Sustainability Standards Advisory Forum meeting

Date          October 2023
Project       IFRS Sustainability Disclosure Taxonomy
Topic         Proposed IFRS Sustainability Disclosure Taxonomy
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This paper has been prepared for discussion at a public meeting of the Sustainability Standards Advisory Forum (SSAF). This paper does not represent the views of the International Sustainability Standards Board (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.
Purpose of this session

• Provide background information about the Proposed IFRS Sustainability Disclosure Taxonomy (Proposed ISSB Taxonomy)
• Provide outline of preliminary analysis of stakeholders’ feedback on the proposals

Questions for SSAF members

1. Do you have any comments or questions on the Proposed ISSB Taxonomy?
2. Do you have any comments or questions on the preliminary analysis of stakeholders’ feedback on the proposals?
Background information
### 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

<table>
<thead>
<tr>
<th>Benefits for investors</th>
<th>Reduces search costs (eg reduced language barriers)</th>
<th>Increases information processing efficiency</th>
<th>Increases availability and accessibility of data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits for companies</td>
<td>Increases access to capital (eg increases analyst’s coverage)</td>
<td>Can reduce firm’s cost of capital</td>
<td>Reduces need to submit disclosures to multiple organisations</td>
</tr>
<tr>
<td>Benefits for others</td>
<td>Assists regulators in oversight activities</td>
<td>Facilitates the real-time use of information fostering innovation</td>
<td>Assists others (eg NGOs, academics) in accessing and extracting information</td>
</tr>
</tbody>
</table>
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 provides 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

Co. A: Gross scope 1 emissions           xxx
Co. B: Direct greenhouse emissions    xxx
Co. C: Own emissions                            xxx
Co. D: 직접적인 온실가스 배출             xxx
Co. E: 総範囲 1 溫室氣體排放量    xxx

<table>
<thead>
<tr>
<th>Name</th>
<th>ifrs-sds:GrossScope1GreenhouseGasEmissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>xxx,000</td>
</tr>
<tr>
<td>Units</td>
<td>MtCO2e</td>
</tr>
<tr>
<td>Period</td>
<td>2021-01-01 to 2021-12-31</td>
</tr>
<tr>
<td>Decimals</td>
<td>-3</td>
</tr>
</tbody>
</table>

ISSB Taxonomy ‘Tag’

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

Staff Draft of the ISSB Taxonomy published in May 2022

Proposed Taxonomy published
27 July 2023

Until 26 September 2023

Review by the IFRS Taxonomy Consultative Group

Provides feedback summary to ISSB
Nov 2023

Final Taxonomy published
H1 2024

Developed in tandem with IFRS S1 & IFRS S2—enables digital consumption when the Standards are first applied

IFRS S1 & IFRS S2 effective date
1 Jan 2024

Sustainability disclosures applying IFRS S1 & IFRS S2 become available
1 Jan 2025

Provide feedback summary to ISSB
Nov 2023

IFRS S1 & IFRS S2 published
26 June 2023

Public consultation
60 days comment period

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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
Preliminary feedback
Sources of feedback

Discussions with the IFRS Taxonomy Consultative Group in July 2023 and October 2023

Feedback received from 48 respondents* on the Proposed Taxonomy – deadline on 26 September 2023
- Staff is still in the process of analysing stakeholders’ feedback
- Once the analysis is completed, staff will prepare a summary of feedback that will be discussed in future ISSB meeting (expected in November 2023)

Targeted stakeholder outreach with digital taxonomy experts representing:
- 8 investors;
- 13 data providers;
- 12 capital market regulators; and
- 6 standard-setters (including accounting and sustainability standard-setters).

* Number of unique respondents providing feedback on the Proposed ISSB Taxonomy
Preliminary analysis of feedback – Key areas

1. Granularity and categoricals
   - Proposals related to the granularity of tagging and extracting the narrative information, including suggestions related to the specific categorical elements proposed

2. Modelling of relationship between S1 and S2
   - Proposals related to reflecting the relationship between IFRS S1 and IFRS S2, and tagging disclosures that address requirements in both of them

3. Metrics and targets
   - How best to represent metrics and targets in order to maximise useful and comparable data
Preliminary feedback – Granularity and categoricals

• **Preliminary feedback on** the proposals related to **granularity of narrative disclosures**
  • From outreach, most stakeholders said that starting simple, with the aim to refine the Taxonomy when reporting practice emerges, will support the global applicability of the ISSB Taxonomy
  • Some investors and data providers are supportive of the proposed approach to granularity. They said whilst some narrative disclosures could be used for comparison (see below for feedback on categorical elements), those that are of explanatory nature are better analysed as larger blocks to obtain context
  • However some investors and data providers favoured a more granular approach to tagging narrative disclosures because they said it will help provide them with options to analyse narrative data in different ways
  • Many stakeholders emphasised that it is important for the ISSB to consider interoperability with other taxonomies in determining whether a more granular approach would be useful

• **Broad support for categorical type elements** and related textual element
  • From outreach, we heard that investors and data providers convert narrative information into data type that is similar to the proposed categorical elements. They said creating categorical elements in the ISSB Taxonomy will be useful
  • Most investors and data providers highlighted that related textual element is needed for additional context and detail
  • Some regulators asked questions whether current technology can fully support proposals related to narrative disclosures (for example, some questioned the applicability of categorical elements in Inline XBRL)
Preliminary feedback – Modelling of relationship between IFRS S1 and IFRS S2

- **Broad support for** the proposal to use a *single set of elements* to reflect the corresponding requirements
  - Stakeholders emphasised the benefits of limiting the need for double tagging information that meets both corresponding requirements in IFRS S1 and IFRS S2
- **Broad support for** the use of the *dimensional model for entity-specific content*. But **mixed feedback on** the **lack of mechanism to identify information related to climate** separately from other information
  - Some investors and data providers said that providing climate information separately may help with comparability between entities
  - However some investors and data providers said that identifying specific risks and opportunities (for example, flooding risk) is more important than information about whether a particular risk or opportunity relates to climate, and identifying common practice would be helpful to support comparability of entity-specific content
Preliminary feedback – Metrics and targets

• Many stakeholders emphasised the **importance of information related to metrics and targets**
• Some stakeholders were **unclear how metrics and targets will be tagged**
  • Some stakeholders were unclear what metrics (other than those related to climate, specified by IFRS S2 and reflected in the Proposed Taxonomy) will be disclosed and how they will be tagged
  • A few stakeholders were unclear how to tag information related to entity-specific metrics and targets and how the relationship between both will be provided in a digital format