ISSB’s proposed IFRS® Sustainability Disclosure Standards

Mardi McBrien, Managing Director
IFRS Foundation
Agenda

- Background to ISSB & Progress since COP26
- Exposure Draft – General Requirements & Climate
- How to get involved
- Q&A
Our organisation

- Not-for-profit, public interest organisation
- Three-tier governance model
  1. Monitoring Board (oversight)
  2. Trustees (governance & strategy)
  3. IASB + ISSB (standards)
- Extensive, inclusive due process

Our mission

Develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world

IFRS Accounting Standards

Required for use by more than 140 jurisdictions around the world
Consequences of multiple standards

- Myriad requirements (alphabet soup) → Costly and complex reporting
- Multiple, voluntary standards → Difficult to benchmark performance, limits transparency
- Different requirements by different jurisdictions → Limited global consistency or comparability
- Lack of capital market rigour (not mandated, not audited, lack of digital reporting) → Diminished confidence and trust in information
1. **Establish** International Sustainability Standards Board (ISSB)

2. **Consolidate** Climate Disclosure Standards Board and Value Reporting Foundation (IIRC and SASB)

3. **Publish** general disclosure and climate prototypes as a precursor to ISSB proposals (exposure drafts)
ISSB focus

- Develop standards for global baseline of sustainability disclosures and a digital taxonomy to enable electronic tagging of disclosures

- Focus on meeting the information needs of investors

- Will enable companies to provide comprehensive sustainability information for the global capital markets

- Building blocks approach: facilitate the addition of requirements that are jurisdiction-specific or aimed at a broader group of stakeholders
International Sustainability Standards Board

Full complement

Emmanuel Faber  
Chair

Sue Lloyd  
Vice-Chair

+ 6 members

+ 6 members

Quorum
## Significant progress since COP26

<table>
<thead>
<tr>
<th>COP26 announcement</th>
<th>Developments since COP26</th>
<th>Current focus</th>
</tr>
</thead>
</table>
| 1. Establish ISSB  | • Leadership appointments  
|                    |   • Emmanuel Faber (Chair)  
|                    |   • Sue Lloyd (Vice-Chair)  
|                    |   • Janine Guillot (Special Advisor)  
|                    | • Multi-location model  
|                    |   • MoU with Frankfurt, interim office in place  
|                    |   • MOU with Montreal signed  
| 2. Consolidate or align with other initiatives | • CDSB consolidation completed (Jan 2022)  
|                    | • GRI cooperation agreement (MoU) to ensure compatibility between standards  
| 3. Publication of prototypes | • Published proposals for inaugural IFRS Sustainability Disclosure Standards  
|                    | • Preparing for VRF consolidation (June 2022)  
|                    | • Outreach and consultation  
|                    | • Appointments  
|                    |   • Recruiting remaining ISSB members  
|                    | • Multi-location model  
|                    |   • Finalise arrangements for Asia-Oceania presence  
|                    | • Appoint advisory groups  

- Leadership appointments: 
  - Emmanuel Faber (Chair)  
  - Sue Lloyd (Vice-Chair)  
  - Janine Guillot (Special Advisor)  
- Multi-location model: 
  - MoU with Frankfurt, interim office in place  
  - MOU with Montreal signed  
- CDSB consolidation completed (Jan 2022)  
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- Published proposals for inaugural IFRS Sustainability Disclosure Standards  
- Preparing for VRF consolidation (June 2022)  
- Outreach and consultation
Building blocks approach

**Financial reporting (investor focus)**
Reflected in monetary amounts in the financial statements

**Sustainability-related financial disclosures (investor focus)**
Reporting on those sustainability-related matters that may reasonably create or erode enterprise value over the short, medium and long term

**Sustainability reporting (broader multi-stakeholder focus)**
Reporting on all sustainability matters that reflect significant positive or negative impacts on people, the environment and the economy

**IASB (140+ countries)**

**Other GAAP (eg FASB)**

**ISSB**

**Integrated Reporting**
Seeking compatibility between IFRS Sustainability Disclosure Standards and GRI Standards

<table>
<thead>
<tr>
<th>Announcement of intent to collaborate</th>
<th>First step</th>
<th>Future work plan</th>
</tr>
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<tbody>
<tr>
<td>IFRS Foundation and GRI announced Memorandum of Understanding on 24 March 2022</td>
<td>ISSB and GRI join each other’s consultative bodies related to sustainability reporting activities</td>
<td>Align, where possible, terminology, standards structure and metrics, helping to reduce the reporting burden for companies</td>
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ISSB establishes working group to enhance compatibility

Press release 27th April

ISSB establishes working group to enhance compatibility between global baseline and jurisdictional initiatives

The International Sustainability Standards Board (ISSB) today announced the formation of a working group of jurisdictional representatives to establish dialogue for enhanced compatibility between the ISSB’s exposure drafts that are currently open for comment and ongoing jurisdictional initiatives on sustainability disclosures. The formation of the working group is part of an extensive programme of outreach activity designed to encourage feedback on and engagement with the ISSB’s consultation from all jurisdictions and stakeholder groups.

The ISSB’s mission is to deliver a high-quality global baseline of sustainability disclosures, which includes an initial focus on detailed climate requirements. The global baseline addresses the needs of capital market participants around the world and can be directly used on a voluntary basis by market participants or incorporated into jurisdictional mandatory requirements (which might also serve broader public policy or multistakeholder needs). The ISSB will operate in an inclusive manner in this mission.

Members of the working group are:

- the Chinese Ministry of Finance
- the European Commission
- the European Financial Reporting Advisory Group
- the Japanese Financial Services Authority
- the Sustainability Standards Board of Japan Preparation Committee
- the United Kingdom Financial Conduct Authority
- the US Securities and Exchange Commission

“The working group will discuss compatibility of those initiatives to establish how the global baseline can contribute to optimising reporting efficiency for companies in those jurisdictions and how those jurisdictions can build upon the global baseline according to their needs.”
Recognised due process

• ISSB's due process aligned with IASB
  – Limited exception for initial documents with oversight by DPOC
  – Will consider any necessary adjustments in due course

• Process built on three principles
  - Transparency
  - Full and fair consultation
  - Accountability

• Process overseen by IFRS Foundation Trustees
Two proposed IFRS Sustainability Disclosure Standards

1. General Requirements Exposure Draft
2. Climate Exposure Draft
Standards architecture

Focus on investor audience and enterprise value

Governance

Strategy

Risk Management

Metrics and targets

Common thread – four core elements
Taken from TCFD structure

General Requirements Standard

Thematic / cross-industry requirements

Industry-based requirements

Core elements used across IFRS Sustainability Disclosure Standards
# How to report on all risks and opportunities

<table>
<thead>
<tr>
<th>General Requirements [Standard]</th>
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<tbody>
<tr>
<td>A company would be required to disclose material information about all significant sustainability-related risks / opportunities</td>
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</table>

<table>
<thead>
<tr>
<th>Climate [Standard]</th>
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<tbody>
<tr>
<td>A company would apply the relevant IFRS Sustainability Disclosure Standards to identify risks / opportunities and disclosures</td>
</tr>
</tbody>
</table>

## If no specific IFRS Sustainability Disclosure requirements, a company must consider:

<table>
<thead>
<tr>
<th>SASB Standards</th>
<th>CDSB Framework and application guidance</th>
<th>Other standards</th>
<th>Other resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry-based disclosure topics</td>
<td>ISSB’s non-mandatory guidance – e.g. social, water and biodiversity</td>
<td>Those that meet investors’ information needs</td>
<td>Peer company practices (similar industry / geography)</td>
</tr>
</tbody>
</table>

**Illustrative Guidance:** how to use [SASB Standards](#) and [CDSB Framework application guidance](#) to do this
Requires companies to provide material information on all significant sustainability-related risks and opportunities necessary to assess enterprise value.

- Equivalent to IFRS Accounting Standards IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
Core content - consistent with TCFD recommendations

<table>
<thead>
<tr>
<th>Governance</th>
<th>Strategy</th>
<th>Risk management</th>
<th>Metrics and targets</th>
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<tr>
<td>The governance processes, controls and procedures a reporting entity uses to monitor sustainability-related risks and opportunities.</td>
<td>How an entity’s strategy addresses significant sustainability-related risks and opportunities.</td>
<td>How sustainability-related risks are identified, assessed, managed and mitigated.</td>
<td>Information used to manage and monitor the entity’s performance in relation to sustainability-related risks and opportunities over time.</td>
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Information for the capital markets

• Information provided must 'enable an assessment of the effects of sustainability-related risks and opportunities on a company's enterprise value' (the market value of its equity and net debt)

• focus is on **significant** sustainability-related risks and opportunities

• information required includes the impacts of a company on people, the environment and the planet **when** they affect assessments of enterprise value

• requires information that is **material** for a company, i.e. that could reasonably be expected to influence decisions that investors would make (in this case, when assessing enterprise value)
Key features

- Emphasises need for consistency and connections between financial statements and sustainability reporting by requiring companies to
  - explain linkages in information
  - use consistent assumptions when relevant

- Requires financial statements and sustainability disclosures to be published at the same time

- Facilitates application in different jurisdictions by
  - not specifying a particular location for sustainability information
  - allowing additional information to be provided
Climate Exposure Draft

Requirements for disclosure of material information about significant climate-related risks and opportunities

- Incorporates TCFD recommendations
- Includes SASB’s climate-related industry-based requirements
- Requires disclosure of information about:
  - physical risks (e.g., flood risk)
  - transition risks (e.g., regulatory change)
  - climate-related opportunities (e.g., new technology)
Key features

Transition planning
Emissions targets and use of carbon offsets

Climate resilience
Resilience of business strategy in multiple scenarios

Scope 1-3 emissions
Requirement to disclose GHG emissions
How to get involved?
Next steps for the Exposure Drafts

- **31 Mar**: Proposals published
- **Apr-Jul**: Consultation and outreach
- **29 Jul**: Consultation closes
- **Aug-Dec**: Consultation feedback analysis
- **End 2022**: Issue Standards *

Survey

Comment letter

Visit: ifrs.org/projects/open-for-comment/

ISSB deliberations

Refine and finalise Standards

* Dependent on feedback from the consultation
Find us online

ifrs.org
@IFRSFoundation
IFRS Foundation

International Accounting Standards Board

International Sustainability Standards Board
Questions?