Staff paper

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ISSB Meeting

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Project	**General Sustainability-related Disclosures and Climate-related Disclosures**
Topic	**Scalability**
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Objective

1. Most respondents to the consultation on the exposure drafts IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ([draft] S1) and IFRS S2 *Climate-related Disclosures* ([draft] S2) suggested that the ISSB should give more consideration to the range of capabilities and preparedness of entities around the world to apply the proposals in [draft] S1 and [draft] S2. This paper sets out the staff analysis and recommendations for a set of mechanisms the ISSB could use to address this issue. This set of mechanisms is referred to in this paper as mechanisms for addressing 'scalability'.

2. These scalability mechanisms are intended as a list of options ('mechanisms') the staff can use to inform recommendations to the ISSB in subsequent papers relating to [draft] S1 and [draft] S2. The mechanisms for addressing scalability focus on potential amendments to the proposed requirements in the exposure drafts, as well as identifying and developing materials to assist preparers in application.

3. The mechanisms for addressing scalability are designed to address challenges that affect a subset of preparers: those that are less able to comply with the proposed disclosure requirements in the exposure drafts. We describe this particular aspect of application challenges as addressing 'scalability' (some have also referred to this as proportionality). The reasons why these entities are less able to comply with the proposed requirements may include, but are not limited, to:

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

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

4. The mechanisms in this paper are intended to be one part of the ISSB's response to assisting preparers in applying the standards, focussing on the issue of scalability. This paper does not address the following:

   (a) amendments to the proposed requirements in [draft] S1 and [draft] S2 applying the concepts in this paper – recommended amendments to the exposure drafts will be presented separately to the ISSB in future ISSB meetings as part of redeliberation in the context of relevant topics.

   (b) amendments to the proposed requirements in [draft] S1 and [draft] 2 that may be necessary to address challenges that are *referable across preparers* – there are some challenges, for example information collection from the value chain or providing forward-looking information, that may be challenging across preparers irrespective of their size and level of preparedness. These challenges will be presented, alongside recommendations, to the ISSB in future ISSB meetings as part of the redeliberations in the context of relevant topics.

(c) collaboration with jurisdictions on the adoption of [draft] S1 and [draft] S2 – in addition to any amendments as part of the standard setting, we will work with jurisdictions to provide our thoughts on how to introduce sustainability-related financial disclosure to different types of stakeholders in their jurisdictions.

(d) capacity building – the ISSB (and the IFRS Foundation) may separately consider their role in capacity building to support adoption and implementation of the standards.

5. The paper does not address whether the ISSB should develop separate requirements akin to the SME Standard[1] that the IASB has developed. The staff are not anticipating that the broader strategic question about the need for such a standard will be considered during the redeliberations of [draft] S1 and [draft] S2. However, the scalability mechanisms addressed in this paper and the other initiatives outlined in paragraph 4 will be considered by the ISSB to assist smaller and less well-resourced entities more generally.

6. For completeness, we note that all proposed disclosure requirements in [draft] S1 and [draft] S2 would be subject to materiality judgements. Therefore, any reference to disclosure requirements refers to requirements to disclose information that is material for the entity—in other words, information that if obscured, omitted or misstated could be reasonably expected to influence the decisions that users of general purpose financial reporting make on the basis of that information.

7. This paper should be read in conjunction with Agenda Paper 3A *General Sustainability-related Disclosures—Summary of comments* and Agenda Paper 4A *Climate-related Disclosures—Summary of comments*, which summarises feedback received on [draft] S1 and [draft] S2 respectively.

8. In this paper we:

(a) ask the ISSB whether it wants to explore mechanisms to enable the requirements to be scalable, when scalability has been identified as a challenge;

(b) ask the ISSB for feedback on the proposed mechanisms for addressing scalability; and

(c) ask for the ISSB's feedback on the factors that should be used when evaluating which mechanism could be used for addressing particular scalability challenges.

9. Future papers will include, when relevant, the staff recommendations on which mechanism to use for addressing particular scalability challenges.

Summary of the staff recommendations

10. The staff asks the ISSB for feedback on the proposed mechanisms for addressing scalability, when it has been identified as a challenge. The proposed list includes possible recommendations to the ISSB (when relevant) to:

(a) amend the proposed disclosure requirements so that:

[1] IASB's definition of small and medium-sized entities (SMEs) is defined in paragraph 1.2 of the *IFRS for SMEs* Standard: Small and medium-sized entities are entities that: (a) do not have public accountability; and (b) publish general purpose financial statements for external users.

(i) an entity, based on specific criterion related to scalability, would not be required to provide a particular disclosure (or would be required to provide an alternative disclosure that is simpler to apply) (paragraph 33–39);

(ii) an entity that meets a criterion of being unable to provide a disclosure is required to explain how it meets the criterion (paragraph 40–41);

(b) provide materials to assist preparers in the application of the standards, which includes:

(i) the ISSB providing guidance to support application (paragraph 42–45);

(ii) referring to other sustainability-related protocols, frameworks and guidance as resources for further guidance, measurement methodologies and inputs to calculations to support application (paragraph 46–48); and

(c) amending the proposed disclosure requirements to differentiate the application by entities, by identifying requirements that are 'basic' (in other words, disclosure by all entities is assessed as being possible) and 'advanced' (in other words, the requirement presents challenges for some entities for example, depending on size, geography, industry or capability and capacity) that could be utilised by a jurisdiction *for a transition period* (paragraph 49–59).

11. The staff asks the ISSB for feedback on the factors that should be used when evaluating which scalability mechanisms are appropriate for addressing varied circumstances. The proposed factors are:

(a) whether the scalability challenges are temporary (in other words transitional) or more permanent (for example, due to data availability) (paragraph 74–76);

(b) the extent to which the set of entities with a scalability challenge can be specifically identified (paragraph 77);

(c) the extent of available market guidance, methods, industry-practices and techniques (paragraph 78); and

(d) the maturity of the underlying methods and techniques that underpin the disclosure requirement (paragraph 79–80).

Structure of the paper

12. The paper includes:

(a) a summary of proposals in the exposure drafts (paragraphs 13–17);

(b) a discussion of whether the ISSB should explore mechanisms to enable the requirements to be scalable, where relevant (paragraphs 18–31); and

(c) proposed mechanisms for addressing scalability and factors to be used to evaluate which scalability mechanisms would be appropriate for addressing varied circumstances (paragraphs 32–80).

Summary of the proposals in the exposure drafts

Summary of scalability mechanisms proposed in the exposure drafts

13. Paragraph 22 in [draft] S1 and paragraph 14 and 15 in [draft] S2 propose that entities, based on a criterion of being 'unable to provide a disclosure' entities would provide an alternative disclosure that is simpler to implement

(a) paragraph 22 in [draft] S1 states:

> an entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how sustainability-related risks and opportunities are included in the entity's financial planning. An entity shall disclose quantitative information unless it is unable to do so. If an entity is unable to provide quantitative information, it shall provide qualitative information. When providing quantitative information, an entity can disclose single amounts or a range.

(b) paragraph 14 in [draft] S2 states:

> an entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning. An entity shall disclose quantitative information unless it is unable to do so. If an entity is unable to provide quantitative information, it shall provide qualitative information. When providing quantitative information, an entity can disclose single amounts or a range.

(c) paragraph 15 in [draft] S2 states:

> an entity shall disclose information that enables users of general purpose financial reporting to understand the resilience of the entity's strategy (including its business model) to climate-related changes, developments or uncertainties—taking into consideration an entity's identified significant climate-related risks and opportunities and related uncertainties. The entity shall use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience. When providing quantitative information, an entity can disclose single amounts or a range.

14. In [draft] S2 if an entity is 'unable to provide' the disclosure the entity is required to explain why it was unable disclose such information.

15. Appendix B in [draft] S1 and Appendix C in [draft] S2 furthermore provide transition relief for the first reporting period. These appendices states that:

> an entity is not required to provide the disclosures specified in this [draft] Standard for any period before the date of initial application. Accordingly, comparative information is not required to be disclosed in the first period in which an entity applies this [draft] Standard.

Industry-based disclosures to ease application for preparers

16. Paragraph 53 in [draft] S1 states that in the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk or opportunity, management shall use its judgement in identifying material information to disclose, with four sources of sustainability-related materials highlighted to support preparers. Paragraph 54 in [draft] S1 states:

> in making the judgement described in paragraph 53, management shall consider, to the extent that these do not conflict with an IFRS Sustainability Disclosure Standard, the metrics associated with the disclosure topics included in the industry-based SASB Standards.

17. Arguably this is an example, of scalability as the SASB Standards can assist preparers in identifying which sustainability-related risks and opportunities matter to users of general purpose financial reporting, including specific disclosure requirements. The SASB Standards identify the subset of environmental, social and governance issues most relevant to financial performance and enterprise value for each of 77 industries. The SASB Standards were developed using a rigorous and transparent evidence-based due process.

Should the ISSB explore mechanisms for addressing scalability?

Summary of feedback on the range of capabilities and preparedness of entities around the world to apply the proposals

18. Most respondents to the consultation on the exposure drafts IFRS S1 *General Requirement for Disclosure of Sustainability-related Financial Information* ([draft] S1) and IFRS S2 *Climate-related Disclosures* ([draft] S2) suggested that the ISSB should give more consideration to the range of capabilities and preparedness of entities around the world to apply the proposals in the exposure drafts. Specifically:

    (a) some respondents proposed that disclosures would require significant resources, both in a transition phase (for example, through investments in new systems), and more permanently (for example, investments in human resources), which would be especially challenging for smaller entities and entities in emerging markets.

    (b) many respondents suggested that entities may need more support to apply the standards, including guidance and examples on specific disclosures. This support includes making materiality judgements, identifying significant sustainability-related risks and opportunities, analysing climate resilience and disclosing cross-industry metric categories.

19. Respondents gave some examples of requirements proposed in [draft] S1 and [draft] S2 that would likely be particularly challenging for some entities, including the requirement:

    (a) to disclose forward-looking information, such as the anticipated effects of significant sustainability-related risks and opportunities, including climate-related risks and opportunities, on an entity's financial position, financial performance and cash flows over the short, medium and long term and to use climate-related scenario analysis to assess the entity's climate resilience;

    (b) to disclose Scope 3 GHG emissions;

    (c) to report sustainability-related financial disclosures at the same time as the related financial statements.

20. Respondents also provided suggestions to allow for scalability within the [draft] S1 and [draft] S2, including:

(a) identifying 'core' disclosures that would be required and 'more' disclosures that would be required at a future date;

(b) requirements being phased by type of entity, such as smaller companies not needing to comply with a requirement for a certain number of years;

(c) further examples and guidance to support preparers; and

(d) providing flexible approaches, such as multiple ways, to comply with challenging requirements.

21. Most respondents welcomed how the exposure drafts build on the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations, because the TCFD recommendations are well understood by entities and users of general purpose financial reporting globally, and because these recommendations are mandated in some jurisdictions as well voluntarily adopted by many organisations in other jurisdictions. Respondents suggest that using the TCFD recommendations would ease some entities' adoption of the proposals.

22. Furthermore, many respondents approved of proposals in the exposure drafts building upon the work of the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation, because for entities already applying the CDSB Framework and SASB Standards, the ISSB's use of these Standards may also ease adoption. A few respondents suggested that by using the SASB Standards entities will limit the other material that would need to be considered when identifying and disclosing all significant sustainability-related risks and opportunities.

Summary of feedback on scalability mechanisms in the exposure drafts

23. Most respondents that answered a question related to the mechanism, agreed with the principle that, based on a particular criterion, an entity would either not be required to provide a disclosure or would be required to provide an alternative disclosure that is simpler to implement, as proposed in paragraph 22 in [draft] S1 and paragraph 14 and 15 in [draft] S2.

24. However, some respondents raised concerns about the phrase 'unable to do so'. Specifically:

(a) some respondents noted they would need further clarity to understand what being 'unable to do so' means in practice for entities applying IFRS S1 and IFRS S2.

(b) a few respondents raised a concern that if entities were not required to provide some disclosure requirements (or would provide alternative disclosures) because they were 'unable' to comply, they might never invest in the appropriate systems for collecting or reporting information. These respondents typically emphasised that an entity should be required to explain why it was unable disclose such information.

25. A few respondents raised a concern that the requirement for the entity to explain why it is 'unable' to disclose required information does not go far enough. These respondents requested that the ISSB require an entity to disclose when it is likely to be able to provide required information.

26. Question 14 in the Invitation to Comment in [draft] S2 asked whether some of the disclosure requirements could be applied earlier than others. Many respondents agreed that entities could apply some of the disclosure requirements included in the [draft] S2 earlier than others. Specifically, a few respondents suggested that:

(a) the proposed risk management and some proposed strategy disclosure requirements (those that would require an entity to disclose a description of significant climate-related risks and opportunities over the short, medium and long term), could be applied earlier than other requirements. This is because these requirements form the first steps for an entity to identify and address the sustainability-related risks and opportunities to which it is exposed;

(b) disclosure requirements that are more qualitative in nature, for example, those related to governance and risk management, could be applied earlier than other requirements because they require less investment by entities in systems for collecting and reporting information; and

(c) Scope 1 and Scope 2 GHG emission disclosures could be disclosed earlier, because these disclosures are already widely used.

27. However, some respondents disagreed that some disclosures can be applied earlier, noting that it is the combination of the information that provides users with a holistic understanding of an entity's risk and approach to climate change. In their view all disclosures should be required to be effective at the same time.

The staff analysis

28. Most respondents have noted the range of capabilities and preparedness of entities around the world to apply the proposals, and raised concerns about the consequences of that in the application of the proposals in the exposure drafts as described in paragraphs 18–22.

29. We recommend that the ISSB identify mechanisms to enable the disclosure requirements to be scalable to address challenges particular preparers have from a capability or capacity perspective in applying the requirements —these mechanisms will subsequently be used to inform the staff recommendations in ISSB board papers relating to [draft] S1 and [draft] S2. The staff recommend that such mechanisms be used in order to ensure that the global baseline is truly capable of being applied by a range of entities across the world.

30. By recommending a limited set of mechanisms for addressing scalability, we aim to provide recommendations to the ISBB as part of redeliberation that are *consistent* across [draft] S1 and [draft] S2 and to reduce the complexity of [draft] S1 and [draft] S2. Furthermore, as users of general purpose financial reporting have expressed a need for comparable and consistent sustainability-related financial disclosures, the staff note that it will be important that the ultimate package of disclosure requirements in IFRS S1 and IFRS S2 appropriately balances the need to tailor disclosures to be scalable to support preparers in the application, with the provision of high quality comparable information for users.

31. Depending on the disclosure requirement, different scalability mechanisms may be necessary. In future ISSB papers, the staff may propose one or multiple mechanisms as part of the recommendation to make the disclosure requirement more scalable, when this is appropriate. Paragraphs 73–80 describes the proposed evaluation factors for the staff to identify which scalability mechanism could be used for addressing specific scalability challenges.

Question for the ISSB
Does the ISSB agree that mechanisms should be identified to enable disclosure requirements to be scalable, when relevant?

Possible mechanisms for addressing scalability and evaluation factors to be used

Proposed mechanisms for addressing scalability

32. The proposed mechanisms for addressing scalability include:

    (a) amending the proposed disclosure requirements so that:

        (i) an entity, based on specific criterion related to scalability, would not be required to provide a particular disclosure (or would be required to provide an alternative disclosure that is simpler to apply) (paragraph 33–39);

        (ii) an entity that meets a criterion of being unable to provide a disclosure is required to explain how it meets the criterion (paragraph 40–41);

    (b) providing materials to assist preparers in the application of the standards, which includes:

        (i) the ISSB providing guidance to support application (paragraph 42–45);

        (ii) referring to other sustainability-related protocols, frameworks and guidance as resources for further guidance, measurement methodologies and inputs to calculations to support application (paragraph 46–48); and

    (c) amending the proposed disclosure requirements to differentiate the application by entities, by identifying requirements that are ‘basic’ (in other words, disclosure by all entities is assessed as being possible) and ‘advanced’ (in other words, the requirement presents challenges for some entities for example, depending on size, geography, industry or capability and capacity) that could be utilised by a jurisdiction *for a transition period* (paragraph 49–59).

Amending the proposed disclosure requirements

Amending the proposed disclosure requirements so that an entity, based on a specific criterion related to scalability, would not be required to provide a particular disclosure (or would be required to provide an alternative disclosure that is simpler to apply)

33. The staff recommends that the ISSB considers amending specific disclosure requirements so that entities, based on a particular criterion related to scalability—such as the entity being ‘unable to’ provide a disclosure—would either not be required to provide that disclosure or would be required to provide an alternative disclosure that is simpler to apply. This approach is proposed in paragraph 22 in [draft] S1 and paragraph 14 and 15 in [draft] S2.

34. The advantage of such a mechanism is that the entity determines whether it is has to disclose the required information based on the criterion. In other words, if, for example, the criterion was that an entity would have to be ‘unable to’ provide a specific disclosure, all entities able to disclose the information would be required to do so, and all entities that were ‘unable to’ would not. In addition, over time it is anticipated that if an entity is subsequently able to address its scalability challenge it would be required to provide the preferred, more difficult disclosure, enabling a transition to better quality information.

35. Furthermore, by providing alternative disclosures that are simpler to implement, users of general purpose financial reporting are still able to obtain some of the information that enable the assessment of enterprise value.

36. A mechanism based on whether an entity satisfies criteria, such as an assessment of whether an entity is able to provide the disclosure, is particularly helpful for disclosure requirements when it is difficult to identify which particular ‘type’ of entities would be likely to find the disclosure challenging, or instances where the implementation time varies significantly from entity to entity. It means the ISSB does not need to identify a particular type of qualifying entity (such as by size of entity).

37. One of the challenges with this approach is to identify and clearly define the right criterion to assess scalability. Some respondents to paragraph 22 in [draft] S1 and paragraph 14 and 15 in [draft] S2 noted that further clarity was needed to understand what being ‘unable to do so’ practically means for entities applying the standards.

38. These respondents were not disagreeing with the notion of such criteria but questioned the clarity of the articulation. The staff are of the view that the test of 'unable to do so' is an appropriate criteria to address scalability. However, it is recommended that these words be supported by an additional explanation of when an entity may be unable to provide a disclosure to illustrate the intended meaning, such as when an entity currently is ‘unable to’ obtain the required information or lacks the expertise necessary to undertake analysis required to provide a disclosure.

39. The consequence of an entity being ‘unable’ to provide a particular disclosure could be that an alternative disclosure is required to be provided or that no substitute is required. The staff recommend an alternative disclosure that is simpler to provide be identified and required when possible, in order to meet users of general purpose financial reporting’s information needs.

Amending the proposed disclosure requirements so that an entity that meets a criterion of being unable to provide a disclosure is required to explain how it meets the criterion

40. The staff recommend the ISSB considers that an entity that meets a criterion of being unable to provide a disclosure is required to explain how it meets the criterion. This is consistent with the proposals in paragraph 14 and 15 in the [draft] S2.

41. Providing an explanation is expected to help address the concern raised by some respondents that when an entity determines whether they meet a criterion, they might never invest in the appropriate systems for collecting or reporting information.

Providing materials to assist preparers in the application of the standards

Providing guidance to support application

42. The staff recommends that the ISSB considers providing guidance or examples to assist preparers in the application of IFRS S1 and IFRS S2. As discussed in paragraph 18 (b), respondents suggested that guidance and examples would be needed in relation to specific disclosures. The areas where additional guidance may be needed and the recommended type of guidance or examples would be highlighted in the relevant ISSB board papers.

43. This mechanism has several advantages, such as:

   (a) enabling comparability, because all entities would be required to provide the same disclosures;

   (b) being responsive to evolving practices and techniques; and

   (c) facilitating high-quality and consistent disclosures for all entities.

44. We recommend this mechanism but acknowledge that in some instances just providing guidance would not be the right mechanism, such as when an entity can't provide a disclosure as they do not have the resources to invest and implement systems for information collection and disclosure.

45. Furthermore, when guidance is necessary to assist entities with implementing the appropriate systems to meet the requirements proposed in [draft] S1 and [draft] S2, the staff recommend that such guidance be issued at the same time as, or close to the issuance of the standards. In contrast, some materials such as illustrative examples that are less time critical to implementation could be provided after the ISSB issues IFRS S1 and IFRS S2, to further support entities in the application of these standards.

Referring to other sustainability-related protocols, frameworks and guidance as resources for further guidance, measurement methodologies and inputs to calculations to support application

46. The staff recommends that the ISSB also considers referring to other sustainability-related protocols, frameworks and guidance as resources developed by third parties for further guidance, measurement methodologies and inputs to calculations, either directly as part of the disclosure requirements or as supporting material.

47. The advantage of this scalability mechanism is that it is based on expertise and knowledge that is already available in the sustainability-related disclosure ecosystem. Furthermore, entities may already be using these materials to disclose sustainability-related financial information to users of general purpose financial reporting or for other purposes, which lowers the barriers to adoption. Finally, this is a resource efficient mechanism, which is consistent with the feedback that the ISSB should build on the work of others and continue to move at pace, due to the urgent demand for more consistent and comparable sustainability-related financial information.

48. In some instances, additional references to other sustainability-related protocols, frameworks and guidance, would not be the right mechanism to address scalability. This includes instances when an entity can't provide a disclosure as they do not have the resources to invest and implement systems for information collection and disclosure. Furthermore, the ISSB should consider whether the third-party material referenced should be as at a specific date, to avoid the risk that the sustainability-related protocols, frameworks and guidance would be updated in a way would not be in line with the objectives stated in [draft] S1 and [draft] S2. In addition, consideration will need to be given to the governance and quality of the materials referenced, its international applicability and legal consequences in some jurisdictions of cross-referring to external materials.

Amending the proposed disclosure requirements to differentiate the application by entities by identifying requirements that are 'basic' and 'advanced' for a transition period

49. Finally, the staff recommend that the ISSB considers identifying proposed requirements that are 'basic' (in other words, disclosure by all entities would be assessed as being possible) and more 'advanced' (in other words, the disclosures that may be more complex and/or may require significant investments in technical and human resource systems, which are considered disproportionately challenging to a sub-set of entities), to provide support to jurisdictions implementing IFRS S1 and IFRS S2. This would be done in order to facilitate a phased implementation by entities. The categorisation of 'basic' and 'advanced' are used for illustration of the mechanism, which is to identify categories of disclosures based on complexity. Paragraph 58 describes the staff's recommendation with regards to which, and how many, categories the ISSB should consider.

50. The staff do not recommend that the ISSB set different effective dates for different categories of information (a similar result could be achieved using the 'not able to' mechanism discussed earlier). However, the staff recommend that this approach could be used to facilitate a scalability mechanism to be used by jurisdictions.

51. Identifying ‘basic’ and ‘advanced’ disclosures would enable a jurisdiction to mandate the appropriate level of disclosures, which could vary over time enabling phased implementation, based on the needs of various entities. A jurisdiction could thus choose a basis for addressing scalability in the context of their particular jurisdictional needs effectively establishing criteria for when the ‘basic’ and ‘advanced’ versions are applied.

52. On one hand this could be seen as reducing comparability as, by definition, different entities in different jurisdictions could be applying different disclosures within IFRS S1 and IFRS S2. However, we know that jurisdictions are likely to need mechanisms to enable entities with different characteristics to implement the standards including potentially in a phased manner.

53. The advantage of this mechanism is that comparability across jurisdictions would likely be enhanced relative to what would otherwise be the case because there would be more consistency in which disclosures are mandated for all entities and which disclosures would be mandated for only some entities internationally (in other words, at least the same grouping of disclosures would be considered in different jurisdictions).

54. This mechanism presents a few challenges and risks, including:

    (a) jurisdictions may apply varied criteria when mandating which requirements entities would be required to disclose. An entity in one jurisdiction may be required to disclose different information than that required of another entity with similar characteristics in another jurisdiction.

    (b) ‘basic’ requirements could become the de facto global baseline.

55. As stated in [draft] S1 and [draft] S2, the IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting—providing a comprehensive global baseline of consistent and comparable disclosures for the capital markets.

56. Due to the risk of the more ‘basic’ requirements becoming the de facto global baseline, the staff only recommends this approach be allowed in the standards for a transition period—in other words, only for a limited time. Thus, ultimately the distinction between ‘basic’ and ‘advanced’ disclosures would cease to exist.

57. Furthermore, we recommend that an entity would be required to disclose the ‘version’ of the IFRS S1 and IFRS S2 of the requirements the entity was applying to ensure transparency for users of general purpose financial reporting.

58. If the ISSB agrees with the staff’s recommendation to identify categories of disclosures based on complexity, the staff recommends the ISSB further considers identifying proposed requirements into three categories: 1) qualitative disclosures; 2) simpler quantitative disclosures; and 3) more complex quantitative disclosures. The staff will make a recommendation on which quantitative disclosures are considered ‘simpler’ and ‘more complex’ based on the comment letter feedback, as well as the effects analysis and relevant outreach.

59. Finally, the staff considered whether the ISSB should decide the criteria for which entities apply the ‘basic’ and ‘advanced’ disclosures, and whether doing so would address the risks described in paragraph 54. However, we would not recommend that the ISSB decide the criteria, because it would be challenging for the ISSB to determine criteria that would be relevant to all capital markets globally.

Other mechanisms considered but not recommended

60. The proposed mechanism list excludes these mechanisms, which the staff considered but rejected:

    (a) amending [draft] S1 and [draft] S2 to require companies to make disclosures on a 'comply or explain' basis applicable to the entire standard or specific requirements (paragraph 61–66);

    (b) amending the proposed disclosure requirements so that an entity, based on a criterion that the costs of disclosure would outweigh the benefit, would not be required to provide a particular disclosure (or would be required to provide an alternative disclosure that is simpler to apply) (paragraph 67–69); and

    (c) amending the proposed disclosure requirement to differentiate between the effective date by industries (paragraph 70–72).

Amending [draft] S1 and [draft] S2 to require companies to make disclosures on a 'comply or explain' basis

61. The staff considered whether disclosures in IFRS S1 and IFRS S2 as a whole or in respect of particular identified disclosures, should be provided on a 'comply or explain' basis. In other words, the entities would be required to state whether these disclosures have been provided or provide an explanation if they have not done so.

62. 'Comply or explain' is a mechanism used some jurisdictions today. For example, the FCA introduced new TCFD-aligned climate-related disclosure requirements for premium listed companies that apply on a 'comply or explain' basis to financial years beginning on, or after, 1 January 2021. The FCA's expects that:

    (a) when an entity explains why it has not included some of the required disclosures, it is required to provide full, clear and meaningful explanations. Those explanations are required to be in plain language that is easy to understand, and leave no room for ambiguity; and

    (b) if an entity provides details of any steps it is taking or plans to take to be able to make those disclosures in the future, and the time frame within which it expects to be able to make those disclosures, it should provide sufficient details so that users of general purpose financial reporting can fully understand the nature of the proposed action.

63. One advantage of the 'comply or explain' mechanism is that it is easily understood by preparers and other stakeholders. A few respondents suggested that it might be appropriate for the ISSB to use a 'comply or explain' mechanism—at least for an interim period.

64. The challenge with the 'comply or explain' mechanism is that there is no structured basis for why disclosures would be provided and this could be viewed as a free choice, which ultimately reduces comparability for a user of general purpose financial reporting. This approach could risk reducing comparability for all disclosures, including requirements with which most respondents have expressed agreement.

65. The staff believe that it is preferable to address scalability based on application of specified 'eligibility' criteria, as described in paragraph 33–39 (such as the test of whether an entity is 'able' to provide a disclosure), rather than essentially providing an entity with the choice of disclosing with explanation. Such an approach can address scalability in a manner that supports the best possible quality of disclosure.

66. Therefore, we do not recommend this mechanism; but if the ISSB wants to include the 'comply or explain' mechanism in IFRS S1 and IFRS S2 Standards, the staff would recommend it be introduced

for a specified transition period only. This way, the challenge with comparability is limited to a specified period.

Amending the proposed disclosure requirements so that an entity, based on a criterion that the costs of disclosure would outweigh the benefit, would not be required to provide a particular disclosure (or would be required to provide an alternative disclosure that is simpler to apply)

67. The staff considered a mechanism whereby an entity, based on a criterion that the costs of disclosure would outweigh the benefits, would not be required to provide that disclosure, or would be required to provide an alternative disclosure that is simpler to implement.

68. This is akin to what was proposed by the IASB in *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* in order to simplify the application of accounting policy changes in particular circumstances. The IASB proposed doing so by adding a cost-benefit threshold that would result in simpler application. This would have resulted in entities being required to consider their costs relative to the benefits to users of the financial statements.

69. Feedback on that proposal was mixed and raised doubts about the expected benefits of proceeding with the project. Respondents raised numerous questions and concerns about the proposals, including concerns that the proposals would be challenging and costly to apply as well as difficult to enforce and audit. We have heard similar concerns in meetings with ISSB stakeholders, in particular regulators, that such a mechanism and similar mechanism such as undue cost or effort would be challenging and costly to apply as well as difficult to enforce and audit. On the basis of these meetings and the IASB's past experience, the staff do not recommend this approach.

Amending the proposed disclosure requirement to differentiate between the effective date by industries

70. The staff considered whether a mechanism to address scalability could be to differentiate the effective date by industry. In a sense this approach would be based on the premise that the ability to provide disclosures could vary by industry suggesting that scalability by industry could be effective.

71. The advantage of this mechanism would be that eventually all entities would be required to provide the full 'package' of information once the standards apply to them. Furthermore, this mechanism would address feedback in comment letters and from outreach that some industries have more experience in sustainability-related financial disclosure than other industries. Often, experience with sustainability-related financial disclosure is correlated with the industries that are more exposed to significant sustainability-related risks and opportunities, including climate-related risks and opportunities.

72. Unlike differentiating between the effective date for disclosures, this variation was not consulted on during the consultation period. It can be challenging for the ISSB to determine which industries, if any, should be provided with a longer period of preparation before IFRS S1 and IFRS S2 becomes effective. The staff suggests that the practical challenge of this mechanism including the basis for identifying industries that should be included or excluded within the relief outweigh the advantages.

Evaluation factors for identifying which scalability mechanism could be used to address specific scalability challenges

73. The staff have identified factors they recommend be used when assessing which scalability mechanism to recommend, to ensure that the mechanism is appropriate to the specific scalability challenge and to ensure consistency in our recommendations to the ISSB in future board papers:

(a) whether the scalability challenges are temporary (in other words transitional) or more permanent (for example, due to data availability) (paragraph 74–76);

(b) the extent to which the set of entities with a scalability challenge can be specifically identified (paragraph 77);

(c) the extent of available market guidance, methods, industry-practices and techniques (paragraph 78); and

(d) the maturity of the underlying methods and techniques that underpin the disclosure requirement (paragraph 79–80).

Whether the scalability challenges are temporary or more permanent

74. Some stakeholders' concerns include temporary challenges, such as the time needed to implement new systems and recruit and train employees to collect, measure and report a disclosure. All entities are likely to experience some transition challenges, which should be factored into the ISSB's effective date discussion, but these challenges are likely to be more pronounced for a subset of entities, including smaller entities and entities in emerging markets.

75. Scalability challenges that are likely to be temporary in nature means that over time entities should be able to disclose the same set of information. Therefore, scalability mechanisms that over time result in a requirement for all entities to provide the same disclosure, for example identifying 'basic' and 'advanced' requirements for a transition period, are best suited for addressing these scalability challenges.

76. An example of a mechanism that may be more appropriate for more permanent scalability challenges is to amend the disclosure requirement so that entities, based on a criterion of being unable to provide a disclosure, would not be required to provide that disclosure or would be required to provide an alternative disclosure that is simpler to implement. Once an entity no longer meets the criterion, it would be required to provide the disclosure.

The extent to which the set of entities with a scalability challenge can be specifically identified

77. Often, it can be challenging to segment which entities are likely to face disclosure challenges, or over which period. In these instances, self-selecting mechanisms are likely to be most appropriate. For example, it could be appropriate to consider whether to amend the disclosure requirement so that entities, based on a criterion of being unable to provide a disclosure, would not be required to provide that disclosure or would be required to provide an alternative disclosure that is simpler to implement. In instances where it's easy to segment which entities are likely to face disclosure challenges, an appropriate mechanism to consider is the 'basic' vs 'advanced' disclosures mechanism.

The extent of available market guidance, methods, industry-practices and techniques

78. In some instances, such as climate transition planning and disclosure of climate-related targets, the staff can identify a body of market guidance, methods, industry-practices and techniques that could assist preparers in applying the [draft] S1 and [draft] S2. In these instances, an appropriate mechanism for addressing scalability could be a) to build upon this guidance to provide non-mandatory implementation guidance or b) to refer to the market guidance, methods, industry-practices and techniques as resources for further guidance, measurement methodologies and inputs to calculations.

The maturity of the underlying methods and techniques that underpin the disclosure requirement

79. For some proposed disclosure requirements, the underlying methods and techniques are considered mature and established. In these instances, referring to other sustainability-related protocols, frameworks and guidance as resources would be an appropriate mechanism to address scalability. However, in instances where the underlying methods and techniques are rapidly evolving, these external resources could quickly become outdated. In these instances, the ISSB should consider establishing non-mandatory implementation guidance or provide a later effective date.

80. Smaller entities and entities in emerging economies are likely to find it disproportionality challenging to disclose in areas with rapidly evolving methods and techniques, as changes typically are more resource intensive, and data is likely to be scarcer in some markets. Therefore, the ISSB could consider amending the disclosure requirement so that entities, based on a criterion of being unable to provide a disclosure, would not be required to provide that disclosure or would be required to provide an alternative disclosure that is simpler to implement.

Questions for the ISSB

1. Does the ISSB have any comments or questions on the proposed list of scalability mechanisms identified in paragraphs 32-59? Are any scalability mechanisms more appropriate than others?
2. Does the ISSB agree the staff should use the factors identified in paragraphs 73–80 to assess which scalability mechanisms are appropriate for addressing specific scalability challenges? Are there any other factors the ISSB would like the staff to include in such an analysis?