
ISSB Meeting

Date	July 2023
Project	Foundational work
Topic	Researching targeted enhancements to ISSB Standards—Path forward
Contacts	Liz Figgie (efiggie@ifrs.org) Francesca Recanati (francesca.recanati@ifrs.org) Rommie Johnson (rommie.johnson@ifrs.org)

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[®] Sustainability Disclosure Standards. The ISSB's technical decisions are made in public and are reported in the ISSB *Update*.

Objective

1. In May 2023, the International Sustainability Standards Board (ISSB) published the Request for Information *Consultation on Agenda Priorities* (RFI). The comment period for the RFI ends on 1 September 2023. Feedback provided by stakeholders will inform the ISSB's two-year work plan.
2. The RFI discusses two primary bodies of work—foundational work and new research and standard-setting work. The RFI describes 'foundational work' as committed work and activities to build upon the foundation created by IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.
3. One activity included in that foundational work is researching targeted enhancements to the ISSB Standards—specifically, the RFI says this work could enhance the application of IFRS S2 by providing guidance for the disclosure of climate-adjacent risks and opportunities related to nature and the 'just transition' to a lower-carbon economy. Some have colloquially referred to this activity as the 'IFRS S2 enhancements'.¹
4. This paper discusses the staff analysis and recommendation for the path forward in this activity.

Summary of the staff's recommendation

5. The staff recommends developing targeted educational material to explain and illustrate how an entity might apply some of the existing requirements in IFRS S2 to disclose information about particular nature and social aspects of climate-related risks and opportunities.
6. Educational material, and the required quality assurance process for it, are described in the IFRS Foundation *Due Process Handbook (Due Process Handbook)*. The *Due Process Handbook* states that educational material cannot add or change requirements in the Standards. Accordingly,

¹ Paragraphs 33–35 of this paper discuss a potentially clearer way to refer to this work going forward.

consistent with this, the staff's recommendation would **not** amend the requirements in IFRS S2. Instead, the educational material would explain and illustrate how particular existing requirements in IFRS S2 might be applied in specific circumstances or to specific fact patterns. As discussed in this paper, the staff has not identified any stakeholder feedback that suggests amendments to IFRS S2 are currently needed for nature and social aspects of climate-related risks and opportunities. Furthermore, we think that changing or adding to the requirements in IFRS S2 at this time (that is, immediately after the issuance of the Standard and shortly before its mandatory effective date) could interrupt preparers' implementation of the Standard or create uncertainty about the scope of that Standard.

Structure of the paper

7. This paper is structured as follows:
 - (a) Background (paragraphs 8–11);
 - (b) Staff analysis and recommendation (paragraphs 12–35); and
 - (c) Questions for the ISSB (paragraph 36).

Background

8. Paragraph 16 of the RFI explains that the ISSB's activities can be organised into two primary bodies of work:
 - (a) *foundational work*—committed work and activities to build upon the foundation created by IFRS S1 and IFRS S2, once issued; and
 - (b) *new research and standard-setting work*—additional projects the ISSB could prioritise.

9. Pages 11-17 of the RFI describe the foundational work. This paper discusses the activity described on page 14 of the RFI as 'researching targeted enhancements to ISSB Standards'.

10. The RFI describes this work as follows:

In addition to the activities to support the implementation of the ISSB Standards, the ISSB will continue research and consultation to assess the ISSB Standards for areas of targeted enhancement. In particular, this work could enhance the application of IFRS S2 by providing guidance for the disclosure of climate-adjacent risks and opportunities related to nature and the 'just transition' to a lower-carbon economy. This work is fundamental to the application of IFRS S2 because it enables a holistic approach to climate-related disclosures and responds to the fast-changing climate-related risk and opportunity landscape and emerging investors' needs. Research and consultation activities included in this work will aim to:

- (a) identify risks and opportunities at the nexus of climate and nature (for example, those related to water and deforestation), as well as those

- closely associated with socioeconomic aspects, such as the just transition to a lower-carbon economy; and
- (b) explore location-, value chain- and industry-based aspects of climate-adjacent risks and opportunities and associated metrics, and of climate-related strategies and transition plans.

11. The RFI did not provide further details about this committed work. We are aware that some stakeholders have asked questions and expressed uncertainty (and, in some cases, concern) about the objective and possible output of this work. The staff has analysed what the path forward should be. Our analysis and recommendation are set out in paragraphs 12–35.

Staff analysis and recommendation

12. Building on the description in the RFI, the staff thinks it is important to note that this committed activity is about researching disclosures that highlight **nature and social aspects of climate-related risks and opportunities**. In other words, this activity is considering an aspect of climate-related risks and opportunities as those terms are defined in Appendix A of IFRS S2 and is not expanding or otherwise changing the scope of IFRS S2—that is, this work does not extend beyond climate-related risks and opportunities.² In addition, this activity is not prejudging, or starting work on, any of the potential new research projects described in the RFI.³ The staff thinks that discussing the recommended way forward for this committed activity now will be beneficial for stakeholders because it will clarify the potential scope of this work and its relationship with the potential new research projects described in the RFI.
13. Said plainly, we think this committed activity should be focused on circumstances in which a preparer has a particular risk or opportunity that is climate-related, and that particular risk or opportunity sits at the nexus of climate and another sustainability-related topic such as biodiversity, deforestation, water or just transition. These other sustainability-related topics could include drivers of climate change (for example, changes in land use such as deforestation).
14. The staff also thinks it is important that the path forward for this committed work is informed by (and anchored in) stakeholder feedback. Accordingly, the staff has considered the feedback received from stakeholders on these ‘nexus’ sustainability-related topics—both comments received in response to the Exposure Draft *Climate-related Disclosures* ([draft] IFRS S2) and comments received to date on the RFI.

Comments received on [draft] IFRS S2

15. Some respondents to [draft] IFRS S2 commented on whether other sustainability-related topics—in particular, nature-related topics (such as water, biodiversity and deforestation) and social-related topics (such as those associated with the just transition to a lower-carbon economy)—should be considered in a company’s climate-related disclosures. In general, these respondents emphasised the interconnectedness between climate change and these other sustainability-

² IFRS S2 applies to climate-related physical and transition risks to which the entity is exposed and climate-related opportunities available to the entity (paragraph 3 of IFRS S2).

³ However, work on this committed activity may inform subsequent work on those proposed new research projects.

related topics. However, these respondents expressed mixed views about whether—and if so, how—these other sustainability-related risks should be included in the requirements in IFRS S2 and thus considered in a company’s climate-related disclosures.

- (a) Some respondents noted the importance of considering nature and social aspects of climate-related risks and opportunities when a company prepares its climate-related disclosures—in particular, in a company’s consideration of the requirements on strategy (including disclosures on climate-related risks and opportunities and transition plans) and the requirements on particular metrics and targets. Some of these respondents said the ISSB should consider being more explicit on this point.
- (b) Other respondents said that IFRS S2 should not refer to any sustainability-related topics beyond climate—and, for example, disagreed with the reference to ‘water-intensive’ operations and assets in the proposed disclosure requirements in paragraph 13(a)(i)(1) of [draft] IFRS S2 related to strategy and decision-making.⁴
- (c) Finally, other respondents expressed uncertainty (or confusion) about how companies should consider nature and social aspects of climate-related risks and opportunities when they prepare their climate-related disclosures.

Comments received to date on the RFI

- 16. The ISSB published the RFI in May 2023 and comments are due in September 2023. Accordingly, the staff’s summary is preliminary and reflects only the feedback that has been received to date (ie up to the drafting of this paper).
- 17. During the staff’s outreach activities and in responses to the RFI so far, some stakeholders have asked for clarification on the possible output of this committed activity. In particular, some stakeholders have asked for confirmation that this work will not result in a ‘new’ version of IFRS S2. Stakeholders have also asked about the relationship between this committed activity and either the ISSB’s broader implementation work to support IFRS S1 and IFRS S2 or some of the ISSB’s potential new research projects. So far, stakeholders have not ranked this committed activity as a high priority for the ISSB.⁵

Staff recommendation

- 18. As described in the summary of feedback in paragraphs 15–17 of this paper, we acknowledge that some stakeholders have expressed uncertainty about whether—and if so, how—to consider nature and social aspects of climate-related risks and opportunities when they apply the requirements in IFRS S2 to prepare their climate-related disclosures. While some stakeholders noted that it is important that preparers consider nature and social aspects of climate-related risks (such as water, biodiversity, deforestation and just transition) in their climate-related disclosures, other stakeholders were uncertain whether (and if so, how) preparers would consider such aspects.

⁴ Subject to drafting clarifications and improvements, these proposed requirements were confirmed and are in paragraph 14(a)(i) of IFRS S2.

⁵ The staff thinks this ranking may reflect the fact that some stakeholders were concerned that this work could result in amendments to IFRS S2.

Therefore, we think it would be helpful to explain or illustrate how an entity might meet the objective of IFRS S2 in this respect.

19. However, the staff has not identified any stakeholder feedback that suggests that the requirements in IFRS S2 are insufficient or incomplete with respect to nature and social aspects of climate-related risks and opportunities. That is, we are not aware of concerns that IFRS S2 is ‘missing’ requirements. We have corroborated this through our research to date, including by reviewing other disclosure standards, frameworks and practices associated with nature and social topics. Accordingly, we think amendments to IFRS S2 are unnecessary. Furthermore, we think that changing or adding to the requirements in IFRS S2 at this time (ie after the issuance of the Standard but before its mandatory effective date) could interrupt companies’ implementation processes that are already under way, or could destabilise companies’ implementation of IFRS S2 by implying that the Standard is not done (or is being reopened). Indeed, some may argue that if the ISSB considers amending IFRS S2 at this point in time, then the Board should defer the mandatory effective date of the Standard.
20. Therefore, we think the ISSB should consider a focused and proportionate response to this matter that would respond to the uncertainty of some stakeholders, but not interrupt companies’ implementation processes. Specifically, we recommend developing targeted educational material to explain and illustrate the application of some of the existing disclosure requirements in IFRS S2 in the context of particular nature and social aspects of climate-related risks and opportunities. We think this path forward is commensurate with the feedback received to date. Such an approach should indeed be helpful because it would provide additional guidance on disclosures that are relevant when an entity applies IFRS S2 and may assist in promoting best practice.
21. Paragraphs 8.8-8.11 of the *Due Process Handbook* describe educational material, including the relevant due process principles.

Educational material

The IFRS Foundation sometimes publishes educational material related to IFRS Standards on its website, including webcasts, articles, presentations for conferences and *IFRS for SMEs* training material. Educational material is not part of the Standards and cannot add or change requirements in the Standards.

The development of educational material does not take place in public meetings and is not subjected to the public scrutiny that is given to the development of IFRS Standards. Nonetheless, educational material is subject to quality assurance processes reflecting the nature and complexity of the material, and to ensure that the material does not add or change requirements in the Standards and is clearly distinguished from the Standards.

In order to meet the assurances in paragraph 8.9, educational material is subjected to at least the following level of review:

- (a) high-level summaries of the requirements in an IFRS Standard, such as introductory webcasts on a new Standard, are reviewed by a Board member;
- (b) more detailed materials explaining the requirements in a Standard, such as a webcast on specific aspects of a Standard, are reviewed by two Board members; and

- (c) material explaining or illustrating how the requirements in a Standard might be applied to particular transactions or other circumstances, such as a new example demonstrating how the requirements might be applied to a particular fact pattern, are reviewed by three Board members.

The DPOC receives periodic reports on educational material published by the IFRS Foundation. The reports identify the nature of the material and the level of review undertaken, and state the IFRS Foundation staff's conclusion as to whether the required level of review has been undertaken.

22. The staff thinks it is important to highlight that educational material cannot change or add requirements in the Standards. Therefore, we think it would be a helpful—but not a destabilising—response to stakeholder feedback at this point in time.
23. In addition, educational material is not developed by the Board and, because it can only explain or illustrate existing requirements, educational material is subject to quality assurance processes but is not subject to public consultation. Therefore, we think it would be an efficient and nimble approach, especially because the scope of this work would be targeted and narrow—that is, focused on explaining or illustrating how an entity might apply particular existing requirements in IFRS S2 to disclose information about some nature and social aspects of climate-related risks and opportunities. Our aim would be to develop the educational material before the end of 2023 so that it would be available before the mandatory effective date of IFRS S2.
24. We understand that the staff of the International Accounting Standards Board (IASB) has developed educational material in similar circumstances and for similar purposes—for example, when they become aware of a question in practice that can be addressed by illustrating or explaining (or 'pointing to') the relevant requirement(s) in an IFRS Accounting Standard (or 'connecting the dots' between particular requirements in the Standard), or by developing a straight-forward example to illustrate how those requirements might be applied to a specific transaction or fact pattern. In some cases, that educational material explains how the applicable principles and requirements in a particular IFRS Accounting Standard might apply to the transaction or the other circumstances (such as a particular fact pattern) described. Once educational material is published, it becomes a helpful and relevant piece of information that preparers use in applying IFRS Accounting Standards. Educational material, in essence, explains or illustrates the application of existing requirements.
25. As set out in paragraph 21 of this paper, according to the *Due Process Handbook*, the development of educational material is not required to take place in public meetings and requires the review of at least one to three Board members (depending on its content). However, while the *Due Process Handbook* would require that only three ISSB members review the educational material, in this case, we think all ISSB members should have the opportunity to participate in the development of the educational material. Therefore, if the ISSB agrees with the staff's recommendation in this paper, we plan to bring to a future ISSB meeting a more detailed description of the content of the educational material for the Board's discussion and input. This would also have the benefit of keeping our stakeholders updated on the status of this committed work by discussing it in a public meeting. We think this approach is appropriate in this case because this work was discussed by the ISSB during the development of the RFI and is included in that document (and thus stakeholders likely will be particularly interested in its progress).

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26. We acknowledge that some stakeholders may not welcome the development of educational material. This may be because they would prefer that any new material related to IFRS S2 is exposed for comment (ie developed by the ISSB and published for consultation). Or some stakeholders may prefer that **no** new material is developed during the period after the Standard is issued but before it is effective (for example, in case the material is inconsistent with their current understanding of the newly issued Standards). However, we think those concerns likely will be reduced by the nature of educational material (ie it cannot change or add requirements in the Standards) and the targeted and narrow focus of this work (ie the scope and content should be helpful, rather than disruptive or controversial, for most stakeholders that are familiar with the requirements in IFRS S2).

Examples of matters that could be covered in the educational material

27. The staff has developed some examples of the type of information that could be included in the education material. By including these examples in this paper, we aim to give ISSB members a better understanding of what we envisage for the educational material—both in terms of which requirements in IFRS S2 could be pertinent to this work and how those requirements could be explained or illustrated in the educational material.
28. However, we are not implying that we think these examples definitely should or would be included in the educational material. In addition, these examples are not intended to be an exhaustive list of what the educational material will cover. As discussed in paragraph 25 of this paper, if the ISSB agrees with our recommendation, we will come back to a future ISSB meeting with a more detailed description of the content of the educational material for the ISSB's discussion and input. Therefore, at this meeting, we are not asking ISSB members for detailed comments on these examples. In addition, we are not asking ISSB members to suggest (or discuss) other possible specific examples during this board meeting. However, the staff would appreciate any general observations about the style of examples or material that ISSB members think could be particularly helpful (or alternatively that they would view as problematic) to explain and illustrate how an entity might apply some of the existing requirements in IFRS S2 to disclose information about particular nature and social aspects of climate-related risks and opportunities.

IFRS S2 requirement(s)	Example of potential content of the educational material
<p>Strategy – Climate-related risks and opportunities</p> <p>paragraph 13 of IFRS S2</p>	<p>The educational material could illustrate how an entity might disclose nature aspects of climate-related risks and opportunities disaggregated by location—for example, an entity might disclose risks related to increased water scarcity disaggregated by locations with different levels of water stress (applying paragraphs B29-B30 of IFRS S1).</p>
<p>Strategy – Strategy and decision making</p> <p>paragraph 14 of IFRS S2</p>	<p>The educational material could explain how an entity’s climate-related mitigation and adaptation efforts might present risks or opportunities associated with nature (for example, nature-based carbon offsets) and/or its workforce (for example, reputational risk due to job loss), its end-users and/or local communities. This material could leverage the <i>Industry-based guidance on Implementing IFRS S2</i>.</p>
<p>Strategy – Climate resilience</p> <p>paragraphs 22 and B1-B18 of IFRS S2</p>	<p>The educational material could illustrate how an entity’s consideration of land use, availability of natural resources or social aspects of climate-related policies in particular locations influenced its assessment of its climate resilience and/or the climate resilience of its suppliers.</p>
<p>Metrics and targets</p> <p>paragraphs 29-37 of IFRS S2</p>	<p>The educational material could explain how an entity might disclose its targets related to nature aspects of climate-related risks and opportunities—for example, related to deforestation or regenerative agriculture. This material could leverage the <i>Industry-based guidance on Implementing IFRS S2</i>.</p>

29. As mentioned in paragraph 19 of this paper, in analysing the path forward in this activity and in developing our ‘vision’ for the educational material, the staff has been reviewing a sample of company reports to better understand what companies currently disclose in relation to nature and social aspects of climate-related risks and opportunities. We have also been looking at other disclosure standards and frameworks — for example, the SASB Standards, the GRI Standards and the work of the Taskforce on Nature-related Financial Disclosures (TNFD)—in order to corroborate stakeholder feedback that IFRS S2 is not ‘missing’ requirements. We will continue to consider these materials as we further develop the educational material because we think they will be helpful to inform our work.

Other approaches considered but not recommended

30. The staff considered whether the ISSB should amend the Illustrative Examples (IEs) that accompany IFRS S2 (and thus amend the formal content of IFRS S2). We note that—similar to the educational material recommended—IEs are non-mandatory. However, in contrast to the education material recommended, the IEs are developed and approved by the ISSB and typically would be published for public consultation. Consequently, amending the IEs would take more time and resources (from both ISSB members and the staff), and would not be available before the mandatory effective date of IFRS S2 (ie amendments to the IEs would not be finalised before the end of the year). In addition, similar to our observations about amending the Standard, we think that amending the IEs could potentially interrupt companies' implementation processes because it could imply that IFRS S2 is not done or that the ISSB is reopening the Standard. In contrast, from a signalling perspective, the staff thinks that most stakeholders would view educational material in the intended spirit of supplementary examples that are available to assist in illustrating or explaining the application of the Standard.
31. If the ISSB agrees with our recommendation to develop educational material, we think the Board could consider in the future whether this educational material should be added to the IEs that accompany IFRS S2. For example, other matters may arise from the ISSB's broader implementation work to support IFRS S2 and the Board may consider 'bundling' these implementation matters and proposing a package of amendments to the IEs. We think such a bundled (and coordinated) approach would be more helpful, and less disruptive, for stakeholders compared to a piecemeal approach.
32. As previously discussed in this paper, the staff also considered whether amendments to IFRS S2 are necessary for this work and think amendments are not warranted at this time. Taking the staff's recommended path forward to develop educational material, amendments are not necessary because the educational material would be consistent with the existing scope and requirements in IFRS S2.

A quick word ... on wording

33. As described in paragraphs 3 of this paper, this committed work has been described as 'researching targeted enhancements to the ISSB Standards' or 'IFRS S2 enhancements'. However, taking the staff's recommended path forward to develop educational material, the ISSB would not amend IFRS S2. Therefore, we think those descriptions could be confusing going forward because, for example, the word 'enhancements' may imply that IFRS S2, as issued, is incomplete or unclear.
34. Additionally, we think the label 'climate-adjacent' risks and opportunities may be confusing to some stakeholders because it could imply that the risks and opportunities being discussed in this work are outside the scope of IFRS S2 (ie that the risks and opportunities are not 'climate-related'). This could imply either that the ISSB is reconsidering the scope of IFRS S2 or is intending to immediately start considering a new ISSB Standard.
35. Therefore, if the ISSB agrees with the staff's recommendation, going forward we plan to refer to this work as 'educational material for nature and social aspects of climate-related risks and opportunities'.

Questions for the ISSB

36. The staff presents the following questions for the ISSB:

Questions for the ISSB

1. Does the ISSB have any questions or comments about the matters discussed in the paper?
2. Does the ISSB agree with the staff's recommendation on the path forward for this committed activity—that is, to develop targeted educational material to explain and illustrate how an entity might apply some of the existing requirements in IFRS S2 to disclose information about particular nature and social aspects of climate-related risks and opportunities?