ISSB Meeting

Date       May 2024
Project    Maintenance of the SASB Standards
Topic      Sustainable Industry Classification System® (SICS®)—Background and staff analysis
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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. This paper:
   (a) briefs the International Sustainability Standards Board (ISSB) on industry classification systems and their relationship to the Sustainable Industry Classification System® (SICS®) in the context of industry-based standard-setting;
   (b) summarises stakeholder feedback regarding SICS;
   (c) provides staff analysis and comparison of select industry classification systems; and
   (d) summarises staff recommendations regarding the ISSB’s future approach to industry groupings for its industry-based materials, including the Sustainability Accounting Standards Board (SASB) Standards and the IFRS S2 Industry-based Guidance on implementing Climate-related Disclosures.

2. The staff considers this to be an appropriate time for the ISSB to determine its approach to industry classification systems for the purpose of standard-setting,
following the ISSB’s recent tentative decision to prioritise enhancements to the SASB Standards as part of its next two-year work plan, the intention to consider industry-based disclosures in its topic-based research and in consideration of the stakeholder comments related to SICS in recent consultations.

3. A summary of the key points of the staff analysis in this paper and the staff’s rationale for its recommendations are included in Agenda Paper 6B. That paper is intended to facilitate ISSB decision-making based on the background information and analysis provided in this paper.

**Summary of staff recommendations**

4. First recommendation: the staff recommends that the ISSB’s industry-based materials, including the SASB Standards, continue to be based on industry groupings of entities with similar impacts and dependencies on the non-financial capitals that serve as sources of value, as represented by SICS, for the ISSB’s next two-year work plan.

5. Second recommendation: the staff recommends that the ISSB considers enhancements to the industry groupings as developed in SICS during the ISSB’s enhancements to the SASB Standards as part of its next two-year work plan.

**Structure of the paper**

6. The paper is structured into these sections:

   (a) Background (paragraphs 7-24);
       (i) Overview of industry classification systems (paragraphs 7-15);
       (ii) Sustainable Industry Classification System (SICS) (paragraphs 16-21);
       (iii) Approaches to sector-based sustainability-related disclosure standards (paragraphs 22-24);

   (b) ISSB stakeholder feedback related to SICS (paragraphs 25-29);
(c) Staff analysis (paragraphs 30-62);
   (i) Navigating challenges in using SICS and other industry classification systems (paragraphs 32-44);
   (ii) Trade-offs associated with alternative approaches to industry grouping (paragraphs 45-62);
(d) Staff recommendations and rationale (paragraphs 63-64); and
(e) Appendix A—Tables 1-4.

Background

**Overview of industry classification systems**

7. An industry classification system defines the categories used to classify an entity based on similar activities, products or other characteristics. Such systems are designed to permit consistent collection and analysis of data based on defined purposes, standardised definitions and prescribed methods of classification.

8. Industry classification structures generally comprise a hierarchical set of coded groupings that are broader, covering more types of industry or entity, at the higher levels of the hierarchy and become narrower, covering fewer types of industry or entity, at the lower levels. The categorical groupings are usually distinct, non-overlapping and exhaustive. Industry classification systems can vary in how many types of industries, entities or activities they cover in each hierarchical level, reflecting the different purposes intended for each system.

9. While there are many industry classification systems, the staff considered these systems in two distinct groups:
   (a) official industry classification systems; and
   (b) market-based industry classification systems.
10. Table 1, included in Appendix A to this paper, provides an overview of some of the industry classification systems in use.

**Official industry classification systems**

11. Official industry classification systems are structured based on economic activities using an activity-based or supply-side approach. Supranational organisations and governmental statistical agencies develop these systems for economic and statistical reporting and analysis as well as for administrative purposes such as collecting taxes or licensing businesses. Examples of classifications within these systems are activities like the growing of grapes or the manufacturing of basic metals.

12. An example of an official industry classification system is the [International Standard Industrial Classification of All Economic Activities](https://unstats.un.org/unsd/publication/seriesm/seriesm_4rev4e.pdf) (ISIC), which is undergoing its fifth revision since 1948 and is maintained by the United Nations Statistics Division (UNSD). The UNSD designed ISIC as an international reference classification of productive activities for compiling data and reporting statistics and to function as a guide for individual jurisdictions adapting their own industry classification systems to the international standard. Many jurisdictions use ISIC or a similar system for collecting economic data. Differences among these systems often become more apparent at the narrower levels of their hierarchies, representing production activities specific to their jurisdictions. Examples of other official industry classification systems that broadly align with ISIC include:

   (a) the [Australian and New Zealand Standard Industrial Classification](https://unstats.un.org/unsd/publication/seriesm/seriesm_4rev4e.pdf) (ANZSIC);

   (b) the [Japan Standard Industrial Classification](https://unstats.un.org/unsd/publication/seriesm/seriesm_4rev4e.pdf) (JSIC); and

   (c) the [Statistical Classification of Economic Activities in the European Community](https://unstats.un.org/unsd/publication/seriesm/seriesm_4rev4e.pdf) (NACE).

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13. These systems are then used for various types of official business inside the jurisdictions that developed them. For example, new businesses registering in Australia identify their primary business activity and are assigned an ANZSIC code.4

*Market-based industry classification systems*

14. Market-based industry classification systems generally group industries using a demand-side approach, based on the products or services they provide or the consumers or markets they serve. Some capital market participants have developed these systems for financial analysis and other investment purposes and licence the use of these systems to others. Examples of categories within these classification systems include industries like aerospace and defence, banks or metals and mining.

15. An example of a market-based industry classification system is the [Global Industry Classification Standard](https://www.msci.com/documents/10199/5973a128-47f0-4317-b083-716a10207b50) (GICS®). In 1999 Morgan Stanley Capital International (MSCI) and Standard and Poor’s (S&P) developed GICS to facilitate company-, industry- and sector-level comparisons in global equity markets.5 To do so, GICS classifies an entity based on ‘the business activities that generate the majority of the company’s revenues’ using standardised categories but also sees ‘earnings and market perception’ as relevant factors.6 The GICS structure is periodically reviewed to consider developments in global equity markets, and the global database of entities classified according to its system is used by ‘over 200 global institutions’.7 These include ‘market exchanges, index providers, and other financial services institutions’.8 Examples of similar market-based classification systems include:

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(a) the Bloomberg Industry Classification Standard; or
(b) the Industry Classification Benchmark (ICB).

**Sustainable Industry Classification System (SICS)**

16. The SASB Standards Board codified the SASB Standards in 2018 and designed them to help entities identify and disclose sustainability-related risks and opportunities and provide material information to investors and other users of general purpose financial reports. SICS was developed as a new industry classification system to use as a foundational basis for setting industry-specific sustainability disclosure standards, and the SASB Standards Board and its staff identified several reasons to pursue its development. First, SICS aided in determining the scope and size of the nascent SASB Standards. Second, market-based industry classification systems already commonly used in the financial markets inadequately captured the shared sustainability characteristics of specific groups of entities. Third, these other systems tended to overlook the increasing role of market value derived from intangible assets because of their focus on revenues or the provision of products and services and not on the relationship to non-financial capitals.

17. SICS was specifically designed to account for entities’ impacts and dependencies on non-financial capitals (such as natural, human and intellectual capitals) that vary according to an industry’s associated economic activities. In other words, SICS adopted a ‘sustainability-related approach’ for industry groupings. Diverging from existing market-based classification systems, SICS established new sector classifications, recategorised some industries between sectors of existing market-based classifications and created some new industry classifications. Examples of SICS classifications not commonly found in other systems include the sector ‘Resource Transformation’ and the industry ‘Solar Technology & Project Developers’ (see also paragraphs 34(a) and 48).

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9 Basis for Conclusions on [Draft] IFRS S2 Climate-related Disclosures, paragraph BC38.
18. SICS has a total of 77 industries, grouped in 11 broader thematic sectors. Each of these SICS industries has an associated industry-based SASB Standard. Both SICS and the SASB Standards include industry descriptions that summarise the business models and typical activities that characterise that industry. These descriptions help entities decide which SICS industry(ies) and which SASB Standard (or set of Standards) most closely match their activities.

19. SICS and the SASB Standards, although related, serve two distinct purposes. As an industry classification system, SICS groups entities with similar characteristics for comparison and analysis. As industry-specific disclosure standards, the SASB Standards identify and establish guidance to disclose material information about sustainability-related risks and opportunities to users of general purpose financial reports. However, through their historical co-development, SICS both informed, and was informed by, the related SASB standard-setting.

_The relationship of SICS to IFRS industry-based guidance_

20. Both IFRS S1 _General Requirements for Disclosure of Sustainability-related Financial Information_ and IFRS S2 _Climate-related Disclosures_ require an entity to disclose industry-based metrics that are associated with one or more particular business models, activities or other common features that characterise participation in an industry. In support of this requirement, IFRS S1 requires an entity to refer to and consider the applicability of the disclosure topics and associated metrics in the SASB Standards, and IFRS S2 requires an entity to refer to and consider the IFRS S2 _Industry-based Guidance on implementing Climate-related Disclosures_ (IFRS S2 _Industry-based Guidance_).

21. The IFRS S2 _Industry-based Guidance_ is derived from, and built on, the climate-related content in the SASB Standards. This includes the use of industry groupings consistent with SICS. These industry groupings therefore underpin and provide a consistent basis for the ISSB’s industry-based materials.
Approaches to sector-based sustainability-related disclosure standards

22. EFRAG and the Global Reporting Initiative (GRI) are developing sector-specific sustainability-related disclosure standards using different approaches. These approaches are briefly described in the subsequent paragraphs.

ESRS Sector Standards

23. The EFRAG Sustainability Reporting Board (EFRAG SRB) is developing a sector classification system to frame sector standards for the European Sustainability Reporting Standards (ESRS). The EFRAG SRB is basing this new classification system on NACE Revision 2.1, but not directly applying NACE Revision 2.1, which will be used for statistical reporting in the European Union (EU) beginning in 2025.\(^\text{10}\) The sector classification system that the EFRAG SRB is developing will likely be grouped into 34 to 39 sectors (as it is still in development) based on similarities in sustainability-related impacts, risks and opportunities. Several of the corresponding ESRS Sector Standards are anticipated to include additional reporting requirements at a subsector level.\(^\text{11}\)

GRI Sector Standards

24. The GRI Sector Program has identified 40 priority sectors for developing disclosure standards based on the sustainability impacts, the severity of the impacts and the likelihood of their occurrence in each sector, and has so far published sector standards for four sectors (Oil and Gas; Coal; Agriculture, Aquaculture and Fishing; and Mining). However, it is not developing its own sector classification system. Each sector standard provides a profile of business activities to which it applies. GRI has developed a preliminary naming system using common names intended to be recognisable to all stakeholders regardless of the classification systems they use.


introductory tables, each GRI Sector Standard is mapped to a corresponding set of classifications within each of four external classification systems (ISIC, GICS, ICB and SICS).

**ISSB stakeholder feedback related to SICS**

25. Comment letters from some respondents in response to the [2022 Exposure Draft IFRS S2 Climate-related Disclosures](#), the [2023 Exposure Draft Methodology to Enhance the International Applicability of the SASB Standards and SASB Taxonomy Updates](#), and the [2023 ISSB Request for Information Consultation on Agenda Priorities](#) included comments related to SICS and its use in the ISSB’s standard-setting. These respondents comprised accounting and other professional organisational bodies, accounting firms, preparers and standard-setters. The subsequent paragraphs describe the main themes identified throughout these consultations and subsequent engagements between staff and stakeholders.

*Stakeholder concerns with navigating the use of different industry classification systems*

26. Some of these respondents stated their concerns with a lack of comparability among the various types of industry classification systems in use, and the inherent complexities of mapping official industry classification systems to other systems.

27. These respondents stated that the use of official industry classification systems in some jurisdictions might also pose potential complications, conceptual mismatches and additional reporting burdens for preparers when using SICS.

28. Some of these respondents also questioned how well SICS functions in international markets. They voiced concerns over whether the ISSB had considered how well some types of business models in specific jurisdictions might be classified in SICS. Specifically, one respondent stated that entities with complex or diversified business activities in its jurisdiction need additional guidance and enhancements made to SICS.
to better reflect these types of entities active in its jurisdiction. Considering the variation in economic activities from jurisdiction to jurisdiction, one respondent also expressed a concern that the industry groupings in SICS did not represent activities specific to the Australian market.

**Suggested alternatives**

29. A few of these stakeholders suggested that the ISSB base its industry groupings on other industry classification systems (for example: NACE; ICB; or GICS) instead of SICS. Other stakeholders suggested that aligning SICS with official industry classification systems like ISIC and NACE or integrating elements of various other market-based industry classification systems such as GICS, might enhance its functionality and improve interoperability. A few of these stakeholders also suggested that the ISSB hold public consultation on how to enhance SICS and any enhancements to be made to SICS as well as undertake additional research on industry classification. A few of these respondents also suggested publishing relational mappings between SICS and other widely used industry classification systems or anticipated systems (for example, the ESRS Sector Classification).

**Staff analysis**

30. As first articulated by the ISSB Chair and Vice-Chair in March 2022, the ISSB has embedded an industry-based approach in its standard-setting.\(^{12}\) Specifically:

(a) IFRS S1 requires industry-specific disclosures and requires that entities refer to and consider the applicability of the topics and metrics in the SASB Standards to identify and disclose material information about sustainability-related risks and opportunities;

(b) IFRS S2 requires industry-specific disclosures and includes requirements to refer to and consider the applicability of the IFRS S2 *Industry-based Guidance*, which is derived from the SASB Standards and uses industry groupings aligned with SICS;

(c) the ISSB issued amendments to the SASB Standards in June 2023 to align the climate-related content in the SASB Standards with the IFRS S2 *Industry-based Guidance* and issued further amendments to the non-climate-related content in the SASB Standards in December of 2023 in connection with the project on the international applicability of the SASB Standards; and

(d) it tentatively agreed in March 2024 to enhance the SASB Standards during its next two-year work plan as part of the foundational, or committed, activities of the ISSB.\(^\text{13}\)

31. In embedding the industry-based approach of the SASB Standards, the ISSB has included SICS in its standard-setting. In light of some stakeholders’ concerns regarding SICS, the staff believes the ISSB should consider how these comments can inform the foundational basis of enhancements to the SASB Standards in its next two-year work plan.

*Navigating challenges in using SICS and other industry classification systems*

32. The staff analysed how the challenges identified in some of the stakeholder comments could be examined using the following considerations:

(a) that industry classification systems are designed to fulfil different purposes;

(b) the utility of relational mappings in navigating these different systems;

(c) the compatibility of SICS with official industry classification systems used by jurisdictions; and

(d) how to classify entities with complex or diverse activities.

*Different systems used to fulfil different purposes*

33. Industry classification systems are designed to fulfil different purposes, and some are only applicable in specific jurisdictions. As a result, these systems are not always easily comparable, as identified in ISSB stakeholder feedback.

34. The apparel industry is one illustration of the differences among industry classification systems (see Table 2 in Appendix A for a tabular comparison):

(a) the SICS industry ‘Apparel, Accessories & Footwear’ includes entities involved in the design, manufacture, wholesale and retail of these types of products, based on the similar sustainability-related risks and opportunities within this industry grouping;

(b) the production activity basis used by ISIC results in a different set of groupings: the design of apparel is grouped under the ‘Specialized design activities’ Class (narrowest level) included in the ‘Professional, scientific and technical activities’ Section (broadest level), while the ‘Manufacture of wearing apparel’ Class is included in the ‘Manufacturing’ Section and the ‘Wholesale and retail trade’ Section includes separate divisions (second broadest level) for the wholesale trade and retail trade of apparel. Thus, one SICS industry relates to multiple ISIC classes included in different sections of production activities because of their different bases;

(c) GICS’s demand-side basis groups the manufacture of apparel in the ‘Household Durables’ industry, while the retail of apparel is grouped in the ‘Specialty Retail’ industry. Thus, GICS does not distinguish at the industry level the manufacture of apparel from the manufacture of other types of household durables.
35. The staff concludes that since SICS was specifically designed to group industries by their shared sustainability characteristics, a system like SICS is better suited to fulfil the purpose of setting industry-based sustainability-related standards than systems designed for other purposes. Furthermore, as discussed in paragraphs 46-55, changing the basis of its industry groupings would also have significant implications for the ISSB’s standard-setting activities.

*Utility of relational mappings*

36. Despite the differences, a degree of comparability among industry classification systems does exist, and efforts have been undertaken to draw connections between different classification systems. Relational mappings can have various benefits, including helping preparers identify appropriate industry groupings when preparing disclosures using dissimilar classification systems, and facilitating research by investors and academics. For example:

(a) the EFRAG Secretariat has sought to reconcile the NACE-based industry classification system underpinning its sector standards to SICS through a relational mapping;\(^\text{14}\)

(b) the GRI Sector Standards include mappings to several official and market-based classification systems; and

(c) the ESG Data Convergence Initiative, an investor-led initiative within the private markets, has produced a GICS to SICS guide that maps most GICS sub-industries to SICS industries.\(^\text{15}\)

37. The staff has prepared an example in Table 3 of Appendix A to demonstrate how an entity could use its ANZSIC classification to identify compatible classifications in GICS and SICS.


38. While relational mappings are useful, it is important to recognise that a mapping between two systems is not likely to produce an identical set of reporting entities under both classification systems, given that these mappings are not conducted at the level of individual reporting entities, and the use of multiple mappings may create an additional degree of subjectivity if reporting entities would be expected to decide which mapping to apply.

Compatibility with official classification systems used by jurisdictions

39. An important consideration regarding the compatibility of SICS with official classification systems is that IFRS S1 and IFRS S2 do not assign preparers to an industry nor require entities to prepare disclosures aligned with the specific industries as defined in SICS. Rather, each entity must apply judgement regarding industry selection, identification of sustainability-related risks and opportunities and disclosure of material information.

40. The staff therefore believes that the use of SICS to aid the application of IFRS S1 and IFRS S2 does not preclude a preparer from, for example, using an alternative classification system when registering an entity with regulators for tax or data collection purposes (and thus using a different classification than that used when applying SICS for financial reporting purposes).

Entities with complex or diverse activities

41. Classification systems take different approaches to the classification of entities with complex or diverse activities. While both ISIC and GICS have developed a holding company classification within the financial sector, GICS has further developed a conglomerates classification within the industrials sector.

42. SICS, in contrast, does not have a specific industry grouping for these types of entities because of its approach: the complexity or diversity of activities undertaken by these entities can result in exposure to a variety of sustainability-related risks and opportunities identified in any number of applicable SASB Standards.
43. Complex or diverse entities may need to refer to multiple SASB Standards to provide information on the range of sustainability-related risks and opportunities that may affect their prospects. Nonetheless, the staff believes that SICS’ industry groupings and the associated SASB Standards enable more of the content relevant to these entities’ specific circumstances to be identified than a more general approach to grouping diversified entities and developing more generalised standards would. Further, IFRS S1 and IFRS S2 do not require entities to prepare disclosures aligned with every disclosure topic in an industry Standard they have determined to be applicable. For example, an entity may conclude that five SASB Standards are applicable to its business model and activities, but further conclude that not all disclosure topics included in those Standards are applicable to its specific circumstances.16

44. An overview of how entities with complex or diverse activities are classified within ISIC, GICS and SICS is provided in Table 4 of Appendix A.

**Trade-offs associated with alternative approaches to industry grouping**

45. Some stakeholder feedback suggested the ISSB align or replace the sectors and industries in SICS or the ISSB’s industry-based materials with those of prominent market-based systems or the sector-based work of other standard-setters, and that this could result in benefits such as increased interoperability or compatibility with other jurisdictional requirements. However, the staff believes the ISSB should consider that a change to its approach to industry classification and industry-based materials could:

(a) have significant implications for the ISSB’s standard-setting activities; and

(b) result in significant switching costs for both the ISSB and its stakeholders that already use the current system.

16 A more detailed illustrative example is included in IFRS S1. *Accompanying Guidance on General Requirements for Disclosure of Sustainability-related Financial Information*, paragraphs IE9–IE15.
Implications for standard-setting

46. The staff has identified three main items for the ISSB to consider as it weighs its continued usage of a sustainability-related approach for industry groupings as represented by SICS:

(a) the degree of emphasis the ISSB wants to place on the alignment between its standard-setting objectives and the approach it uses for grouping industries;

(b) the balance the ISSB wants to maintain between categorisation of its industry-based materials, the comparability of the resulting disclosures and the ease of maintaining its body of industry-based materials; and

(c) the due process implications of relying on third parties to define industry groupings.

Alignment between standard-setting objectives and approach used for industry groupings

47. While some stakeholders have recommended that the ISSB use other industry classification systems as a basis for its industry groupings, those systems serve fundamentally different purposes. As a result, the ISSB’s objective of eliciting decision-useful information from preparers on sustainability-related risks and opportunities to meet the needs of primary users of general purpose financial reports could potentially be made more difficult to achieve if the ISSB were to align with industry groupings designed with different purposes in mind.

48. For instance, in a market-based industry classification system like GICS, the cruise line industry is classified under the ‘Consumer Discretionary’ Sector in the ‘Hotels, Resorts & Cruise Lines’ Sub-Industry. While these businesses face similar economic conditions related to consumer discretionary spending, they are exposed to different sustainability-related risks and opportunities. Even though hotels and cruise lines both face sustainability-related risks and opportunities related to broadly-framed topics like ecological impacts and labour practices, the specific risks and opportunities differ significantly between these industries. For instance, decision-useful sustainability-
related financial information related to ecological impacts might relate to a hotel's proximity to protected areas, while for a cruise line operator, effective discharge management might be more relevant.

49. While the ISSB could conceivably draft new industry-based guidance for an industry with a broader scope that includes hotels, resorts and cruise lines in alignment with GICS, that guidance would likely need to be more general in its approach and therefore potentially not provide those preparers with industry-based guidance that sufficiently details the sustainability-related risks and opportunities relevant to them (and thereby be less likely to elicit material information for investors).

**Balancing appropriate categorisation, comparability and ease of maintenance**

50. As an industry grouping becomes narrower and more specific, it can facilitate a higher degree of comparability between peer companies within the same industry. Very specific groupings can also lead to preparers having access to more tailored and proportionate sets of disclosure guidance or requirements.

51. Conversely, excessively narrow groupings would likely result in either considerable amounts of repetition across the Standards (for example, when entities in different groupings face many of the same sustainability-related risks and opportunities) or in relatively similar entities having slightly different requirements (because of slight variations in the requirements of their specific industry Standards). Thus, while some degree of specificity will improve comparability and support proportionality, excessively narrow groupings could ultimately harm comparability. The ISSB therefore needs to consider what the most appropriate way to categorise industries should be – one that best balances the eliciting of decision-useful information from preparers in a proportionate way with the ISSB’s desired level of comparability of resulting disclosures for the full spectrum of preparers.

52. The historical co-development of SICS and the SASB Standards provided useful insights into achieving this balance. For example, at one point in their development, four industries were recategorised into different sectors, two industries were
aggregated and one sector was disaggregated based on the SASB Standards Board’s standard-setting work and understanding of different industries’ sustainability-related risks and opportunities.¹⁷

53. The way the ISSB categorises its industry-based materials will also have implications on the ISSB’s capacity and ability to efficiently and proportionately maintain those materials: a larger body of industry-based Standards could come with additional maintenance costs. An official industry classification system like ISIC (Revision 4) has a four-level hierarchy consisting of 21 sections (broadest level), 88 divisions, 238 groups and 419 classes (narrowest level). By contrast, SICS has 77 industries at its narrowest level. Adopting ISIC or another related system would therefore necessarily also involve consideration of which level to set industry-based standards to avoid a cumbersome system for disclosure and diminishing comparability for users.

54. In weighing any changes to SICS to facilitate interoperability, the ISSB will need to consider whether the benefits of increased disaggregation relative to the planned sector-based work of other standard-setters outweigh the maintenance costs (as explained earlier in the paper, for example, the ESRS sector classification is expected to consist of 34 to 39 sectors). Similarly, broader groupings would improve comparability among more entities but potentially reduce proportionality of reporting.

Due process

55. Were the ISSB to use an industry classification system developed and maintained by another organisation as the basis for the ISSB’s industry-based standard-setting, it would need to accept reliance on that third party and likely lack oversight of that system. The third party’s objectives may contradict (or later contradict) with those of the ISSB, resulting in changes to the classification system that affect the ISSB’s industry-based materials without sufficient stakeholder input (or inclusion of other aspects of the IFRS Foundation’s due process). In such a situation, the ISSB could be

¹⁷ For example, the ‘Cruise Lines’ industry was recategorised from the ‘Services’ sector to the ‘Transportation’ sector and the ‘Cable & Satellite’ and ‘Telecommunications’ industries were aggregated into the ‘Telecommunication Services’ industry.
limited in its ability to respond to stakeholder comments related to its industry-based materials and therefore restricted in its ability to meet the needs of primary users of general purpose financial reporting. The ISSB would risk misalignment with the other classification system if it did make adaptations to it to meet its standard-setting objectives.

Switching costs for the ISSB and its stakeholders

Switching costs for the ISSB

56. A change in the ISSB’s industry classification basis to an official or market-based one would mean a different set of industry groupings that no longer matches the industries identified in the ISSB’s industry-based materials. In the staff’s view, this would require considerable resources to make necessary amendments to the SASB Standards and the IFRS S2 Industry-based Guidance and could delay efforts to enhance them.

57. For example, extensive relational mapping efforts would likely be necessary to understand which industry classifications could be applicable to which SASB Standard, and the possibility exists that not all industry classifications in another system may relate to the content in the SASB Standards, necessitating additional standard-setting.

58. Moreover, making substantial changes to the scope of business activities included in a SASB Standard or volume of the IFRS S2 Industry-based Guidance would have cascading effects on the contents: such a change would necessitate a holistic review of the disclosure topics and associated metrics, effectively meaning the ISSB would need to begin anew in drafting a set of disclosure requirements for the revised scope of business activities included in the Standard.

Switching costs for stakeholders currently using SICS and SASB Standards

59. Many stakeholders have embedded SICS into their processes, products and services. Were the ISSB to change the approach to its industry classification system, it would need to consider whether and how it would support these stakeholders in transitioning
to this new approach. Specifically, as of March 2024, roughly 400 organisations in more than 30 jurisdictions, of which more than 250 are investors managing nearly US$60 trillion in assets, licence SICS- and SASB Standards-based tools and resources. Use cases for SICS-based tools and resources include:

(a) developing sustainability-related scoring methodologies for both asset managers and ESG data providers;

(b) organising sustainability-related data to facilitate investor decision-making for both private and public equity markets;

(c) constructing and analysing investment portfolios; and

(d) building the collection of sustainability-related information, materiality assessment and reporting into products such as enterprise resource planning software and analytics platforms used by preparers.

60. Market use of the SASB Standards is also widespread: more than 3,300 entities operating in more than 80 jurisdictions report using the SASB Standards as of March 2024, including approximately 75% of the S&P Global 1200 Index. A change to the structure of the SASB Standards that would result from adjusting the underlying classification system could result in significant changes for these entities.

61. Other sustainability-related disclosure standards and frameworks also recognise or have used SICS in developing industry-based materials. The GRI references SICS to help guide preparers in determining which GRI Sector Standard may be applicable. Similarly, the Taskforce on Nature-related Financial Disclosures (TNFD) has begun to draft sector guidance to supplement its disclosure guidance on nature-related issues, which uses SICS to define the industries to which the sector guidance is applicable. Additionally, the Transition Plan Taskforce (TPT) in the United Kingdom has aligned its sector classification for its Sector Summary with SICS.19

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62. A substantial level of market infrastructure has already been built using SICS, including the ISSB’s industry-based materials. In weighing the use of other classification systems, the ISSB should consider the potentially considerable switching costs among preparers, users of general purpose financial reports, other sustainability-related disclosure standards and frameworks and the ISSB itself, against the potential benefits of interoperability and compatibility with official industry classification systems highlighted by some stakeholders. As explained earlier, it is possible to alleviate some of these interoperability and compatibility issues through other means such as relational mappings.

**Staff recommendations and rationale**

63. The staff’s recommendations are summarised in paragraphs 4 and 5 of this paper.

64. The staff’s rationale for these recommendations, which builds on the background and analysis in this paper, is included in Agenda Paper 6B.
Appendix A—Tables 1-4

A1. This appendix presents Tables 1-4:

(a) Table 1 provides an overview of select industry classification systems based on their purpose, classification basis, geographic use and hierarchical levels;

(b) Table 2 uses the example of the apparel industry to compare how ISIC, GICS and SICS categorise this industry;

(c) Table 3 demonstrates, through an example, how an entity can use its ANZSIC classification to find compatible classifications in GICS and SICS; and

(d) Table 4 displays how entities with complex or diverse business activities are classified using ISIC, GICS and SICS.
Table 1—Overview of select industry classification systems

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<th>ISIC&lt;sup&gt;a&lt;/sup&gt;</th>
<th>ANZSIC&lt;sup&gt;b&lt;/sup&gt;</th>
<th>JSIC&lt;sup&gt;c&lt;/sup&gt;</th>
<th>NACE&lt;sup&gt;d&lt;/sup&gt;</th>
<th>GICS&lt;sup&gt;e&lt;/sup&gt;</th>
<th>ESRS&lt;sup&gt;f&lt;/sup&gt; (still in development)</th>
<th>SICS</th>
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<td>Collect and report economic data for jurisdictional use</td>
<td>Collect and report economic data for jurisdictional use</td>
<td>Collect and report economic data for jurisdictional use</td>
<td>Financial analysis and other investment purposes</td>
<td>Sustainability-related standard-setting</td>
<td>Sustainability-related standard-setting</td>
</tr>
</tbody>
</table>


### Staff paper

Agenda reference: 6A

<table>
<thead>
<tr>
<th>Classification basis</th>
<th>ISIC(^a)</th>
<th>ANZSIC(^b)</th>
<th>JSIC(^c)</th>
<th>NACE(^d)</th>
<th>GICS(^e)</th>
<th>ESRS(^f) (still in development)</th>
<th>SICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply-side, production activity</td>
<td>Supply-side, production activity</td>
<td>Supply-side, production activity</td>
<td>Supply-side, production activity</td>
<td>Demand-side, industry groupings</td>
<td>Similar sustainability impacts, risks and opportunities based on NACE, industry groupings</td>
<td>Similar sustainability-related risks and opportunities, industry groupings</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Geographic use</th>
<th>ISIC(^a)</th>
<th>ANZSIC(^b)</th>
<th>JSIC(^c)</th>
<th>NACE(^d)</th>
<th>GICS(^e)</th>
<th>ESRS(^f) (still in development)</th>
<th>SICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>International focus</td>
<td>Australia, New Zealand</td>
<td>Japan</td>
<td>EU, Albania, Armenia, Georgia(^g)</td>
<td>International focus</td>
<td>EU</td>
<td>International focus</td>
<td></td>
</tr>
</tbody>
</table>

| Hierarchical Levels | 4 | 4 | 4 | 4 | 4 | To be determined | 2 |

### Staff paper

Agenda reference: 6A

<table>
<thead>
<tr>
<th>ISIC&lt;sup&gt;a&lt;/sup&gt;</th>
<th>ANZSIC&lt;sup&gt;b&lt;/sup&gt;</th>
<th>JSIC&lt;sup&gt;c&lt;/sup&gt;</th>
<th>NACE&lt;sup&gt;d&lt;/sup&gt;</th>
<th>GICS&lt;sup&gt;e&lt;/sup&gt;</th>
<th>ESRS&lt;sup&gt;f&lt;/sup&gt; (still in development)</th>
<th>SICS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Categories in broadest level</strong></td>
<td>21</td>
<td>19</td>
<td>20</td>
<td>21</td>
<td>11</td>
<td>-</td>
</tr>
<tr>
<td><strong>Categories in mid-level 1</strong></td>
<td>88</td>
<td>86</td>
<td>99</td>
<td>88</td>
<td>25</td>
<td>-</td>
</tr>
<tr>
<td><strong>Categories in mid-level 2</strong></td>
<td>238</td>
<td>214</td>
<td>530</td>
<td>272</td>
<td>74</td>
<td>-</td>
</tr>
<tr>
<td><strong>Categories in narrowest level</strong></td>
<td>419</td>
<td>506</td>
<td>1,460</td>
<td>615</td>
<td>163</td>
<td>-</td>
</tr>
</tbody>
</table>
### Table 2—Apparel industry comparison between ISIC, GICS and SICS

<table>
<thead>
<tr>
<th>ISIC Section (broadest level)</th>
<th>ISIC Classes (narrowest level)</th>
<th>GICS Sub-Industries (narrowest level)</th>
<th>SICS Industry (narrowest level)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional, scientific and technical activities</td>
<td>7410 – Specialized design activities</td>
<td>25203010 – Apparel, Accessories &amp; Luxury Goods</td>
<td>Apparel, Accessories &amp; Footwear</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1313 – Finishing of textiles</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1410 – Manufacture of wearing apparel, except fur apparel</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1420 – Manufacture of articles of fur</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1430 – Manufacture of knitted and crocheted apparel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>4641 – Wholesale of textiles, clothing and footwear</td>
<td>25504010 – Apparel Retail</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4771 – Retail sale of clothing, footwear and leather articles in specialized stores</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note:** The table compares the Apparel industry across the International Standard Industrial Classification (ISIC), Global Industry Classification Standard (GICS), and Sustainable Industry Classification System (SICS) frameworks. Each row represents a category or sub-category within the apparel industry, detailing the classification and corresponding industries across these standards.
### Table 3—Compatibility example of ANZSIC to GICS to SICS from the broadest to narrowest hierarchical levels

<table>
<thead>
<tr>
<th>ANZSIC Division (broadest)</th>
<th>ANZSIC Subdivision</th>
<th>ANZSIC Group</th>
<th>ANZSIC Class (narrowest)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>GICS Sector</th>
<th>GICS Industry Group</th>
<th>GICS Industry</th>
<th>GICS Sub-Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 – Consumer Staples</td>
<td>3020 – Food, Beverage &amp; Tobacco</td>
<td>302020 – Food Products</td>
<td>30202030 – Packaged Foods &amp; Meats</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SICS Sector</th>
<th>SICS Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Beverage</td>
<td>Meat, Poultry &amp; Dairy</td>
</tr>
</tbody>
</table>
### Classification comparison of entities with complex or diverse business activities

<table>
<thead>
<tr>
<th>ISIC*</th>
<th>GICS*b</th>
<th>SICS*c</th>
</tr>
</thead>
<tbody>
<tr>
<td>Separate classification for this type of entity</td>
<td>Separate classification for this type of entity</td>
<td>No separate classification for this type of entity</td>
</tr>
<tr>
<td>‘Activities of holding companies’ Class within the ‘Financial and Insurance Activities’ Section</td>
<td>‘Conglomerates’ Sub-Industry (Industrials Sector) or ‘Multi-Sector Holdings’ Sub-Industry (Financials Sector) if active in 3 or more sectors and none provides the majority of its revenues</td>
<td>Subject to an entity’s materiality judgement: refer to and consider the applicability of disclosure topics and metrics in the SASB Standards – more than one SASB Standard may be applicable</td>
</tr>
</tbody>
</table>

* Separate classification for this type of entity

| Otherwise, identify the activity that comprises the ‘principal share of value added’ within each constituent unit using the top-down method (moving from the highest levels of the hierarchy to the lowest) | 

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* IFRS S1 Accompanying Guidance on General requirements for Disclosure of Sustainability-related Financial Information, paragraphs IE9-IE15.