
ISSB meeting

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Project	IFRS Sustainability Disclosure Taxonomy
Topic	Summary of content in the Proposed IFRS Sustainability Disclosure Taxonomy
Contacts	Iza Ruta (iruta@ifrs.org) Tim Kasim (tkasim@ifrs.org) Owen Jones (ojones@ifrs.org)

This paper is provided for background only

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*.

Overview

1. Introduction

2. Proposals and questions

Introduction

Why digital reporting is important



ISSB Standards will help entities provide sustainability information that meet investors' needs*



Investors need a more efficient way to consume an increasing amount of information



By digitalising financial reports, information in those reports becomes machine-readable

- Facilitating the use of digital means to extract, compare and analyse information

Digital reporting can improve capital market efficiency and transparency

Benefits for investors



Reduces search costs (eg reduced language barriers)



Increases information processing efficiency



Increases availability and accessibility of data

Benefits for companies



Increases access to capital (eg increases analyst's coverage)



Can reduce firm's cost of capital



Reduces need to submit disclosures to multiple organisations

Benefits for others



Assists regulators in oversight activities



Facilitates the real-time use of information fostering innovation



Assists others (eg NGOs, academics) in accessing and extracting information

* In this document we refer to primary users of general purpose financial reports as 'investors'

Digital reporting of sustainability-related financial disclosures



The Proposed ISSB Taxonomy [reflects the disclosure requirements](#) in IFRS S1 and IFRS S2 in the form of taxonomy elements with properties including references to related sections of the ISSB Standards or documentation labels that describe the meaning of each element.

The Proposed ISSB Taxonomy is designed to facilitate:



investors

to consume sustainability-related financial information digitally



regulators

to require the digital reporting of sustainability-related financial information



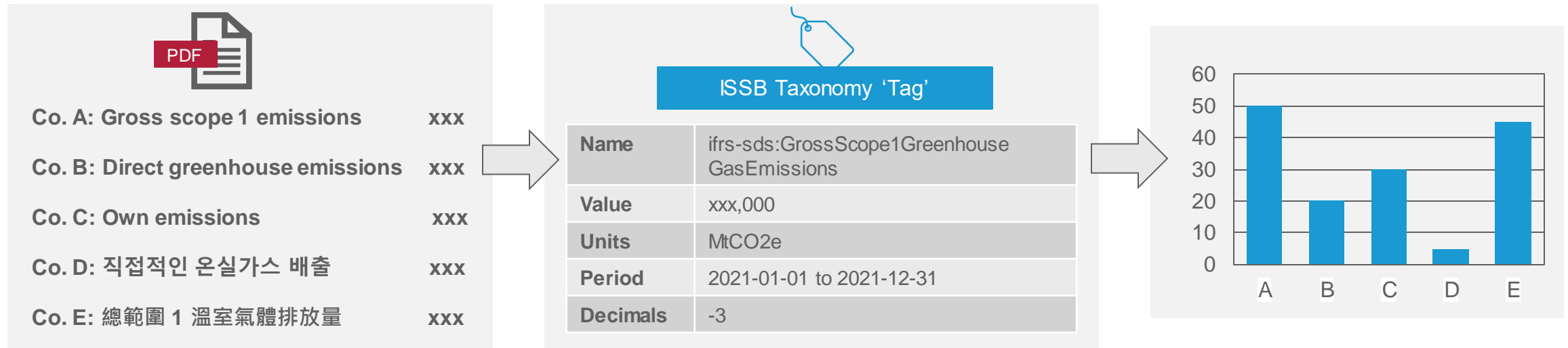
preparers

to implement digital reporting of sustainability-related financial information, enabling tagging without undue cost.

An introduction to ISSB Taxonomy

ISSB Taxonomy provide the common elements (or ‘tags’) needed to make sustainability disclosures machine-readable

- By using a common elements to tag disclosures, computers have the context to determine whether disclosures with different descriptions are comparable



<p>ISSB Taxonomy</p>	<p>Reflect the requirements of ISSB Standards and <u>do not</u> introduce new requirements</p>	<p>Are different to green taxonomies used to classify environmentally sustainable economic activities</p>	<p>Enable the identification of sustainability disclosures representing the global baseline</p>	<p>Can be used with eXtensible Business Reporting Language (XBRL®) and other digital formats</p>
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Proposals and questions

Granularity of narrative disclosures, including categorical elements



Proposals for narrative disclosures

Tagging narrative disclosures is relatively new area for digital reporting

- The principle is to create taxonomy elements to tag narrative disclosures that are expected to be:
 - separately understandable to investors; and
 - readily identifiable by preparers for tagging
- Applying the principle, ISSB proposes a simple taxonomy structure that **minimises the need for tagging the same information using two or more elements** which is complex for preparers
- ISSB proposes approximately:
 - 100 elements to tag blocks of narrative disclosures;
 - 30 Categorical elements

ISSB aims for a simple Taxonomy that can be enhanced when reporting practice develops

The principle is generally met for requirements in the **first-level sub-paragraphs**

Element Label and Reference	Element Type
Disclosure of processes and related policies entity uses to identify, assess, prioritise and monitor risks (IFRS S1.44(a), IFRS S2.25(a))	Text block (TB)
Disclosure of whether and how entity uses scenario analysis to inform its identification of risks (IFRS S1.44(a)(ii), IFRS S2.25(a)(ii))	Text block (TB)
Entity uses scenario analysis to inform its identification of risks (IFRS S1.44(a)(ii))	Boolean (B)
Other disclosures about risk management (IFRS S1.43, IFRS S2.24)	Text block (TB)

The principle is met in limited circumstances for requirements in the **lower-level subparagraphs for:**

- Categorical elements** which enable easy analysis of narrative disclosures and related narrative elements for more detail; and
- Information expected to be **particularly important for investors**

Illustration of tagging and resulting digital data using proposals

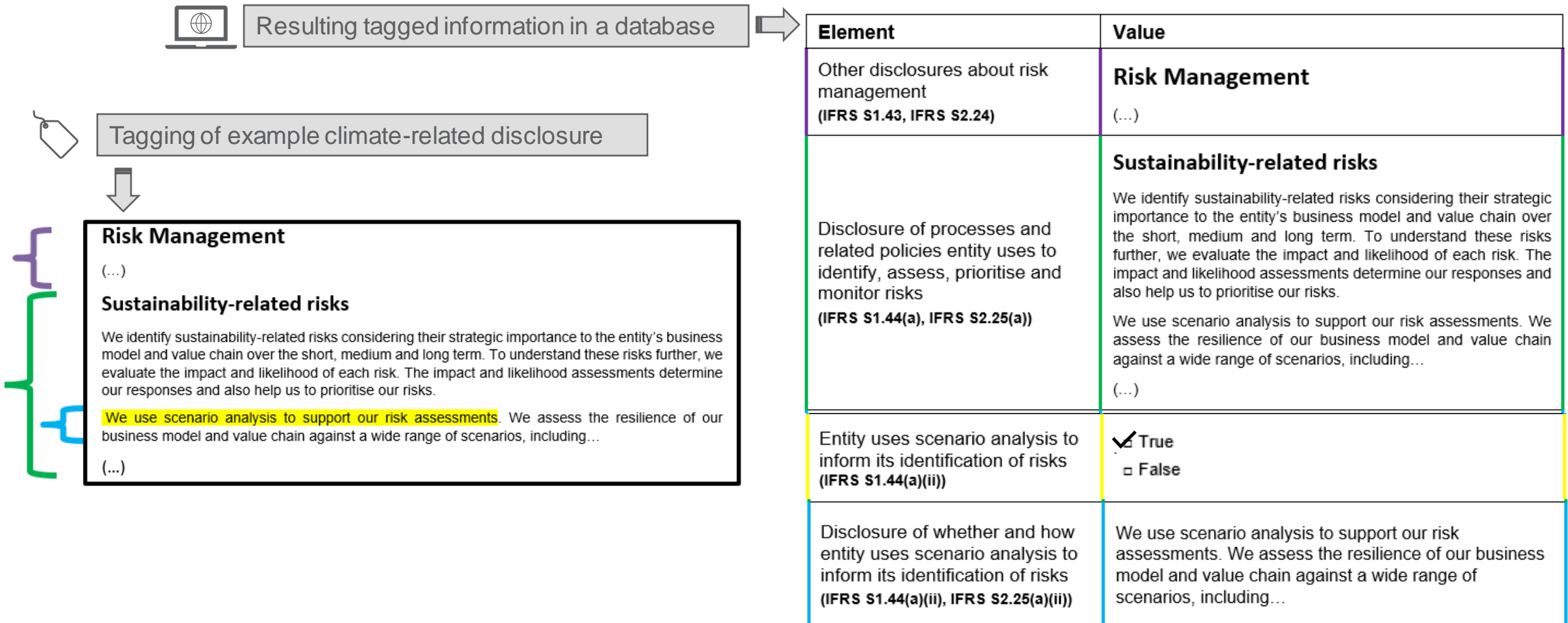



Illustration of tagging and resulting digital data using proposals (cont.)

 Tagging an example of climate-related disclosure

 Alternative rejected
Disclosure of processes entity uses to identify, assess, prioritise and monitor risks and opportunities (IFRS S1.43, IFRS S2.24)

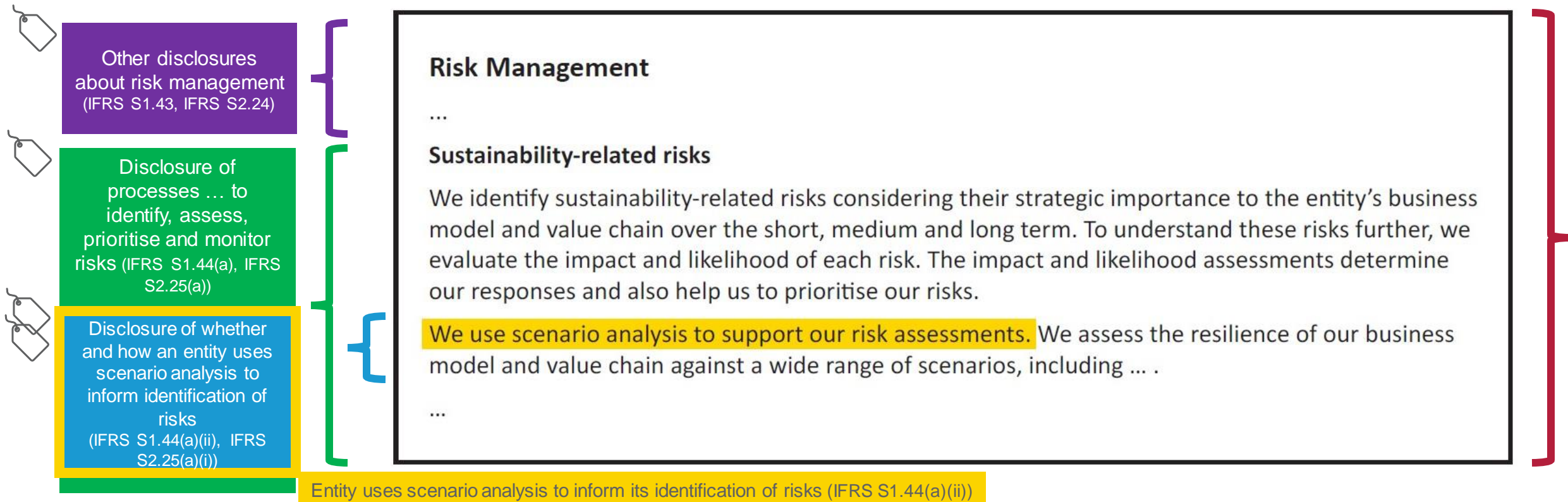


Illustration of tagging and resulting digital data using proposals (cont.)



Resulting tagged information in a database

Element	Value
Other disclosures about risk management (IFRS S1.43, IFRS S2.24)	Risk Management (...)
Disclosure of processes and related policies entity uses to identify, assess, prioritise and monitor risks (IFRS S1.44(a), IFRS S2.25(a))	Sustainability-related risks We identify sustainability-related risks considering their strategic importance to the entity's business model and value chain over the short, medium and long term. To understand these risks further, we evaluate the impact and likelihood of each risk. The impact and likelihood assessments determine our responses and also help us to prioritise our risks. We use scenario analysis to support our risk assessments. We assess the resilience of our business model and value chain against a wide range of scenarios, including... (...)
Entity uses scenario analysis to inform its identification of risks (IFRS S1.44(a)(ii))	<input checked="" type="checkbox"/> True <input type="checkbox"/> False
Disclosure of whether and how entity uses scenario analysis to inform its identification of risks (IFRS S1.44(a)(ii), IFRS S2.25(a)(ii))	We use scenario analysis to support our risk assessments. We assess the resilience of our business model and value chain against a wide range of scenarios, including...



- **Bite-size group of information** that is useful for analysis
- Provide enough context to help enable the use of **machine learning, natural language processing and sentiment analysis** to extract and summarise details



- **Categorical elements** allow investors **efficiently extract and analyse narrative information** (for example, search for companies that use scenario analysis to inform its identification of risks)



- **Related textual elements** provide **more context**

Reflecting the relationship between IFRS S1 and IFRS S2



Corresponding requirements in IFRS S1 and IFRS S2



IFRS S1 and IFRS S2 include **corresponding requirements** related to the core content of governance, strategy, risk management and metrics and targets.

Corresponding requirements are IFRS S1 disclosure requirement that are also in IFRS S2 that are relevant to climate-related risks and opportunities. For example:

- paragraph 30(a) of IFRS S1 requires an entity to describe **sustainability-related risks and opportunities** that could reasonably be expected to affect the entity's prospects; and
- paragraph 10(a) of IFRS S2 requires an entity to describe **climate-related risks and opportunities** that could reasonably be expected to affect the entity's prospects.

Element label	Reference	Documentation label
Disclosure of risk or opportunity	IFRS S2.10(a) IFRS S1.30(a)	The disclosure of a sustainability-related risk and or opportunity (including climate-related risk or opportunity) that could reasonably be expected to affect the entity's prospects.
Type of climate-related risk	IFRS S2.10(b)	...

A single set of elements is proposed to reflect **corresponding requirements** in IFRS S1 and IFRS S2.

Information about risks and opportunities

Dimensional model is proposed to:

- allow investors **extract information separately** for each risk and opportunity; and
- help investors **understand entity-specific elements** (for example, sustainability-related risks and opportunities or metrics and targets).

Dimensional model does not prescribe how the information should be disclosed, and it need not be presented in a table

Element label and reference	ET ²	Risks and opportunities [axis]		
Disclosure of risk or opportunity IFRS S1.30(a), IFRS S2.10(a)	TB	'Risk and opportunity 1'	'Risk and opportunity C'	...
Type of climate-related risk IFRS S2.10(b)	EN	<input type="checkbox"/> Physical risk <input type="checkbox"/> Transition risk	<input type="checkbox"/> Physical risk <input type="checkbox"/> Transition risk	
Disclosure of time horizon(s) over which effects of risk or opportunity could reasonably be expected to occur IFRS S1.30(b), IFRS S2.10(c)	TB			

A defined Axis in the Taxonomy helps investors understand entity-specific elements

Entity-specific elements are created by an entity thus not standardised

For integrated disclosures that do not provide separate information for each risk and opportunity, an entity is not expected to use the dimension and keep tagging simpler.

[2] 'ET' refers to element type, 'TB' refers to text blocks, and 'EN' refers to extensible enumeration which is categorical element type with list of standardised options to choose from.

Illustration of tagging and resulting data about an entity's sustainability-related risks and opportunities



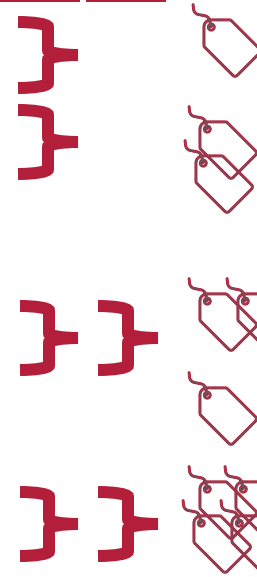
Tagging an example of sustainability-related disclosure, including climate

Alternative rejected



Two sets of elements

S1 S2



Risk and opportunity #1



Disclosure of risk or opp.



Disclosure of time horizon(s)...



Risk and opportunity #2



Disclosure of risk or opp.



Type of climate-related risk

Disclosure of time horizon(s)...



Our sustainability-related risks and opportunities

Water quality regulation

We expect a stricter water quality regulation will require us to replace some equipment's used in our water treatment plants.

We expect the effect of this risk to occur in **the short term**.

Flooding

We expect climate-related and other sustainability-related events to create disruption to the availability of our water treatment plants caused by flooding.

We consider flooding to be a climate-related physical risk.

We expect the effect of this risk to occur in **the short term, growing in severity in the medium term**.

Illustration of tagging and resulting data about an entity's sustainability-related risks and opportunities (cont.)

Element	Value	
	<i>Water quality regulation</i>	<i>Flooding</i>
Disclosure of risk or opportunity (IFRS S1.30(a), IFRS S2.10(a))	We expect a stricter water quality regulation will require us to replace some equipment's used in our water treatment plants.	We expect climate-related and other sustainability-related events to create disruption to the availability of our water treatment plants caused by flooding.
Type of climate-related risk (IFRS S2.10(b))		<input checked="" type="checkbox"/> Physical risk <input type="checkbox"/> Transition risk
Disclosure of time horizon(s) over which effects of risk or opportunity could reasonably be expected to occur (IFRS S1.30(b), IFRS S2.10(c))	We expect the effect of this risk to occur in the short term.	We expect the effect of this risk to occur in the short term, growing in severity in the medium term.
Time horizon(s) over which effects of risk or opportunity could reasonably be expected to occur (IFRS S1.30(b), IFRS S2.10(c))	<input checked="" type="checkbox"/> Short term <input type="checkbox"/> Medium term <input type="checkbox"/> Long term	<input checked="" type="checkbox"/> Short term <input checked="" type="checkbox"/> Medium term <input type="checkbox"/> Long term



- Information in a dimensional model could be considered as if it were **a table**
- In this example **risks and opportunities** are provided in columns using axis element type
- The **number of columns** would vary based on the entity's disclosures



- Information about climate-related risks provided applying **specific requirements in IFRS S2** would be included in the resulting data
- **Categorical elements** and **related textual elements** will also be included in the resulting data



Other features of the Proposed Taxonomy



Other general features of the Proposed Taxonomy



Taxonomy architecture

Following XBRL best practice enable entities to use the Proposed Taxonomy together with, for example:

- IFRS Accounting Taxonomy or other GAAP taxonomies – to reflect that IFRS S1 and IFRS S2 could be applied with IFRS Accounting Standards or other GAAP; and
- other taxonomies – to reflect that companies may use other sustainability-related standards as further Guidance to report sustainability-related financial information



Industry-based metrics in IFRS S2

- Approximately 530 elements proposed to allow tagging industry-based metrics disclosed applying Guidance on IFRS S2
- Taxonomy entry points allow accessing elements reflecting IFRS S1 and IFRS S2 with or without elements reflecting industry-based metrics
- Elements were created based on equivalent elements in the SASB Taxonomy (allows easier use with the SASB Taxonomy to tag industry-based metrics not covered by IFRS S2)



Connections between disclosures

- For example, 'please refer to Notes 3–6 of the financial statement'
- Information is expected to be tagged with other narrative information
- Information provided in a separate report by cross-reference should be tagged



Element grouping

Elements are organised (grouped) in a way that facilitates navigation, understanding and use of the Taxonomy

Facilitating digital reporting of sustainability-related financial disclosures globally



Facilitating digital reporting of sustainability-related financial disclosures globally



ISSB aims to deliver sustainability-related financial disclosures to meet needs of global capital markets

Interoperability with other jurisdictions

- The ISSB Taxonomy **may support interoperability** of ISSB Standards with jurisdictional requirements and other sustainability-related standards, for example by helping investors identify sustainability-related financial information that meets the requirements of the ISSB Standards within reports that also address other sustainability-related standards.
- **Interoperability between standards is a pre-requisite for interoperability between digital taxonomies.**



Implementation support

- Some elements in the Proposed Taxonomy include **guidance labels** to help preparers use those elements correctly.
- Further technical **guidance** being considered includes:
 - additional guidance labels
 - **guidance to support preparers in the appropriate** use of the ISSB Taxonomy (including **topical guidance**, such as examples on how to use specific elements)
 - **guidance to assist regulators** in adopting the ISSB Taxonomy to enable digital reporting in their jurisdictions



Main areas for feedback



Summary of questions in the proposed Taxonomy

- **Question 1:** The appropriate reflection of the disclosure requirements in IFRS S1 and IFRS S2 in the Taxonomy
- **Question 2:** Overall usability of the Taxonomy for stakeholders: preparers, regulators and investors
- **Question 3:** Other comments on proposals

Proposed Taxonomy overall

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- **Question 4:** Proposals related to reflecting relationship between IFRS S1 and IFRS S2
- **Question 5:** Proposals related to the granularity of tagging and extracting the narrative information, including **Question 3(a)(i):** suggestions related to the specific categorical elements proposed

Specific proposals

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- **Question 6:** Suggestions on how to support the Taxonomy to facilitate digital reporting of sustainability-related information globally by:
 - improving the Taxonomy; or
 - providing additional implementation support
- **Question 7:** Other comments

Facilitating digital reporting globally

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