
IFRS Foundation Trustees meeting – Due Process Oversight Committee

Date **September 2023**
Topic **Development of Educational Material to illustrate interoperability**
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This document is prepared for discussion at a public meeting of the IFRS Foundation Trustees' Due Process Oversight Committee (DPOC). The Trustees are responsible for governance of the IFRS Foundation, oversight of the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB), and for delivery of the IFRS Foundation's objectives as set out in the IFRS Foundation *Constitution*.

Purpose and recommendation

1. This paper:
 - (a) summarises the approach that is being undertaken in developing material to support the interoperability of the ISSB's Standards with other relevant standards. Examples of this include the work on interoperability with European Sustainability Reporting Standards (ESRS) and work in relation to GHG emissions disclosures in the Global Reporting Initiative (GRI) Standards;
 - (b) provides an overview of the anticipated nature of the material being developed; and
 - (c) proposes the due process review procedures appropriate for the publication of such material.
2. The staff recommend that paragraph 10(c) of the IFRS Foundation *Due Process Handbook* (Handbook) apply and the material produced to illustrate interoperability is therefore reviewed by three ISSB members.

Question for the DPOC

Does the DPOC agree that the due process applied to the development of educational material should apply to the development of material to support the interoperability of the ISSB's Standards based on the anticipated nature of the material as outlined in this paper?

Background to development of material to illustrate interoperability

2. Ideally jurisdictions and other standard setters will use the ISSB Standards directly and require incremental disclosures when necessary. However, there are circumstances in which the ISSB Standards are not applied directly but there are common disclosure requirements between the ISSB Standards and other requirements or frameworks. In this case it may be necessary to illustrate the interoperability of the ISSB Standards (in whole or in part) with other materials—this can be helpful for our stakeholders. This paper explains the proposed approach to develop such materials and seeks approval from the DPOC for the related due process when this approach is applied.
3. The ISSB has been engaging with the European Union (the European Commission and the European Financial Reporting Advisory Group (EFRAG)) throughout the development of its first two standards, IFRS S1 and IFRS S2. The European Union started work to establish ESRS before the ISSB was established. Therefore, engaging bilaterally with EFRAG and the European Commission has been important to ensure that the respective standards are 'interoperable' to reduce duplication in preparation and reporting for preparers applying both sets of standards. When the standards are

interoperable it means that a preparer can provide relevant common disclosures in a manner that would enable the requirements of both sets of standards to be met.

4. The ISSB, the European Commission and EFRAG have worked toward a shared objective to maximise the interoperability of their standards, with the initial focus to align on key climate disclosures for which detailed disclosures are contained in the inaugural sets of both standards. This is the practical path forward to assist stakeholders and to navigate what is possible given that the European Union started its work on sustainability disclosures first.
5. The bilateral engagement in detailed technical discussions resulted in adjustments to the drafting of the ISSB Standards and ESRS before their finalisation, including agreeing common definitions in both sets of standards to bring the climate-related disclosures closer together and further reduce the burden of duplicative reporting. The ESRS Delegated Acts were published in July 2023 and alongside that publication the European Commission, EFRAG and the ISSB confirmed a high degree of climate-disclosure alignment between ESRS and the ISSB Standards¹. The ISSB, the European Commission and EFRAG are now working to assist entities who will apply both ESRS and the ISSB Standards, through the development of interoperability guidance material that could be published to assist entities in navigating between the standards.
6. The ISSB and the GRI are also exploring the potential development of interoperability guidance materials between the ISSB Standards and the GRI Standards, for example in mapping the GHG Emissions requirements across both sets of standards. This exploratory work is in line with the MOU between the IFRS Foundation and the GRI.
7. The anticipated interoperability materials are designed to facilitate navigation and understanding and could illustrate:
 - (a) the disclosure choices that enhance the level of alignment between the standards;
 - (b) where there are common disclosure requirements for companies to meet both sets of requirements; and
 - (c) where there are unique disclosures in one set of standards that are not present in the other.
8. As this material is currently under development, the staff are now seeking the DPOC's views on the appropriate due process for the publication of such material on the basis of its proposed nature as set out in this paper.

Role of Educational Material and associated due process

9. The DPOC have decided that the IFRS Foundation *Due Process Handbook* applies to the ISSB's work and as with previous instances of developing the due process for the ISSB, the staff have sought to use existing due process precedent in considering the appropriate due process.
10. The proposed material to assist stakeholders in navigating the interoperability of the ISSB Standards with other relevant standards in effect provides navigation between the requirements set out in the ISSB Standards with the corresponding third-party materials. This is most akin to what the *Handbook* describes as 'Educational Material'. Educational Material refers to material published on the IFRS Foundation website related to issued IFRS Standards, including webcasts, articles, and presentations (ie it does not include any materials relating to ongoing projects).

¹ <https://www.ifrs.org/news-and-events/news/2023/07/european-comission-efrag-issb-confirm-high-degree-of-climate-disclosure-alignment/>

11. Paragraphs 8.8 and 8.9 of the *Handbook* explain that:
- ...Educational material is not part of the Standards and *cannot add or change requirements in the Standards*. The development of educational material does not take place in public meetings and is not subjected to the public scrutiny that is given to the development of IFRS Standards. Nonetheless, educational material is subject to quality assurance processes reflecting the nature and complexity of the material, and to ensure that the material does not add or change requirements in the Standards and is clearly distinguished from the Standards. (*emphasis added*)
12. Paragraph 8.10 of the *Handbook* specifies that to ensure the materials are consistent with the description set out in paragraph 8.9, educational material is subjected to at least the following level of review:
- (a) high-level summaries of the requirements in an IFRS Standard, such as introductory webcasts on a new Standard, are reviewed by a Board member;
 - (b) more detailed materials explaining the requirements in a Standard, such as a webcast on specific aspects of a Standard, are reviewed by two Board members; and
 - (c) material explaining or illustrating how the requirements in a Standard might be applied to particular transactions or other circumstances, such as a new example demonstrating how the requirements might be applied to a particular fact pattern, are reviewed by three Board members.
13. In the staff's view the interoperability material is akin to educational material as described in the *Handbook* because it does not change or add to the requirements in ISSB Standards but maps the ISSB Standards with other relevant standards. Those applying the ISSB Standards would still be required to read and apply the Standards—the interoperability mapping would simply provide a guide to navigate application. The staff think that the proposed material to illustrate the interoperability of the ISSB Standards is most similar to the material described in paragraph 8.10(c) of the *Handbook* (reproduced in paragraph 12(c) of this paper). This is because the material would illustrate how the ISSB Standards interact with relevant standards which is similar to illustrating how the requirements might be applied in a particular fact pattern. Therefore, the staff recommend that paragraph 8.10(c) of the *Handbook* apply and the material produced to illustrate interoperability is reviewed by three ISSB members.