Staff paper

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ISSB meeting

Date	**February 2023**
Project	**General Sustainability-related Disclosures and Climate-related Disclosures**
Topic	**Proportionality and support for those applying IFRS S1 and IFRS S2**
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Objective

1. This paper summarises tentative decisions made by the ISSB that are intended to address challenges faced by a subset of preparers: those that are less able to comply with the proposed disclosure requirements in the exposure drafts IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ([draft] S1) and IFRS S2 *Climate-related Disclosures* ([draft] S2). Addressing the unique challenges faced by these preparers is described as addressing 'proportionality'.

2. In this regard, this paper builds upon the ISSB's September 2022 discussion and decision-making meeting to introduce proportionality mechanisms, which the staff has since used to inform recommendations to the ISSB.

3. In addition, the ISSB has sought to introduce reliefs or provisions that will assist all preparers in applying IFRS S1 and IFRS S2. This paper also provides an overview of these decisions.

Summary of ISSB tentative decisions[1]

4. The ISSB has made several tentative decisions that will help:

   (a) address proportionality; and

   (b) provide assistance to all preparers applying IFRS S1 and IFRS S2, particularly when first applied.

5. These tentative decisions are summarised in Table 1.

[1] At this meeting, the ISSB will be asked whether they give permission to ballot (and thus finalisation of) IFRS S1 and IFRS S2. Thus, decision making on these Standards is considered by the staff to be complete. However, as is the practice of the IFRS Foundation, final documents are subject to balloting, and therefore decisions are described as 'tentative' until publication of due process documents.

Table 1. Summary of tentative ISSB decisions that address proportionality or assist in application.

Topic	Mechanisms to address proportionality		Adoption relief	Additional clarifications/ mechanisms to facilitate application	
	Reasonable and supportable …without undue cost or effort	Consideration of skills, capabilities, and resources		'Unable to do so'	Guidance, educational material, and other
Determination of anticipated financial effects	X	X		X[2]	X
Climate-related scenario analysis	X	X			X
Measurement of Scope 3 GHG emissions	X		X		X
Identification of risks and opportunities	X				X
Measurement of Scope 1 and Scope 2 GHG emissions			X		X
Determination of the scope of the value chain	X				X
Determination of current financial effects				X[2]	X
Calculation of metrics in particular cross-industry metric categories	X				X
Other areas			X		X

[2] The term 'unable to do so' is not used, however this is effectively rearticulated through the tests of whether the quantitative effects are separately identifiable and whether the level of measurement uncertainty is such that a faithful representation is not possible.

6. **Mechanisms to address proportionality:** the ISSB has tentatively agreed to introduce or confirm particular provisions in IFRS S1 and IFRS S2 that will specifically address proportionality. These include:

   (a) the use of reasonable and supportable information that is available without undue cost or effort; and

   (b) consideration of an entity's skills, capabilities and resources.

7. **Adoption relief:** the ISSB has also tentatively agreed to provide certain temporary relief for entities when adopting the Standards. While these reliefs are available to all entities, they are expected to be especially helpful to those that are less able to comply with the proposed disclosure requirements. These reliefs include:

   (a) timing of reporting relief [3]: transitional relief from the requirement for entities to provide sustainability-related financial disclosures at the same time as the financial statements;

   (b) *Greenhouse Gas Protocol* [3]*: A Corporate Accounting and Reporting Standard* (GHG Protocol Corporate Standard) relief: relief from the requirement for entities to apply the *GHG Protocol Corporate Standard*, in specific circumstances;

   (c) Scope 3 greenhouse gas (GHG) emissions reporting relief: a temporary exemption allowing entities to delay disclosure of Scope 3 GHG emissions for [a minimum of one year] [3] when first applying IFRS S2; and

   (d) comparative reporting relief: comparative information is not required to be disclosed in the first annual reporting period in which an entity applies IFRS S1 and IFRS S2.[4]

8. **Additional clarifications and mechanisms to support application:** the ISSB has introduced clarifications and mechanisms that will help facilitate application more

[3] The duration of the relief will be voted on in the February 2023 meeting.
[4] This relief was included in [draft] S1 and [draft] S2.

broadly. While these clarifications and mechanisms are available to all entities, they will especially support those that are less able to comply with the proposed disclosure requirements in IFRS S1 and IFRS S2. These efforts include:

(a) the use of 'unable to do so' (which has been expressed using more specific criteria);

(b) guidance within the Standards and educational material;

(c) providing 'sources of guidance' to identify sustainability-related risks and opportunities and disclosures;

(d) using existing terminology and concepts, specifically leveraging from:

 (i) IFRS Accounting Standards; and

 (ii) sustainability-related frameworks and standards;

(e) contributing to ongoing efforts to support application, specifically:

 (i) facilitating interoperability; and

 (ii) enabling capacity building.

Structure of the paper

9. This paper is structured as follows:

 (a) background (paragraphs 10–14);

 (b) mechanisms to address proportionality (paragraphs 15–29);

 (c) adoption relief (paragraphs 30–40);

 (d) additional clarifications and mechanisms to support application (paragraphs 41–73); and

 (e) Appendix A: Guidance and educational material–summary of tentative decisions.

Background

10. Most respondents to the consultation on [draft] S1 and [draft] S2 suggested that the ISSB should give more consideration to the range of capabilities and preparedness of entities around the world to apply the proposals in [draft] S1 and [draft] S2 (ie give more consideration to proportionality or scalability). At the September 2022 ISSB meeting, the ISSB discussed mechanisms to address proportionality as outlined in Agenda Paper 3C&4C: *Scalability*.

11. The mechanisms for addressing proportionality are designed to address challenges that affect a subset of preparers: those that are less able to comply with the proposed disclosure requirements in the exposure drafts. The reasons why these entities are less able to comply with the proposed requirements may include, but are not limited, to:

    (a) the entity is more resource constrained, for example, due to the size of the entity, so that the costs of investing in and implementing the systems needed to support disclosure are proportionately higher than for entities where resource constraints are less applicable; and

    (b) the entity is operating in a market where high-quality external data is less available or where it is more challenging to attract the human resources and talent needed to comply with the Standard.

12. Respondents to the consultation on [draft] S1 and [draft] S2 also suggested the ISSB introduce other reliefs, clarifications, and mechanisms to support those entities applying IFRS S1 and IFRS S2.

13. In response to this feedback, the ISSB has made several tentative decisions to address proportionality and to provide support for those applying IFRS S1 and IFRS S2.

14. This board paper is provided as background for the ISSB. This paper will not be discussed at the public board meeting, and accordingly, there are no questions for the ISSB.

Mechanisms to address proportionality

Reasonable and supportable information that is available without undue cost or effort

15. Agenda Paper 3C&4D: *Reasonable and supportable information that is available at the reporting date without undue cost or effort* (January 2023) outlines the challenges entities could encounter in applying proposed disclosure requirements in IFRS S1 and IFRS S2 that involve a high level of measurement or outcome uncertainty.

16. IFRS Accounting Standards have used the concept of 'reasonable and supportable information that is available at the reporting date without undue cost or effort' to address similar challenges. This concept provides clarity to entities by establishing parameters about the type of information an entity would consider, and the associated effort required to obtain such information, to support disclosures.

17. When applying this concept to the areas of IFRS Accounting Standards, an entity:

    (a) is required to consider information that is reasonably available, including that which it already has, and cannot disregard known information;

    (b) must have a reasonable basis for using the information;

    (c) need not undertake an exhaustive search for such information; and

    (d) is required to consider information that is historical, current and forward-looking, but only the information that is available at the reporting date.

18. The ISSB tentatively decided to introduce this concept into IFRS S1 and IFRS S2, in areas that were identified as giving rise to high levels of measurement or outcome uncertainty, to help entities apply specific requirements in the Standards when:

(a) identifying sustainability-related and climate-related risks and opportunities (IFRS S1 and IFRS S2)[5];

(b) applying value-chain-related requirements, specifically, those regarding:

(i) the scope of the entity's value chain (IFRS S1 and IFRS S2); and

(ii) the entity's measurement of its Scope 3 GHG emissions (IFRS S2);

(c) determining anticipated effects on an entity's financial performance, financial position and cash flows (IFRS S1 and IFRS S2);

(d) applying climate-related scenario analysis (IFRS S2)[5]; and

(e) calculating the amount and percentage of assets or business activities (IFRS S2):

(i) vulnerable to transition risks;

(ii) vulnerable to physical risks; and

(iii) aligned with climate-related opportunities.

19. Similar to the clarity this concept brings to entities applying particular IFRS Accounting Standards, this concept will provide clarity to entities applying these areas of IFRS Sustainability Disclosure Standards by establishing parameters about the type of information an entity is required to consider, and the associated effort required to obtain such information, to support disclosures.

20. This concept will assist all entities, but the notion of 'undue cost or effort' is particularly helpful for those preparers that are less able to comply with the requirements proposed in [draft] S1 and [draft] S2. This has been demonstrated in the

[5] The ISSB tentatively decided that this be based on based on reasonable and supportable information that is available at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future conditions.

application of particular requirements of IFRS 9 *Financial Instruments*, where this concept has been used to support proportionate application by different entities[6].

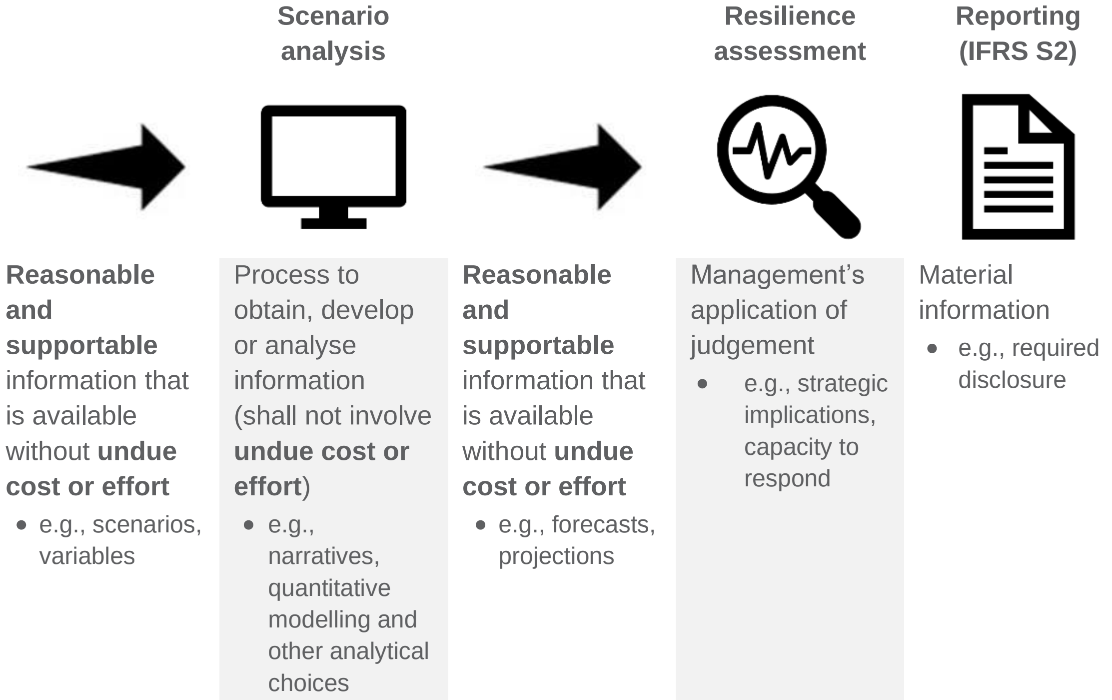
21. For example, an entity that is more resource constrained, such that the costs of obtaining particular information is proportionately higher than for entities with fewer resource constraints, would be permitted to undertake a proportionately less exhaustive search for information. **While the entity would be required to comply with disclosure requirements**, the entity would do so with information that reasonable and supportable and is available without undue cost or effort.

22. As explained in IFRS for Small and Medium-sized Entities (*IFRS for SMEs*), the consideration of whether cost or effort is 'undue' depends on 'management's judgement of the costs and benefits from applying that requirement'. During the January 2023 discussion, the ISSB emphasised that 'undue' will change over time, proportionately with an entity's evolving capabilities and resources.

23. The application of 'reasonable and supportable information that is available at the reporting date without undue cost or effort' as it relates to climate-related scenario analysis is illustrated in Figure 1.

[6] In the Basel Committee on Banking Supervision's December 2015 publication "Guidance on credit risk and accounting for expected credit losses", the Basel Committee noted that the concept of 'reasonable and supportable information that is available at the reporting date without undue cost or effort' was intended to ease the implementation burden of IFRS 9 for a wide range of companies. However, the Basel Committee specifically noted the expectation that the **use of this concept by internationally active banks and those banks more sophisticated in the business of lending would be limited**, particularly because – given their business – the cost of obtaining relevant information is not considered by the Committee to be likely to involve "undue cost or effort".

Figure 1. Application of 'reasonable and supportable information that is available at the reporting date without undue cost or effort' as applied to scenario analysis.



Consideration of skills, capabilities and resources

24. Agenda Paper 3E&4E: *Current and anticipated financial effects and connected information* (January 2023) and Agenda Paper 4A: *Using scenario analysis to assess climate resilience* (January 2023) both introduced the concept of considering 'the skills, capabilities and resources available to the entity'. This is perhaps the most direct application of proportionality considerations that the ISSB agreed should be included in IFRS S1 and IFRS S2.

25. Consideration of skills, capabilities and resources would provide essential context for understanding the potential cost and effort required to apply different aspects of IFRS S1 and IFRS S2 and, therefore, whether that cost or effort is likely to be 'undue' when weighed against the potential benefits of the information a particular approach would yield.

26. The ISSB tentatively decided to require an entity to consider the entity's available skills capabilities and resources when:

    (a) considering its approach to conducting a method of climate-related scenario analysis; and

    (b) determining whether it is able to provide quantitative information about the anticipated financial effects of a particular sustainability-related risk or opportunity.

27. As it relates to climate-related scenario analysis, the ISSB agreed that an entity's approach to conducting its scenario analysis should be commensurate with its skills, capabilities and resources. Even if an entity determines that it has significant exposure to climate-related risks or opportunities, it may be challenged to use a quantitatively complex or technically sophisticated approach to climate-related scenario analysis. The staff notes that entities skills, capabilities and resources may vary for different reasons. For example, while entities in some sectors—such as extractives and minerals processing—have used climate-related scenario analysis for many years, others—such as consumer goods or technology and communications—have only more recently begun to explore applying climate-related scenario analysis to their businesses. Meanwhile, smaller and medium-sized entities and/or those in particular jurisdictions may need more time to build their capacity and capability in this area because climate-related scenario analysis can be resource intensive, represent an iterative learning process and may take multiple planning cycles to develop and refine.

28. Similarly, as it relates to disclosing information about the anticipated financial effects of a particular sustainability-related risk or opportunity, an entity with fewer resources may be limited in its ability to **quantify** the anticipated effects of such risk or opportunity, and therefore, additional time may be needed to build capacity and capabilities is needed to provide such information.

29. In both instances described in paragraphs 27 and 28, consideration of an entity's skills, capabilities and resources will support proportionate application for those

entities that are less able to comply with the proposed disclosure requirements regarding climate-related scenario-analysis and the quantification of anticipated financial effects.

Adoption relief

30. In addition to the specific proportionality mechanisms introduced, the ISSB also tentatively agreed to other temporary relief when IFRS S1 and IFRS S2 are first applied. While are applicable to all entities that apply IFRS Sustainability Disclosure Standards, and therefore does not serve solely to aid in addressing proportionality, the relief may especially help those that are less able to comply with the disclosure requirements.

Timing of reporting relief [7]

31. Agenda Paper 3C: *Timing of Reporting* (November 2022) noted that many of the concerns raised in response to the proposals relate to data availability and preparer readiness to comply in a timely manner. This is especially true for preparers that are less prepared or have fewer resources, and therefore will find it challenging to publish financial statements and sustainability-related financial disclosures simultaneously[8].

32. At its November 2022 meeting, the ISSB tentatively decided to:

    (a) introduce short-term transitional relief that would permit an entity to report its sustainability-related financial disclosures after its financial statements; and

    (b) permit an entity, as part of this transitional relief, to report its annual sustainability-related financial disclosures at the same time as its H1/Q2 earnings reporting.

[7] The ISSB will vote on how long this transitional relief will be available during the February meeting.

[8] These are predominately initial implementation costs, and we would expect these to reduce over time.

GHG Protocol Corporate Standard relief

33. Agenda Paper 4C: *Greenhouse gas emissions measurement methods* (October 2022) summarised particular concerns about requiring GHG emissions to be measured in accordance with the *GHG Protocol Corporate Standard*; in particular, some entities already use other GHG emissions measurement methods, or some entities are required by regulation or exchanges to report their GHG emissions using other GHG emissions measurement methods.

34. If required to use the *GHG Protocol Corporate Standard*, an entity already using a measurement method that is different from the *GHG Protocol Corporate Standard* would experience greater costs associated with applying the proposals in [draft] S2. An entity subject to a jurisdictional requirement to use a different measurement method would need to undertake duplicative reporting, and would therefore also experience greater costs associated with applying the proposals in [draft] S2.

35. This is especially true for preparers that are less prepared or have fewer resources and therefore will find it challenging to transition to a new GHG emissions measurement method, or perform duplicative measurements of GHG emissions.

36. At its October 2022 meeting, the ISSB amended [draft] S2 to provide the following relief:

    (a) when an entity has been using a GHG emissions measurement method that is different from the *GHG Protocol Corporate Standard*, the entity may continue to use its existing measurement method for [a defined period][9] following the effective date of the requirement prior to applying the *GHG Protocol Corporate Standard*; and

    (b) when an entity is required by jurisdictional authorities or the exchange on which it is listed to use a GHG emissions measurement method that is different from the *GHG Protocol Corporate Standard*, the entity may continue to use

[9] The ISSB will vote on this defined period, as well as how long this transitional relief will be available, during the February meeting.

that measurement method, so long as it is required, to avoid duplicative reporting.

Scope 3 GHG emissions reporting relief

37. Agenda Paper 4B: *Scope 3 greenhouse gas emissions* (October 2022) summarised particular concerns associated with the ability of many entities to provide Scope 3 GHG emissions disclosures of sufficient quality to be decision-useful for users of general purpose financial reporting —or provide any disclosure at all on Scope 3 GHG emissions— at the time that IFRS S2 is first applied. Therefore, these entities may need longer to prepare to disclose Scope 3 GHG emissions than other disclosures required by IFRS S2. This is especially true for preparers that are less prepared or have fewer resources, and therefore will find it challenging to provide Scope 3 GHG emissions disclosures in a timely manner.

38. At its December 2022 meeting, the ISSB tentatively decided to introduce a temporary exemption from the requirement for an entity to disclose its Scope 3 GHG emissions for [a minimum of one year] [10] after the effective date of IFRS S2.

39. By requiring disclosure of Scope 1 and Scope 2 GHG emissions earlier than Scope 3 GHG emissions, the temporary data availability challenge will be addressed to a significant degree; partly as listed entities in a preparer's supply chain will be subject to the proposed requirement to disclose their Scope 1 and Scope 2 GHG emissions, and partly because it will give a preparer more time to work with the entities in its value chain to collect and/or estimate its Scope 3 GHG emissions.

Comparative reporting relief

40. [Draft] S1 and [draft] S2 proposed relief for an entity from being required to disclose comparative information in the first annual reporting period in which an entity applies

[10] The ISSB will vote on this defined period, as well as how long this relief will be available, during the February meeting.

IFRS S1 and IFRS S2. Without this relief, if the proposed requirements were effective for annual reporting periods beginning on or after 1 January 2024, for example, an entity would need to collate information for the year from 1 January 2023. It would be a challenge to ensure that entities are able to provide comparative information, especially for those entities that may be reporting sustainability-related information for the first time or have other resource constraints. Therefore, this relief will also help to address proportionality.

Additional clarifications and mechanisms to support application

41. The ISSB has introduced clarifications and mechanisms that will help facilitate application for entities. While available to all entities, these clarifications and mechanisms are expected to especially support those that are less able to comply with the proposed disclosure requirements in IFRS S1 and IFRS S2.

‘Unable to do so’

42. Agenda Paper 3E&4E: *Current and anticipated financial effects and connected information* (January 2023) expanded on the concept of ‘unable to do so’. As described in paragraphs BC96–BC100 of the Basis for Conclusions on [draft] S2, the concept of ‘unable to do so’ was proposed in IFRS Sustainability Disclosure Standards to address potential measurement challenges when an entity is unable to provide information quantitatively, in which case, it was proposed that qualitative disclosure be provided.

43. Many preparers asked for more clarity about what the term ‘unable to do so’ meant, and also expressed concerns around the challenges of applying the current and anticipated financial effects provisions (which, as proposed, included the term ‘unable to do so’), including stating that time will be needed to implement systems to enable quantitative analysis.

44. At the January 2023 meeting, the ISSB tentatively decided to retain the concept of ‘unable to do so’, such that if an entity were unable to provide quantitative information about the current and anticipated effects of sustainability-related risks and opportunities on the entity’s financial position, financial performance and cash flows, it would be required only to provide qualitative information. The ISSB decided to provide more clarity about how to assess when an entity is ‘able’ to provide quantitative information, by requiring an entity to consider whether the financial effects of a sustainability-related risk or opportunity are separately identifiable, as well as whether there is a high-level of measurement or outcome uncertainty involved in providing such quantification such that a faithful representation is not possible. This concept addresses those instances in which particular constraints exist that render an entity ‘unable to’ provide specific quantitative disclosures.

45. Additionally, in the case of anticipated financial effects, the ISSB decided that an entity would also consider its skills, capabilities and resources in determining if it is ‘able’ to provide quantitative information. For example, upon consideration of an entity’s skills, capabilities and resources, an entity may determine that it is unable to quantify the anticipated financial effect of a certain climate-related risk on the entity’s financial position, financial performance and cash flows. This consideration of skills, capabilities and resources, again, will specifically help those preparers that are less able to comply with the requirements proposed in [draft] S1 and [draft] S2.

Guidance and educational material

46. At several meetings, the ISSB tentatively decided to provide additional material to help entities better understand how to apply IFRS S1 and IFRS S2. This material will be particularly helpful to address proportionality, as entities that are less able to comply with the proposed requirements may need additional support, and therefore can leverage this material when applying IFRS S1 and IFRS S2.

47. The ISSB discussed introducing such material across several areas of IFRS S1 and IFRS S2, including but not limited to, the following areas[11]:

(a) identification of sustainability-related risks and opportunities;

(b) conducting climate-related scenario analysis;

(c) measurement of Scope 3 GHG emissions;

(d) reporting comparative information and updated estimates;

(e) the disclosure of judgments, assumptions and estimates;

(f) industry-based disclosure guidance; and

(g) disaggregation of Scope 1 and Scope 2 GHG emissions by consolidated accounting group and unconsolidated investees.

48. As an example, based on feedback that there were significant challenges related to the data availability and data quality associated with the measurement of Scope 3 GHG emissions, the ISSB tentatively decided to introduce a framework that:

(a) requires an entity to prioritise the elements listed in paragraphs 48 and 50 in Agenda Paper 4B: *Scope 3 greenhouse gas emissions* using reasonable and supportable information that is available and the reporting date without undue cost or effort; and

(b) confirms that direct measurement is not the only way of measuring Scope 3 GHG emissions.

49. As it relates to climate-related scenario analysis, the ISSB tentatively decided to develop application guidance for paragraph 15 of [draft] S2, and to explore developing additional guidance to support preparers in selecting scenarios, including by providing guidance that entities may consider publicly available, off-the-shelf scenarios that are most relevant to their circumstances and most likely to support disclosure. In January 2023, the ISSB emphasised that application guidance would

[11] This list is not all inclusive of the areas the ISSB may provide guidance and educational material.

build on materials published by the Task Force for Climate Related Disclosures (TCFD), putting entities on a path to develop their capabilities and strengthen their disclosures over time. As part of that guidance, the skills, resources and capabilities of an entity will be required to be considered in determining the appropriate approach to undertaking climate-related scenario analysis – thus enabling those that are less able to comply with the provision to use a less complex and quantitative approach to scenario analysis.

50. Appendix A to this paper provides more detail about the tentative decisions related to the areas outlined in paragraph 47.

Sources of guidance to identify sustainability-related risks and opportunities and disclosures

51. Paragraphs 50–54 of [draft] S1 discuss the sources of guidance an entity would be required to consider to identify sustainability-related risks and opportunities and to prepare the related disclosures.

52. Comment letters received in response to [draft] S1, as well as outreach conducted by the staff in connection with the consultation, underscore the importance of providing specific tools and guidance for identifying sustainability-related risks and opportunities and related disclosures. Absent such guidance, stakeholders expressed concern about the burden for preparers, especially smaller entities and those new to sustainability reporting, and the risk that disclosures could lack comparability and usefulness for users of general purpose financial reporting. Said plainly, stakeholders underscored the need for such guidance as a mechanism to address proportionality.

53. At the supplementary 3 November board meeting, the ISSB tentatively confirmed a requirement to consider SASB Standards both when identifying what sustainability-related matters to report on and in developing related disclosures in IFRS S1 in the absence of a specifically applicable IFRS Sustainability Disclosure Standard. During this meeting, the ISSB also confirmed that the Climate Disclosure Standards Board

(CDSB) Framework would serve as a useful reference to identify sustainability-related risks and opportunities as well as related disclosures[12].

54. In a paper to be discussed at this meeting Agenda Paper 3A: *Sources of guidance to identify sustainability-related risks and opportunities and disclosures*, the staff also recommend referencing European Sustainability Reporting Standards (ESRS) developed by EFRAG (the European Financial Reporting Advisory Group) and the Global Reporting Initiative (GRI) Standards, permitting entities to consider these sources of guidance when identifying disclosures about sustainability-related risks and opportunities, absent specific ISSB requirements (to the extent that those disclosures meet the information needs of investors)[13]. The staff also recommend permitting entities to consider 'other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting' and 'entities that operate in the same industries or geographies' when identifying sustainability-related risks and opportunities and related disclosures. In all cases, such consideration is permitted, but not required.

55. Referencing such guidance is helpful to those applying the IFRS Sustainability Disclosure Standards as it enables entities to leverage existing reporting practices and reporting systems and will therefore reduce the reporting burden for companies applying these Standards for other purposes.

Leveraging existing terminology and concepts

IFRS Accounting Standards

56. As of February 2023, the relevant authority in 160 jurisdictions has made a public commitment to IFRS Accounting Standards as the single set of global accounting

[12] SASB Standards and CDSB materials are now materials of the ISSB.

[13] This recommendation is proposed by the staff and will be voted on in the February 2023 meeting.

Standards. IFRS Accounting Standards are required in 145 of those jurisdictions for all or most domestic publicly accountable entities in their capital markets[14].

57. Given the application of IFRS Accounting Standards globally, leveraging similar terminology and concepts from IFRS Accounting Standards, when appropriate, is expected to be helpful for many preparers, users, regulators and auditors.

58. While the audience for IFRS Accounting Standards may not be identical to the audience for IFRS Sustainability Disclosure Standards, borrowing terminology and concepts is nonetheless helpful, as:

    (a) many preparers, users, auditors and regulators will already be familiar with how to interpret and apply the terminology and concepts that are leveraged for IFRS Sustainability Disclosure Standards, thereby reducing confusion and transition costs required to interpret and apply certain aspects of the Standards;

    (b) these terminologies and concepts have been market tested via IFRS Accounting Standards, thereby providing comfort regarding operability; and

    (c) these terms and concepts have already been translated to the respective language of each jurisdiction that applies IFRS Accounting Standards, thereby minimising translation and interpretation concerns.

59. The ISSB has leveraged terminology and concepts from IFRS Accounting Standards in several areas, including but not limited to:

    (a) specific terminology leveraged from IFRS Accounting Standards:

        (i) reasonable and supportable information that is available at the reporting date without undue cost or effort; and

        (ii) the definition of 'material'.

    (b) specific concepts leveraged from IFRS Accounting Standards:

[14] IFRS - Who uses IFRS Accounting Standards?

(i) the requirement to disclose judgments, assumptions and estimates (which is consistent with the IASB's *Conceptual Framework for Financial Reporting*, IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*);

(ii) the design of the exemption related to commercially sensitive information about opportunities (adapted from similar exemptions in IFRS Accounting Standards);

(iii) the conditions related to the relief regarding the measurement of an entity's Scope 1, Scope 2 and Scope 3 GHG emissions using information for reporting periods that are different from the entity's own reporting period when that information arises from entities in its value chain with reporting periods that are different from that of the entity (adapted from concepts in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Joint Ventures and Associates*);

(iv) the approach to reassessment of the 'scope' of an entity's sustainability-related risks and opportunities in its value chain (adapted from concepts in IFRS 16 *Leases*); and

(v) the proposed requirements related to the reporting entity, connected information, fair presentation, materiality, comparative information, frequency of reporting, location of information, sources of estimation and outcome uncertainty, errors and statement of compliance, as set out in the General Features section of [draft] S1 (adapted from IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

Sustainability-related frameworks and standards

60. The ISSB has built on the work of existing sustainability-related reporting initiatives, including the CDSB Framework, TCFD recommendations, the Integrated Reporting

Framework and SASB Standards, and the World Economic Forum's Stakeholder Capitalism Metrics. These existing materials are familiar to market participants globally. For example, in the 2022 TCFD status report, for fiscal year 2021 reporting, '80% of companies disclosed in accordance with at least one of the 11 recommended TCFD disclosures'[15].

61. Given the wide adoption of these sustainability-related frameworks and standards, building on these in the design of IFRS S1 and IFRS S2 will aid the adoption of IFRS Sustainability Disclosure Standards, particularly as many entities will have familiarity with some of these initiatives. Those entities that are less able to comply with the proposed disclosure requirements in the exposure drafts due to resource needs may benefit also, given that there may be existing organisational practices of reporting under one or more of these initiatives.

Global facilitation of adoption

Interoperability

62. The objective of the ISSB—and the draft IFRS Sustainability Disclosure Standards, when finalised— is to develop a comprehensive global baseline of sustainability-related disclosures to meet the needs of the capital markets. IFRS Sustainability Disclosure Standards are designed to facilitate a building blocks approach. Jurisdictions will be able to meet any particular jurisdictional needs, including meeting public policy needs to provide information for other stakeholders, by requiring additional information to be provided by the entity, if necessary. IFRS Sustainability Disclosure Standards would allow an entity to report information needed to meet public policy objectives in addition to the information required by IFRS Sustainability Disclosure Standards, as long as this additional information does not obscure the information required by the ISSB's Standards. This was discussed at

[15] 2022-TCFD-Status-Report

the October 2022 meeting, as outlined in Agenda Paper 3C&4D: *Interoperability—key matters*.

63. Paragraphs 51–55 and 60–61 summarise some of the considerations the ISSB has made to prioritise interoperability in the drafting of IFRS S1 and IFRS S2. In particular, paragraphs 51–55 summarise some of specific decisions to consider existing reporting frameworks and standards when applying IFRS Sustainability Disclosure Standards (including references to the SASB Standards, CDSB Framework application guidance, GRI Standards and ESRS). Paragraphs 60–61 summarise the ISSB's approach to build on the work of existing sustainability-related reporting initiatives when drafting IFRS S1 and IFRS S2, including the CDSB Framework and Guidance, TCFD recommendations, the Integrated Reporting Framework and SASB Standards, and the World Economic Forum's Stakeholder Capitalism Metrics.

64. These were important decisions to support application for preparers, as this will reduce the reporting burden for those already applying particular standards, as they will be able to leverage existing reporting practices and systems.

65. Additionally, the ISSB has been engaged with stakeholders globally to facilitate interoperability.

66. The Jurisdictional Working Group (JWG) was formed by the IFRS Foundation to establish dialogue for enhanced compatibility between the ISSB's exposure drafts and ongoing jurisdictional initiatives on sustainability disclosures. Interoperability considerations were a key topic of discussion during the October 2022 JWG meeting.

67. The ISSB has also established the Sustainability Standards Advisory Forum (SSAF). The SSAF will provide an advisory forum where members can constructively contribute towards the achievement of the ISSB's goal of developing Standards that provide a comprehensive global baseline of sustainability-related disclosures that is interoperable with jurisdictional standards on sustainability reporting. More particularly, the SSAF has been established to:

(a) support the IFRS Foundation and the ISSB in its objectives, and contribute towards the development, in the public interest, of high-quality, understandable, enforceable and globally accepted IFRS Sustainability Disclosure Standards that meet the information needs of the capital markets and that facilitate interoperability with jurisdictional requirements to meet wider stakeholder information needs;

(b) formalise and streamline the ISSB's collective engagement with the global community of relevant jurisdictional and regional bodies in its standard-setting to ensure that a broad range of national and regional input on major technical issues related to the ISSB's standard-setting are discussed and considered; and

(c) facilitate effective technical discussions on standard-setting issues, primarily on issues on the ISSB's work plan but which may include other issues that have major implications for the ISSB's work, with representatives at a high level of professional capability and with significant knowledge of their jurisdictions/regions.

68. Additionally, the ISSB continues to contribute to efforts related to sustainability reporting globally, including an agreement to collaborate with GRI, and a commitment from CDP to incorporate IFRS S2 into its global environmental disclosure platform, among other efforts.

69. The ISSB will continue to engage with jurisdictions globally, particularly with regard to matters related to jurisdictional adoption, including considerations around which types of entities should apply the Standards, adoption timelines, the approach to assurance, the assurance timeline, and whether all requirements apply at once or not.

70. Again, interoperability will remain a priority for the ISSB, and is intended to support those applying IFRS S1 and IFRS S2 to minimise reporting burdens, costs and complexity in application.

Capacity building

71. Capacity building is another strategic priority for the ISSB. The ISSB is committed to working closely with stakeholders (including governments, multi-laterals and civil society organisations) to provide strong advisory and capacity building support. As described in paragraph 69, the ISSB will continue to engage with jurisdictions and stakeholders globally to support these efforts.

72. To lead these efforts, Jingdong Hua was appointed as ISSB Vice-Chair to oversee the development and implementation of the ISSB's strategies to support and include stakeholders in emerging and developing economies as well as smaller entities.

73. The ISSB has also prioritised capacity building efforts via other public forums and initiatives, including:

    (a) establishing the Partnership Framework for Capacity Building in Developing and Emerging Economies (Partnership Framework). The main purpose of the Partnership Framework (and important goal of the ISSB) is to drive adoption of the globally implementable baseline that is truly inclusive in nature. It is designed to support preparers, investors and other capital market stakeholders as they prepare to use IFRS Sustainability Disclosure Standards. The Partnership Framework will target three key interventions to provide:

        (i) tailored jurisdictional engagement in selected developing and emerging economies, considering market conditions and sophistication, infrastructure, regulatory and legal alignment, language etc.;

        (ii) structured partnerships that leverage organisations with specialist expertise (thematic, industry, jurisdictional) to build local expertise for Standards implementation and assurance; and

        (iii) key initiatives and champions across multi-stakeholder communities and jurisdictions that help translate the ISSB ambition into tangible action.

(b) hosting a roundtable with several jurisdictions representing the Global South in December 2022. There were two main areas of focus for this discussion:

(i) the ISSB's plans to proportionately incorporate reliefs for entities that need time to apply the Standards effectively; and

(ii) the efforts to ensure an effective strategy is in place to build capacity within markets to enable the effective disclosure, and use, of sustainability-related information.

(c) establishing a strategy for capacity building, with activities and initiatives that have included:

(i) participation in the Pan African Federation of Accountants Multistakeholder Roundtable on Sustainability Reporting and Assurance and the Related Capacity Building Needs and Partnerships (Johannesburg, South Africa);

(ii) developing and hosting, jointly with the International Organization of Securities Commissions (IOSCO), a capacity building program to support an efficient implementation of IFRS Sustainability Disclosure Standards; and

(iii) supporting the first mover global south jurisdictions in the adoption of IFRS Sustainability Disclosure Standards.

Appendix A— Guidance and educational material–summary of tentative decisions

A1. At several meetings, the ISSB tentatively decided to provide additional material to help entities better understand how to apply the provisions of IFRS S1 and IFRS S2. This material will be particularly helpful to address proportionality, as those entities that are less able to comply with the proposed requirements are likely more resource constrained, and therefore can leverage this material to better understand the intent and expectations regarding the application IFRS S1 and IFRS S2.

A2. The ISSB discussed introducing such material across several areas of IFRS S1 and IFRS S2, including in the following areas where the ISSB tentatively agreed to:

(a) **sustainability-related risks and opportunities (December 2022):** expand and clarify aspects of the [draft] S1 Illustrative Guidance:

(i) to clarify the distinction and connection between:

1. identifying sustainability-related risks and opportunities; and
2. identifying material information about those risks and opportunities.

(ii) provide additional guidance to help an entity identify the sustainability-related risks and opportunities about which it is required to provide information. Such guidance might include:

1. a general description of sustainability-related risks and opportunities;
2. a description of factors the entity could consider in identifying sustainability-related risks and opportunities; and
3. a description of the process the entity might follow in identifying sustainability-related risks and opportunities.

(iii) provide additional guidance to help an entity identify material information in the context of sustainability-related financial disclosures. Such guidance might discuss:

1. primary users of an entity's sustainability-related financial disclosures and the decisions they make;

2. how to make materiality judgements that take into account an entity's specific circumstances; and

3. how to make materiality judgements in conditions of uncertainty.

(iv) illustrate how an entity with a complex business model, such as one that spans multiple industries, might approach identifying sustainability-related risks and opportunities and identifying material information about those risks and opportunities using the SASB Standards.

(b) **scenario analysis (1 November 2022 and January 2023)**: develop application guidance for paragraph 15 of [draft] S2, based on guidance from the TCFD, and tentatively decided to explore developing guidance based on third-party materials to help an entity choose relevant scenarios for assessing and preparing disclosures on climate resilience. In January 2023, the ISSB emphasised that application guidance would build on materials published by the TCFD, putting entities on a path to develop their capabilities and strengthen their disclosures over time.

(c) **Scope 3 GHG emissions (December 2022):**

(i) develop a measurement framework introduce a framework for measuring Scope 3 GHG emissions, as described in paragraphs 48 and 50 in Agenda Paper 4B: *Scope 3 greenhouse gas emissions*; and

(ii) draft educational material to help the entity assess which sustainability-related risks and opportunities in its value chain are relevant to users of general purpose financial reporting, using Scope 3 GHG emissions as an example.

(d) **comparative information and updated estimates (November 2022):** provide illustrative guidance to help an entity apply the requirements associated with revisions to comparative information and updated estimates. Such guidance may include:

(i) examples of situations in which an entity would be required, and would not be required, to revise comparative information to reflect updated estimates;

(ii) examples and explanations of ways to present revised comparative information to reflect updated estimates; and

(iii) explanations to distinguish three situations in which an entity would be required to revise comparative information: (1) to reflect updated estimates, (2) to reflect a redefined or replaced metric or target, or (3) to correct errors.

(e) **disclosure of judgements, assumptions and estimates (January 2023):** provide guidance on the disclosure of judgements, assumptions and estimates that an entity is required to make in applying IFRS Sustainability Disclosure Standards, including:

(i) examples that would be included in the illustrative guidance on IFRS S1; and

(ii) educational materials that would be provided in the future.

(f) **industry-based disclosure guidance (December 2022):** amend [draft] S2 so that the industry-based requirements in Appendix B become part of the IFRS S2 illustrative guidance.

(g) **disaggregation of Scope 1 and Scope 2 GHG emissions by consolidated accounting group and unconsolidated investees (October 2022)**: In Agenda Paper 4A: *Scope 1 and Scope 2 greenhouse gas emissions*, the ISSB asked the staff to consider developing guidance, such as an illustrative example, to further clarify the requirement to provide separate disclosures for the consolidated accounting group and the unconsolidated investees.