs 22-25)
  - (d) Recommended timeline (paragraph 26)
  - (e) Questions for the ISSB (paragraph 27)
  - (f) Appendix A – Broadly defined topic: corporate governance

## Background

4. During its inaugural meeting in July 2022, the ISSB discussed two papers on the consultation on agenda priorities and the plan for the publication of a request for information which will inform the ISSB's initial two-year work plan. [Agenda Paper 1](#) for that meeting provided an overview of the project and the staff's planned approach to the project, including consideration of the ISSB's strategic balance, the criteria the ISSB could use to assess project proposals and how such proposals could be identified and prioritised. [Agenda Paper 1A](#) for that meeting presented a preliminary list of items the ISSB may wish to consider as it prepares the request for information.

## Feedback received

5. In its discussion at the July 2022 meeting, the ISSB was generally supportive of the staff's approach to the project. ISSB members also emphasised a need to build on the foundation established by IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and IFRS S2 *Climate-related Disclosures* (IFRS S2), once finalised. Members noted such work will be particularly important given the fundamental changes in reporting that the ISSB's work will introduce to many stakeholders. They further explained such work will be necessary to ensure the ISSB's global baseline of sustainability disclosure is implemented with sufficient breadth and depth to support an effective and scalable system of building blocks. ISSB members also noted the need for such consideration is particularly acute given the central role that [draft] IFRS S1 is intended to play in the system of IFRS Sustainability Disclosure Standards as well as the potential for [draft] IFRS S2 to serve as a 'template' for future standards to extend the application of [draft] IFRS S1 in the context of specific subject matters. ISSB members suggested that any proposed initial work plan should encompass work to identify, assess and respond to needs for support in the application of IFRS S1 and IFRS S2, as well as new research and standard-setting activities that would complement IFRS S1 and IFRS S2, to support those applying the IFRS Sustainability Disclosure Standards.
6. At its September 2022 meeting, the ISSB discussed the summary of comments on [draft] IFRS S1 and [draft] IFRS S2, as presented in [Agenda Paper 3A](#) and [Agenda Paper 4A](#), respectively, for that meeting. Commenters raised similar points that may have implications on the ISSB's initial work plan, including questions on:
  - (a) the envisioned architecture of the IFRS Sustainability Disclosure Standards and the interrelationship between IFRS S1 and IFRS S2;
  - (b) how IFRS S1 and IFRS S2 can or should be implemented;
  - (c) how IFRS S1 and IFRS S2 would relate to future Standards (and their implementation and application); and
  - (d) how IFRS Sustainability Disclosure Standards will interact with IFRS Accounting Standards as well as with jurisdictional and voluntary sustainability reporting standards designed to meet the information needs of a broad range of stakeholders.
7. Based on the ISSB discussions and stakeholder feedback, the staff recommends that:
  - (a) the ISSB undertake work to build on the foundation established by IFRS S1 and IFRS S2, once finalised, and outline this work and its implications for the ISSB's capacity in the request for information, but do not formally request feedback on such work;
  - (b) the public consultation should, instead, request feedback on new research and standard-setting projects the ISSB could prioritise, which would be incremental to the work undertaken to build on the foundation established by IFRS S1 and IFRS S2; and
  - (c) the request for information should be deferred until 1H 2023 to allow the ISSB to first reach decisions on key areas of [draft] IFRS S1 and [draft] S2, as well as associated activities of the ISSB, which will provide more visibility on what that work will encompass and the capacity that will be needed to support the work to build on our foundation.

## Recommended Approach

8. The staff recommends that the request for information:
  - (a) Outlines the work to build on the foundation established by IFRS S1 and IFRS S2, once finalised (paragraphs 10-21); and
  - (b) Sets out proposals for new research and standard-setting for stakeholder input to inform the board's decisions on the future work plan (paragraphs 22-25).
9. The two primary categories of work set out above are broadly aligned with the two aspects of the ISSB's 'strategic balance' described in paragraph 8 of [Agenda Paper 1 for the July 2022 ISSB meeting](#), which discusses 'advancing and enhancing existing materials' and 'developing new materials.' Based on clear feedback from the ISSB and stakeholders, the staff recommends that the ISSB initially devote a majority of its resources to work meant to build on the foundation established by IFRS S1 and S2, which may limit the ISSB's capacity to add a significant number of new research and standard-setting projects in its initial two-year work plan.

### ***Building on our foundation***

10. Work to build on the foundation established by IFRS S1 and IFRS S2 would include work intended to strengthen and enhance IFRS S1 and IFRS S2 (e.g., by addressing emerging and evolving aspects of related market practices), to support capacity building (e.g., by developing or strengthening implementation guidance), and to enhance both connectivity (i.e., with the International Accounting Standards Board [IASB] and IFRS Accounting Standards) and interoperability (i.e., with other jurisdictional and voluntary sustainability reporting standards).
11. The staff recommends that this work be included in the initial work plan to ensure IFRS S1 and IFRS S2 can be effectively implemented and applied by entities in a way that is connected to and interoperable with other financial and sustainability reporting standards. This work, which is seen as essential, should begin upon the finalisation of IFRS S1 and IFRS S2, and thus, prior to the completion of the agenda consultation.
12. As the ISSB reaches decisions on key aspects of [draft] IFRS S1 and [draft] IFRS S2, as well as the ISSB's associated activities, the scope and description of this work will be refined; however, the staff initially recommends this work include the following:
  - (a) Work designed to improve the Sustainability Accounting Standards Board (SASB) Standards to make the SASB Standards more internationally applicable and decision-useful for investors in the application of IFRS S1 via:
    - (i) **Internationalisation** – Enhancing the international applicability of the SASB Standards, as essential application guidance supporting [draft] IFRS S1, as well as any follow-on work on Appendix B, the industry-based disclosure requirements of [draft] IFRS S2 (pending ISSB decisions<sup>1</sup>); and
    - (ii) **Legacy SASB Standards projects** – Advancing the industry-based research and standard-setting work inherited from the SASB Standards Board, with an initial

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<sup>1</sup> Agenda Paper 6 – *Industry-based materials* for this meeting provides the staff's preliminary recommendations as it relates to Appendix B of [draft] IFRS S2.

focus on those projects where recommended changes<sup>2</sup> to the SASB Standards had been published prior to the IFRS Foundation gaining stewardship of the SASB Standards.

- (b) Supporting the adoption, application, and usefulness of IFRS S1 and IFRS S2, including consideration of public feedback, via:
    - (i) **Materials to support capacity building** – Developing or strengthening implementation guidance, application guidance and/or illustrative examples for key areas of preparer challenge (e.g., materiality assessment, scenario analysis, etc.) that complement and supplement any materials that are included in, or published with, the finalised IFRS S1 and IFRS S2 as a result of ISSB redeliberations;
    - (ii) **Core concepts** – More formally articulating the core concepts that underpin the ISSB’s work (e.g., clarity around definitions of ‘sustainability’ and ‘materiality’) that, again, complement and supplement any materials included in, or provided at the time of the publication of, the finalised IFRS S1 and IFRS S2 as a result of ISSB redeliberations; and
    - (iii) **Digital taxonomy** – Publishing an exposure draft of the digital taxonomy for IFRS Sustainability Disclosure Standards and supporting implementation.
  - (c) Coordinating with the IASB and other standard-setting bodies to facilitate the delivery of a coherent and comprehensive system of financial and non-financial disclosures to users of corporate reporting via:
    - (i) **Connectivity** – Collaborating with the IASB to ensure the IASB’s and ISSB’s respective requirements are compatible and avoid inconsistencies and conflicts (i.e., climate-related disclosures); and
    - (ii) **Interoperability** – Engaging with jurisdictional and voluntary sustainability-reporting standard setters, including ongoing efforts to align where possible with the work of GRI, EFRAG and other jurisdictional efforts, to facilitate interoperability of requirements as appropriate.
  - (d) Continuing research and outreach to identify and assess IFRS S2 for areas of potential enhancement, including climate-related risks and opportunities identified by respondents to [draft] IFRS S2, such as those related to ‘just transition,’ water, and nature.
13. Including the activities related to the SASB Standards described in paragraph 12(a) as foundational work represents a slight shift from how these activities were presented at the ISSB’s July 2022 meeting. While the ISSB’s work to enhance the international applicability of the SASB Standards was identified as ‘committed’ work (per paragraph 5(a) of [Agenda Paper 1](#) for that meeting), the existing SASB Standards research and standard-setting projects were identified as items to be considered for inclusion within the request for information (per paragraphs 50-83 of [Agenda Paper 1A](#) for that meeting).

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<sup>2</sup> Agenda Paper 6 – *Industry-based materials* for this meeting notes that the SASB published recommended changes for specified standard-setting projects in June 2022.

14. The staff recommends that the activities related to the SASB Standards described in paragraph 12(a) be considered foundational due to the important role the SASB Standards play in both [draft] IFRS S1, as essential application guidance, and [draft] IFRS S2, as the basis for the industry-based requirements of Appendix B, as well as the widespread market adoption of and support for the SASB Standards. The SASB Standards projects for which recommended changes were published in June 2022 already benefit from significant work undertaken by the SASB working with stakeholders and are designed to satisfy identified investor information needs. By including these activities as foundational work, the ISSB will have an opportunity to extend the application of IFRS S1 across a range of sustainability-related subject matters that investors consider in their assessment of an enterprise value, while maintaining momentum and supporting the adoption and application of the IFRS Sustainability Disclosure Standards. It is noted for the avoidance of doubt that updates or amendments to the SASB Standards resulting from this work would be exposed for public comment.
15. Agenda Paper 6 – *Industry-based materials* for this meeting discusses the role that industry-based materials, including the SASB Standards, may have within the IFRS Sustainability Disclosure Standards, including potential avenues to advance industry-based materials. ISSB discussions related to industry-based materials will influence the ultimate nature and scope of SASB Standards-related activities included in the foundational work. For purposes of this discussion, the staff wishes to solicit the ISSB's views on whether the activities related to the SASB Standards described in paragraph 12(a) *should* or *should not* be included as foundational work.
16. The activities described in paragraph 12(c)(i) around connectivity with the IASB would primarily be focused on ensuring the IASB's and ISSB's respective requirements on climate-related disclosures are compatible and avoid inconsistencies and conflicts. These activities would not include the other potential projects to be undertaken in coordination with the IASB that are outlined in paragraphs 86-95 of [Agenda Paper 1A for the July 2022 ISSB Meeting](#). Such projects will be considered as potential projects to be included in the request for information as new research and standard-setting work.
17. The activities described in paragraph 12(d) would result in new climate-related areas of research and activity commencing prior to the finalisation of the work plan; however, such activity can be seen as natural follow-ons to IFRS S2. These activities may include additional research on some of the aspects of climate-related risk and opportunities that were identified as potentially warranting additional research and possible standard-setting in paragraph 19 of [Agenda Paper 1A for the July 2022 ISSB Meeting](#).
18. The ISSB has committed to addressing market demands related to climate-related reporting. By embarking on this work expeditiously the ISSB would be able to maintain momentum in improving reporting for matters closely related to climate change. As the climate continues to change, the associated risks and opportunities, market understanding, and best practices for responding, measuring, and disclosing such risks and opportunities will need to change as well.
19. Including the activities outlined in paragraph 12 as committed foundational work of the ISSB within the request for information will provide transparency on this work and allow the ISSB to signal that:
  - (a) it will actively continue to work to enhance and build upon IFRS S1 and IFRS S2 prior to finalising its initial two-year work plan and that this work will continue immediately following the finalisation of redeliberations on [draft] IFRS S1 and [draft] IFRS S2;
  - (b) it is seeking formal consultation on new research and standard-setting projects; however, given the importance of undertaking activities to support the initial reporting under IFRS S1

and IFRS S2, the capacity for new projects beyond the foundational work outlined will be affected in the near term; and

- (c) it will respond to a dynamic risk landscape and the changing needs of capital markets in an effective and timely manner.

20. Importantly, any activities considered 'foundational' that result in proposed new or amended standards, application guidance, educational or other materials would follow the appropriate due process per the IFRS Foundation *Due Process Handbook*.
21. As noted in paragraph 7(b), it is proposed that the ISSB would ask stakeholders for feedback on the new research and standard-setting projects and their relative priority. In contrast, the foundational activities would be described in the request for information to, primarily, provide context for the consultation on new research and standard-setting projects. Thus, the foundational activities described in paragraph 12 would be outlined within the request for information to provide clarity for stakeholders on the scope of such activities as well as to provide context for the capacity available for new research and standard-setting projects. While respondents would be able to comment on the foundational activities outlined within the request for information, feedback on these activities would not be the focus of the consultation.

### ***New research and standard-setting***

22. New research and standard-setting would include assessing new sustainability-related risks and opportunities (i.e., those beyond climate) and advancing standard-setting work, as appropriate. This work could include building on the concepts, framework, standards and other tools and resources that have been developed and adopted in the market. Depending on the nature of the subject matter and associated sustainability-related risks and opportunities, this work may take a top-down thematic approach, a bottom-up industry-based approach, or some combination of the two.
23. The staff recommends that the request for information propose a short list of subject matters the ISSB could research as part of its initial work plan, with the objective of pursuing new standard-setting as appropriate. The staff will consider the size and complexity of the potential projects to be included in the request for information in the context of the ISSB's and staff's capacity and the scope of the foundational work, to determine the number of subject matters to include in the initial work plan. This will also inform guidance provided to stakeholders regarding the number of new projects the ISSB may be able to consider for the work plan. The staff presented a preliminary list of such subject matters [Agenda Paper 1A for the July 2022 ISSB Meeting](#).
24. In response to feedback from ISSB members, the staff has also prepared an item focused on corporate governance to be added to the preliminary list of items to be considered for inclusion in the request for information. A summary of this topic, including the market need, primary challenges to addressing the need and potential paths forward, has been included as Appendix A.
25. The proposed projects included in the request for information would include a description of the ISSB's initial assessment of the priority of such subject matter. The request for information would solicit stakeholder feedback on the potential projects, including the stakeholder views of the priority of the subject matter and how the ISSB might approach the project to most effectively address the market need.

## Recommended Timeline

26. Paragraph 35 of [Agenda Paper 1 for the July 2022 ISSB meeting](#) noted the ISSB’s intention to publish the request for information in the fourth quarter of 2022. Due to the need to strongly emphasise foundational activities—and the importance of IFRS S1 and IFRS S2 in that context—the staff will propose a timeline for the request for information that allows for significant re-deliberations on [draft] IFRS S1 and [draft] IFRS S2 that might impact the work plan to conclude (e.g., decisions on Appendix B of [draft] IFRS S2). Thus, the request for information can more appropriately reflect what is—and what is not—included in IFRS S1 and IFRS S2, as well as any ISSB decisions on other key aspects relevant to the foundational work (e.g., the role of industry-based materials). The staff expectation is that this would result in the publication of the request for information in 1H 2023.

## Questions for the ISSB

27. The staff presents the following questions for the ISSB.

### Questions for the ISSB

1. Do you have any comments on the staff’s recommended approach to the consultation on agenda priorities, including the distinction between work to build on the foundation of S1 and S2 and new research and standard-setting?
2. Do you have any comments on the specific activities outlined as building on our foundation (paragraphs 10-21), or their implications for the ISSB’s capacity?
3. Do you have any comments on whether the activities related to the SASB Standards described in paragraph 12(a) *should* or *should not* be included as work to build on the foundation of IFRS S1 and IFRS S2?
4. Do you have any comments on the staff’s recommended timeline for publishing the request for information (paragraph 26)?
5. Do you have any comments on broadly defined topic: corporate governance included at Appendix A, in the context of the preliminary list of subject matters presented in [Agenda Paper 1A for the July 2022 ISSB Meeting](#)?

## Appendix A – Broadly defined topic: corporate governance

- A1. The governing body's role in managing and monitoring the strategy and risks of an entity represents a fundamental component of its ability to create and maintain enterprise value in the short, medium and long term. Qualified oversight by a governing body with the appropriate competence and composition along with robust risk management is essential to ensuring the ongoing success of an entity. Failures and weaknesses in corporate governance arrangements can negatively impact financial performance of an entity and, in turn, investor return.
- A2. The disclosure requirements proposed in [draft] IFRS S1 emphasise the important role of governing bodies in overseeing sustainability-related strategy and risk management that can impact enterprise value. Investors also seek information related to the traditional aspects of corporate governance which describe the board's capacity and practice of oversight, including board composition and executive remuneration. However, due to the differing jurisdictional corporate governance codes, regulations and stock exchange listing requirements, global investors do not always have access to comparable corporate governance disclosure across their international portfolio of investments.
- A3. Today, international organisations have established principles for effective governance, including the principles of the International Corporate Governance Network (ICGN), which identify many of the common themes across jurisdictions. In the United States, the Securities and Exchange Commission has regulations requiring disclosure on corporate governance matters such as board composition and compensation. Additionally, the European Financial Reporting Advisory Group (EFRAG) has issued an exposure draft of a reporting standard focused on 'governance, risk management, and internal control.' Many jurisdictional corporate governance codes have also embraced the principles and contents of the International Integrated Reporting Framework, which is centred around the role of governance in contributing to the ability of an organisation to create value in the short, medium and long term, as a means to better show the governing body's impact on value creation (for example, in South Africa, Japan, and Australia).
- A4. The ISSB may wish to consider the benefits of establishing a global baseline of disclosure focused on corporate governance. Challenges that exist in addressing the market need for comparable information on corporate governance include:
- (a) the presence of jurisdictional laws and regulations with differing definitions (for example, regarding the 'independence' of governing body members);
  - (b) differing conceptions of corporate purpose and a governing body's fiduciary duty in various jurisdictions;
  - (c) significant variation in board structures around the world;
  - (d) ensuring connected information with what is already reported in accordance with existing jurisdictional laws, regulations or other codes;
  - (e) challenges in measuring or facilitating the comparability of information about board structures, processes and shareholder rights, and how they contribute to enterprise value; and
  - (f) potential overlap with other thematic areas, including human capital (e.g., executive remuneration), or other IFRS Sustainability Disclosure Standards, including [draft] IFRS S1.



- A5. Should the ISSB wish to consider developing disclosure requirements related to corporate governance matters, such as the governing body’s composition, independence and compensation and its key policies and processes, it could potentially build upon existing materials, including the International Integrated Reporting Framework. The ISSB may also wish to take into consideration the work done by ICGN, EFRAG and others.