



IFRS® Foundation

# ISSB's proposed IFRS® Sustainability Disclosure Standards

AFA & AOSSG  
9<sup>th</sup> June 2022

# Agenda

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Introducing the ISSB

Exposure Draft 1 – General Requirements

Exposure Draft 2 – Climate

Call to action and next steps

# COP26 / ISSB announcement



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

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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

# Building blocks approach

## 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

Jurisdictional initiatives  
and/or GRI

## 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

ISSB

## Financial reporting (investor focus)

Reflected in monetary amounts in the financial statements

IASB (140+  
countries)

Other GAAP  
(eg FASB)

Integrated Reporting

# Seeking compatibility between IFRS Sustainability Disclosure Standards and GRI Standards

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## Announcement of intent to collaborate

IFRS Foundation and GRI announced Memorandum of Understanding on 24 March 2022

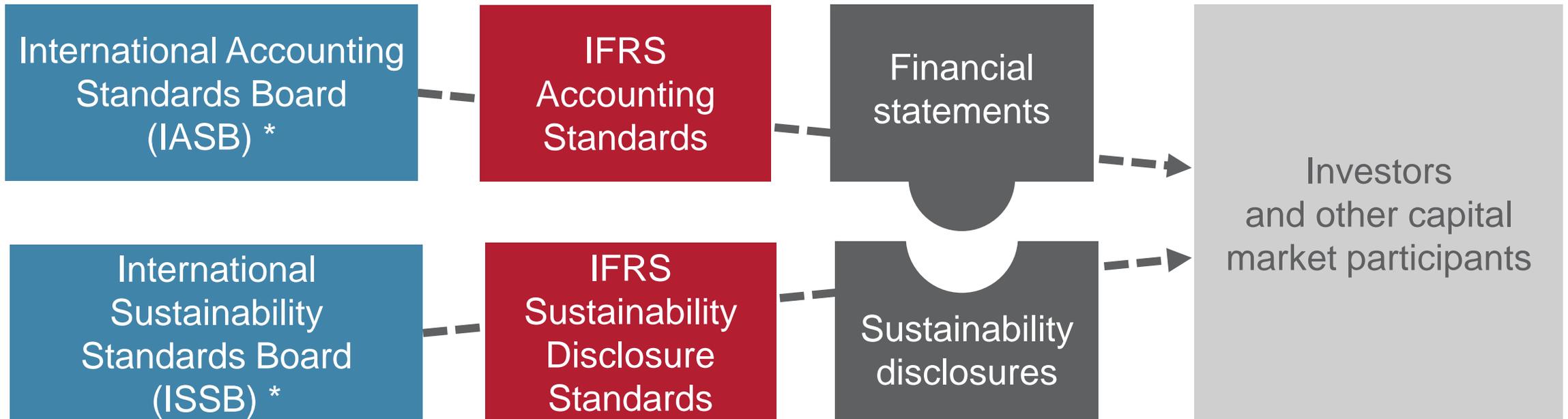
## First step

ISSB and GRI join each other's consultative bodies related to sustainability reporting activities

## Future work plan

Align, where possible, terminology, standards structure and metrics, helping to reduce the reporting burden for companies

# Achieving compatibility between IFRS Accounting Standards & IFRS Sustainability Disclosure Standards



- Integrated Reporting Council to advise IASB and ISSB on connectivity via fundamental concepts / guiding principles of integrated reporting
- IFRS Sustainability Disclosure Standards compatible with IFRS Accounting Standards or other GAAP to meet investor needs

# Driving integration in reporting

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## General Requirements Exposure Draft

- Emphasises consistency and connections between financial statements and sustainability-related reporting
- Proposes that sustainability information be included in general purpose financial reporting—ie as part of the same package of reporting targeted at investors and other providers of financial capital

## Bigger picture

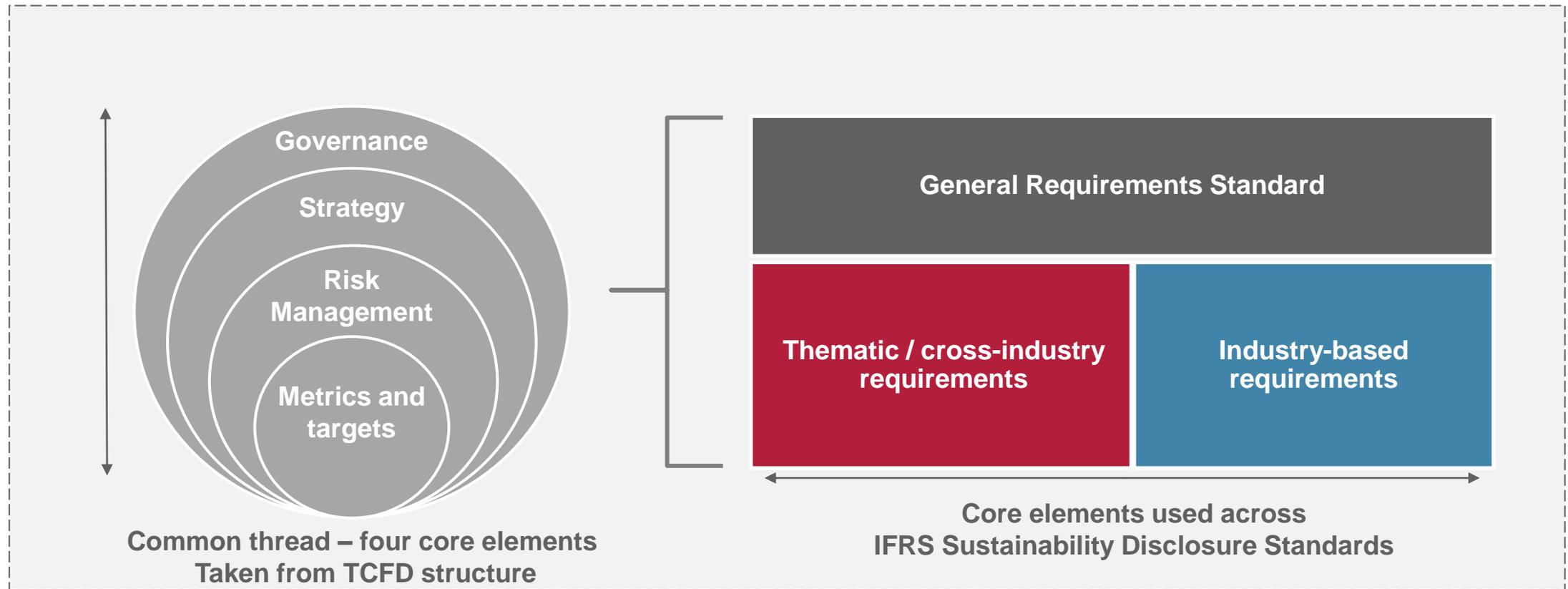
- The IFRS Foundation encourages adoption of the Integrated Reporting Framework
- The Integrated Reporting Framework and the IASB's Management Commentary provide a basis for connecting the reporting required by the IASB and ISSB

# Significant progress since COP26

COP26 announcement	Developments since COP26	Current focus
1. Establish ISSB	<ul style="list-style-type: none"> <li>• <b>Leadership appointments</b> <ul style="list-style-type: none"> <li>• Emmanuel Faber (Chair)</li> <li>• Sue Lloyd (Vice-Chair)</li> <li>• Janine Guillot (Special Advisor)</li> </ul> </li> <li>• <b>Multi-location model</b> <ul style="list-style-type: none"> <li>• MoU with Frankfurt, interim office in place</li> <li>• MoU with Montreal</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Appointments</b> <ul style="list-style-type: none"> <li>• Recruiting remaining ISSB members</li> </ul> </li> <li>• <b>Multi-location model</b> <ul style="list-style-type: none"> <li>• Finalise arrangements for Asia-Oceania presence</li> </ul> </li> <li>• <b>Appoint advisory groups</b></li> </ul>
2. Consolidate or align with other initiatives	<ul style="list-style-type: none"> <li>• <b>CDSB consolidation completed</b> (Jan 2022)</li> <li>• <b>GRI cooperation agreement (MoU)</b></li> <li>• <b>Jurisdictional working group set up</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Preparing for VRF consolidation (June 2022)</b></li> </ul>
3. Publication of prototypes	<ul style="list-style-type: none"> <li>• <b>Published proposals for inaugural IFRS Sustainability Disclosure Standards</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Outreach and consultation</b></li> </ul>

# Standards architecture

Focus on investor audience and enterprise value

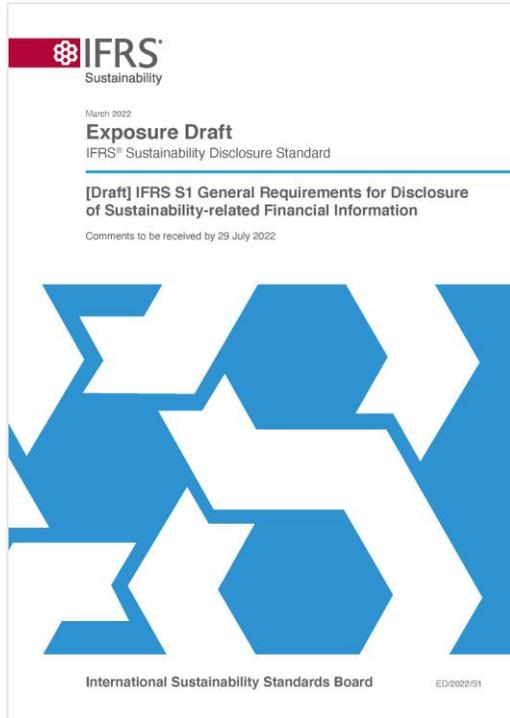




# General Requirements Exposure Draft

# 1

## General Requirements Exposure Draft



Requires companies to provide material information on all significant sustainability-related risks and opportunities necessary to assess enterprise value

- Other IFRS Sustainability Disclosure Standards (eg Climate Standard) set out specific disclosures
- Points to other standards and frameworks in absence of a specific IFRS Sustainability Disclosure Standard
- Equivalent to IFRS Accounting Standards IAS 1 and IAS 8

# Structure consistent with TCFD recommendations

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## Governance

The governance processes, controls and procedures a reporting entity uses to monitor sustainability-related risks and opportunities.

## Strategy

How an entity's strategy addresses significant sustainability-related risks and opportunities.

## Risk management

How sustainability-related risks are identified, assessed, managed and mitigated.

## Metrics and targets

Information used to manage and monitor the entity's performance in relation to sustainability-related risks and opportunities over time.

# Consistency with IFRS Accounting Standards

The Exposure Drafts includes proposals for definitions and requirements that are consistent with the IASB's *Conceptual Framework for Financial Reporting*, *IAS 1 Presentation of Financial Statements* and *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*.

## IFRS Sustainability Disclosure Standards

### Proposed IFRS S1

### Proposed IFRS S2

Other IFRS Sustainability Disclosure Standards  
Industry-based disclosure requirements etc

*IAS 1 Presentation of Financial Statements* defines a complete set of financial statements and *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* provides guidance on the establishment and implementation of accounting policies.

The *General Requirements* Exposure Draft is designed to be the sustainability equivalent of these Standards.

A complete set of sustainability-related financial disclosures presents fairly the sustainability-related risks and opportunities to which a company is exposed that are relevant to its enterprise value. Guidance is provided to enable reporting by a company on all significant sustainability-related risks and opportunities. Climate is addressed in more detail by an IFRS Sustainability Disclosure Standard.

# Key features

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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

# Information for the capital markets

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- 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, ie that could reasonably be expected to influence decisions that investors would make (in this case, when assessing enterprise value)

# How to report on all risks and opportunities

## General Requirements [Standard]

A company would be required to disclose material information about all significant sustainability-related risks / opportunities



## Climate [Standard]

A company would apply the relevant IFRS Sustainability Disclosure Standards to identify risks / opportunities and disclosures



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

SASB Standards	CDSB Framework and application guidance	Other standards	Other resources
Industry-based disclosure topics	ISSB's non-mandatory guidance – eg social, water and biodiversity	Those that meet investors' information needs	Peer company practices (similar industry / geography)

**Illustrative Guidance:** how to use **SASB Standards** and **CDSB Framework application guidance** to do this

# Connected information

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It is proposed that companies provide information that allows investors to assess the connections between **different sustainability-related risks and opportunities** and **between sustainability-related financial information and information in the financial statements**

- When financial data and assumptions are used in sustainability-related financial disclosures, they shall be consistent with the corresponding information provided in the financial statements

Examples:

- A company's supplier has recently been found to have employment practices that fall well short of international norms. The company decides to terminate its contract with that supplier. In its disclosures the company states that it is confident that its new supplier has employment practices that meet the international norms. The decision might also have consequences for the cost of its supplies, and that would also be disclosed.
- A company has a production facility that generates high levels of greenhouse gas (GHG) emissions. The company decides to close the facility. In its disclosures the company explains the financial consequences of that decision: a revised useful economic life of the affected asset and, if relevant, recognition of an impairment expense. The company also discloses that the decision has consequences for the staff who will lose their jobs and for businesses in the local community, because the company assesses that this information affects its reputation.

# Timing of when the material information will be published

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Sustainability-related financial disclosures would be required to be published at the same time as the financial statements.

- Sustainability-related financial disclosures are for the same reporting period as the financial statements
- The proposals do not mandate which entities would be required to disclose interim sustainability-related financial information. However, jurisdictions may require an entity to publish interim reports.
  - This is consistent with the parameters for interim reporting specified in IAS 34 *Interim Financial Reporting*

# Sustainability-related risks and opportunities across an entity's value chain

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- The proposed Standard requires disclosure of material information about sustainability-related risks and opportunities across a company's **value chain** ie 'the full range of activities, resources and relationships related to a reporting entity's business model and the external environment in which it operates'.
- Information about sustainability-related risks and opportunities across value chain relevant to the assessment of enterprise value by investors include activities, resources and relationships:
  - **Within a company's operations**, such as human resources
  - **Along a company's supply, marketing and distribution channels**, such as materials and service sourcing & product and service sales and delivery
  - **The financing, geographical, geopolitical and regulatory environments** in which the company operates

A company would be required to use judgement in identifying **material** information relating to the activities, interactions and relationships and the use of resources across its value chain and determining when it is relevant to assessing enterprise value

# Poll question 1 – General Requirements

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Do you agree with the proposed requirements for an entity to identify and disclose all significant sustainability-related risks and opportunities, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard?

Strongly agree

Agree

Disagree

Strongly disagree

No opinion

## Poll question 2 – General Requirements

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Do you think the proposal to require companies to provide information on connections between various sustainability-related risks & opportunities and their connections to the financial statements would result in the provision of useful information?

Strongly agree

Agree

Disagree

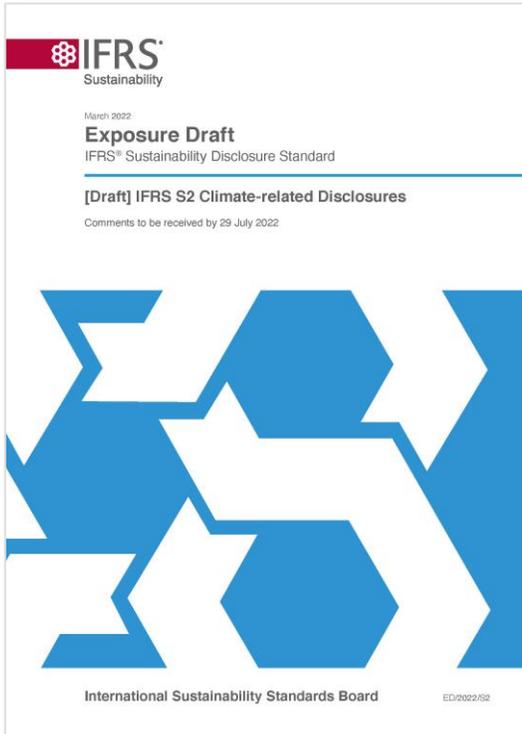
Strongly disagree

No opinion



# Climate Exposure Draft

## 2 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 (eg flood risk)
  - transition risks (eg regulatory change)
  - climate-related opportunities (eg new technology)

# Requires information that enables investors to...

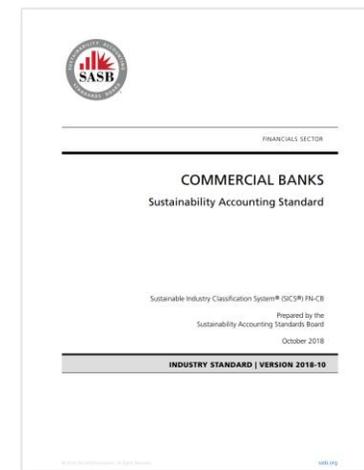
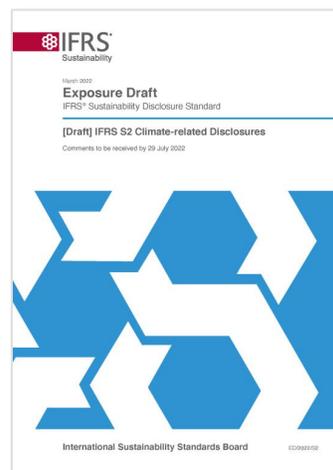
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- determine the effects of climate-related risks and opportunities on the company's enterprise value
- understand the company's response to and strategy for managing its climate-related risks and opportunities
- evaluate the ability of the company to adapt its planning, business model and operations to climate-related risks and opportunities

## Consistent with the General Requirements Exposure Draft

- focus is on significant climate-related risks and opportunities
- information provided must be material for assessments of enterprise value

# Relation to TCFD recommendations and SASB Standards



## Consistent with TCFD

- Governance
- Strategy
- Risk management
- Cross-industry metrics and targets
- Illustrative guidance

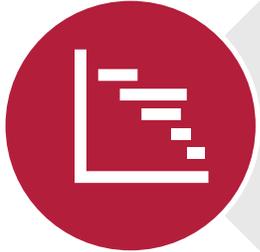


## Builds on SASB Standards

- Industry-based disclosures in Appendix B derived from SASB Standards
- Proposed changes to:
  - Internationalise metrics
  - Add financed emissions disclosures

# Key features

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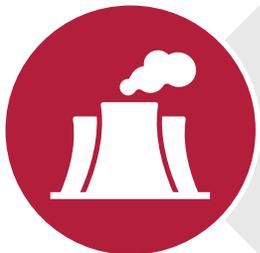
## Transition planning

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

# Governance

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## Proposed Climate Disclosure Requirements



“The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reporting to understand **the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities.**”

# Strategy

## Proposed Climate Disclosure Requirements



“The objective of climate-related financial disclosures on strategy is to enable users of general purpose financial reporting to understand **an entity’s strategy for addressing significant climate-related risks and opportunities.**”

Climate-related risks and opportunities

Business model and value chain

Strategy and decision-making

Financial position, financial performance and cash flows

Climate resilience

# Strategy – Climate-related risks and opportunities

## Proposed Climate Disclosure Requirements



How climate change could reasonably be expected to affect an entity's business model, strategy and cash flows, their access to finance and their cost of capital over the short, medium or long term

### Climate-related risks

#### Physical risks

- Acute – event driven (eg floods, cyclones, hurricanes)
- Chronic – longer-term shifts (eg sea level rise, chronic heatwaves)

#### Transition risks

E.g., policy, technology, reputation

### Climate-related opportunities

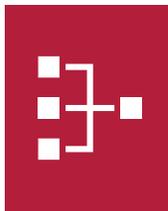
# Strategy – Business model and value chain

## Proposed Climate Disclosure Requirements



Current and anticipated effects of significant climate-related risks and opportunities on an entity's business model

Specifically, a description of:



Current and anticipated effects of significant climate-related risks and opportunities on an **entity's value chain**



**Where** in its value chain significant climate-related risks and opportunities are concentrated

# Strategy – Strategy and decision-making

## Proposed Climate Disclosure Requirements



The effects of significant climate-related risks and opportunities on its strategy and decision-making, including its *transition plans*

### How the entity plans to achieve any climate-related targets

- Current and anticipated changes to the entity's business model
- How these plans will be resourced

### Information regarding climate-related targets for these plans

- The processes in place for review of the targets
- The amount of the entity's emission target to be achieved through emission reductions within the entity's value chain
- The intended use of **carbon offsets** in achieving emissions targets

### Quantitative and qualitative information about the progress of plans

# Strategy – Strategy and decision-making: Carbon offsets

## Proposed Climate Disclosure Requirements



### Information regarding climate-related targets for these plans

- The intended use of **carbon offsets** in achieving emissions targets



In explaining the intended use of carbon offsets, the entity shall disclose:

- the **extent** to which the targets rely on the use of carbon offsets;
- whether the offsets will be subject to a **third-party offset verification or certification scheme**, and if so, which scheme, or schemes
- the **type** of carbon offset, including:
  - whether the offset will be **nature-based or based on technological** carbon removals; and
  - whether the amount intended to be achieved is through **carbon removal or emission avoidance**
- **any other significant factors** necessary for users to understand the credibility and integrity of offsets intended to be used by the entity

# Strategy – Financial position, financial performance and cash flows

## Proposed Climate Disclosure Requirements



The effects of significant climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term:

How significant climate-related risks and opportunities have affected the entity's **most recently reported** financial position, financial performance and cash flows

How the entity expects its **financial position to change over time**, given its strategy to address significant climate-related risks and opportunities

How the entity expects its **financial performance to change over time**, given its strategy to address significant climate-related risks and opportunities

**If the entity is *unable* to disclose quantitative information for the above, an explanation of why that is the case.**

\*When providing quantitative information, an entity can disclose **single amounts or a range**

## Proposed Climate Disclosure Requirements



# Strategy – Climate resilience

The proposals seek to enable users to understand the resilience of the entity's strategy 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 unable to do so, an entity shall explain why and use an alternative method or technique to assess its climate resilience.

An entity's analysis of climate resilience must enable users to understand:

1. The implications (if any) for its strategy
2. The significant areas of uncertainty covered in the analysis
3. The entity's capacity to adjust or adapt its strategy and business model over the short, medium and long term to climate developments

# Strategy – Climate resilience

## Proposed Climate Disclosure Requirements



Climate-related scenario analysis	Alternative method or technique
Which scenarios were used and their sources	Explanation of the methods or techniques used (e.g., sensitivity analysis)
Whether the analysis compared a diverse range of climate-related scenarios	Climate-related assumptions used including whether those include a range of hypothetical outcomes
Whether the scenarios are associated with transition risks or increased physical risks	
Whether the entity has used a scenario aligned with latest international agreement on climate change	
Why the chosen scenarios are relevant to the assessment	Why the chosen climate-related assumptions are relevant to assessing climate resilience
Time horizons used in the analysis	
Inputs used in the analysis (e.g., scope of operations covered)	
Assumptions about the way the transition to a lower-carbon economy will affect the entity	

# Risk management

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## Proposed Climate Disclosure Requirements



“The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reporting to **understand the process, or processes, by which climate-related risks and opportunities are identified, assessed and managed.**”

# Metrics and targets

## Proposed Climate Disclosure Requirements



“The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reporting to understand **how an entity measures, monitors and manages its significant climate-related risks and opportunities**. These disclosures shall enable users to understand how **the entity assesses its performance, including progress towards the targets it has set**”

### Cross-industry metric categories

- Greenhouse gas emissions
- Transition risks
- Physical risks
- Climate-related opportunities
- Capital deployment
- Internal carbon prices
- Remuneration

### Industry-based requirements

In preparing these disclosures, an entity shall consider whether **industry-based metrics** associated with disclosure topics could be used in whole or part to meet the requirements

## Proposed Climate Disclosure Requirements



# Metrics and targets – GHG Emissions



## Greenhouse gas emissions

Absolute gross Scope 1-3 emissions\* and emission intensity for each scope

For **Scope 1-2** emissions disclosed

- Disclose emissions separately for:
  - the consolidated accounting group (the parent and its subsidiaries);
  - associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group
- The approach used to include emissions for the entities includes as associates, joint ventures, unconsolidated subsidiaries or affiliates (for example, the equity share or operational control method in the Greenhouse Gas Protocol Corporate Standard)
- The reason for the choice of approach and how that relates to the disclosure objective for metrics and targets

For **Scope 3** emissions disclosed

- Includes upstream and downstream emissions
- The categories included to enable users to understand which Scope 3 emissions are included, or excluded
- When the entity's measure of Scope 3 emissions includes information provided by entities in its value chain, it shall explain the basis for that measurement
- If the entity excludes those GHG emissions, it shall state the reason for omitting them

\* measured in accordance with the Greenhouse Gas Protocol Corporate Standard

# Metrics and targets – International Applicability

## Proposed Climate Disclosure Requirements



### Context

- The TRWG climate prototype, issued in November 2021, included **341 industry-based disclosure topics and associated performance metrics** sourced from SASB Standards.
- 11% of the metrics exhibited a regional bias that may inhibit application across jurisdictions. This regional bias was found in the underlying technical protocol; not in the core concepts.

### Proposal

- Designed and executed 12 workstreams (technical research and targeted consultation)
- Proposed enhancements to **36 metrics**, e.g.:

	Former	Proposal
Electric Utilities industry: “smart grid technology”	US Energy Independence Act	IEA
Across nine industries: “renewable fuel”	US Renewable Fuel Standard	Generic definition
Across three industries: energy efficiency of products	EnergyStar (US EPA)	Refers to jurisdictional standards

# Metrics and targets – Financed Emissions

## Proposed Climate Disclosure Requirements



### Context

- No explicit GHG emissions disclosure topic and metric(s) exist in the SASB's financials sector industries, despite the need for industry-based disclosure
- Differing, evolving methodologies remain at play
- Small piece of a larger puzzle e.g., portfolio alignment and target setting

### Proposal

- New disclosure topic titled "**Transition Risk Exposure**" in **4 out of 7 industries** in the financials sector.
- A description of the methodology used to calculate financed and facilitated emissions (all 4 industries)

Industry	Metric
<i>Commercial Banking</i>	<ul style="list-style-type: none"><li>• Exposure to carbon related industries</li><li>• Financed emissions (Scope 1, 2 &amp; 3) at industry and asset class level</li></ul>
<i>Insurance</i>	
<i>Investment Banking and Brokerage</i>	<ul style="list-style-type: none"><li>• Facilitated emissions (Scope 1, 2 &amp; 3) by business line and industry</li><li>• Revenue generated by business line and industry</li></ul>
<i>Asset Management and Custody Activities</i>	<ul style="list-style-type: none"><li>• Financed emissions at AUM level</li></ul>

## Poll question 3 – Climate

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Do you agree with the seven proposed cross-industry metric categories (GHG emissions, transition risks, physical risks, climate-related opportunities, capital deployment, internal carbon prices & remuneration) including their applicability across industries and business models?

Strongly agree

Agree

Disagree

Strongly disagree

No opinion

## Poll question 4 – Climate

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The proposed industry-based approach acknowledges that climate-related risks and opportunities tend to manifest differently in relation to an entity's business model. Because the requirements are industry-based, only a subset will apply to a particular entity. Do you agree with the proposed industry-based requirements?

Strongly agree

Agree

Disagree

Strongly disagree

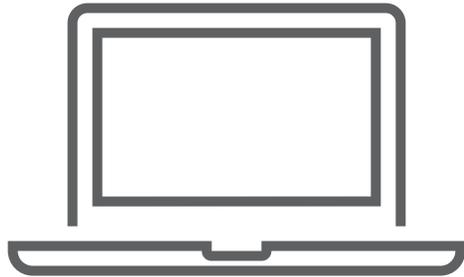
No opinion

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. Additionally, there are dotted lines forming a grid-like pattern across the map, suggesting global connectivity or a network.

# Call to action and next steps

# How to comment on the proposals?

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Survey

or



Comment letter

**Visit:**  
[ifrs.org/projects/open-for-comment/](https://ifrs.org/projects/open-for-comment/)

Comments are published on [ifrs.org](https://ifrs.org)

# Call to action

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Respond to other public consultations by relevant jurisdictions on sustainability disclosures, including those of the US SEC and EFRAG

- SEC climate change disclosures public consultation – **ends 17 June 2022**  
<https://www.sec.gov/news/public-statement/lee-climate-change-disclosures>
- EFRAG ESRS exposure drafts public consultation – **ends 8 August 2022**  
<https://www.efrag.org/lab3>

- **The ISSB builds on technical work previously developed by the market and an architecture widely used by companies**
- **The global baseline approach is strongly supported by international organisations, most notably the G7 and IOSCO**
- **The ISSB aims to ensure its standards are internationally applicable**

# Other technical priorities

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## Taxonomy

Publish Taxonomy proposals to facilitate electronic tagging and presentation of disclosures

## SASB Standards

Improve international applicability of the SASB Standards

Assume responsibility for SASB standards on consolidation of VRF

## Work plan

Public consultation on future agenda, including

- Sustainability-related risks and opportunities the ISSB should prioritise
- Delivery plan for current SASB Standards projects

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