

## IFRS Developments

# IFRS Foundation establishes the International Sustainability Standards Board

### What you need to know

- ▶ The Trustees of the IFRS Foundation have established a sustainability standards board.
- ▶ The ISSB will have offices in the Americas, EMEA and Asia.
- ▶ The exposure draft of the standards focusing on climate and general requirements for sustainability disclosures is expected to be released for comments in the first quarter of 2022.
- ▶ The IFRS Sustainability Disclosure Standards will form a comprehensive global baseline, allowing local jurisdictions to supplement additional requirements as they see fit.
- ▶ The Value Reporting Framework and the Climate Disclosure Standards Board will be consolidated into the ISSB.

### Introduction

The Trustees (the Trustees) of the IFRS Foundation (the Foundation) announced the establishment of the International Sustainability Standards Board (the ISSB) on 3 November 2021, during the Finance Day of the COP26 climate change conference. This followed a proposal on 30 April 2021 to amend the constitution of the Foundation to accommodate the formation and operation of the ISSB.

### Background

The Foundation, which is responsible for setting global accounting standards, has spent more than twelve months deliberating and planning for the establishment of the ISSB. The feedback received from multiple stakeholder consultations on both the need to play a role in sustainability standard setting and on the changes to the constitution gave a clear message - there is a growing demand to improve the global consistency and comparability of sustainability reporting and an urgent need for action.

The Foundation had already set up a Technical Readiness Working Group (TRWG) to lay the groundwork for the new board. The TRWG was established with two objectives: to accelerate convergence in global sustainability reporting standards focused on enterprise value; and to undertake technical preparation for the ISSB under the governance of the Foundation. The TRWG is comprised of representatives from the Taskforce for Climate-related Financial Disclosures (TCFD), the Value Reporting Framework (VRF), the Climate Disclosure Standards Board (CDSB), the World Economic Forum (WEF) and the International Accounting Standards Board (IASB), supported by the International Organization of Securities Commissions (IOSCO) and its Technical Expert Group of securities regulators.

The Foundation has also recognised the urgency to develop global standards on matters related to climate, which has been the primary focus of the TRWG so far. To enable the ISSB to hit the ground running, the TRWG is planning for the appropriate transfer of technical expertise, content and resources, and will provide preparatory work on technical observations and proposals.

## **The formation and locations of the ISSB**

The Trustees are at advanced stages in appointing a Chair and Vice-Chair(s) to the ISSB. The Trustees will shortly begin the search for the additional Board members, up to a full complement of 14 members.

The ISSB will have a global and multi-location presence in the Americas, EMEA and Asia, with planned offices in Frankfurt, Montreal, San Francisco and London. Further discussions will continue with proposals for offices in Beijing and Tokyo.

## **Development of IFRS Sustainability Disclosure Standards**

The standards will be named the IFRS Sustainability Disclosure Standards. The Foundation has set out an ambitious timeline in which they aim to release a first set of draft standards for comment in the first quarter of 2022, and to have a climate-related disclosures standard and a standard on general requirements for sustainability-related financial disclosures ready for use in the second half of 2022. These standards will be based on preparatory work undertaken by the TRWG and will provide the foundation on which the ISSB can base its first exposure draft of proposed standards. This preparatory work is already available on the IFRS Foundation's [website](#) and it includes prototypes of the standards for the ISSB to build further upon. Although it is up to the ISSB as to what it releases for public comment in 2022, the prototypes already provide stakeholders and market participants with a good idea on how to report on sustainability-related risks and opportunities.

Although the ISSB will initially have only one specific standard, dealing with climate-related disclosures, the general disclosure standard will require entities claiming compliance with ISSB standards to disclose all material sustainability-related information. Where no specific standards have been developed by the ISSB (yet), the general standard requires an entity to follow a hierarchy to identify the relevant disclosures, which includes reference to pronouncements of other standard-setting bodies.

Only local jurisdictions can determine whether it will be mandatory for entities to report on IFRS Sustainability Disclosure Standards. The application of the IFRS Sustainability Disclosure Standards is not linked to the application of IFRS accounting standards. So an entity applying IFRS accounting standards for financial reporting purposes is not required to also apply the ISSB standards and vice versa.

## **Interaction with other standard setting and regulatory bodies**

Several organisations with experience in standard setting were already represented on the TRWG. From those organisations, the VRF (which houses the Integrated Reporting Framework and the SASB<sup>1</sup> Standards) and the CDSB will be consolidated into the ISSB. This will further strengthen the ISSB's ability to develop high quality IFRS sustainability disclosure standards. The ISSB will also be governed by the Foundation and it will work closely with the IASB, ensuring connectivity and compatibility between IFRS accounting standards and IFRS sustainability disclosure standards.

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<sup>1</sup> Sustainability Accounting Standards Board

During the Finance Day of the COP26 climate change conference, IOSCO stated that it would act as a vital bridge between the Foundation (a private sector standard-setting organisation) and member authorities which regulate corporate disclosure in their home jurisdictions. IOSCO will do this by independent oversight of the standard setting activity, in its role of chair of the Foundation's Monitoring Board. An IOSCO expert group will also perform an in-depth technical assessment of draft IFRS Sustainability Disclosure Standards.

Furthermore, the ISSB will benefit from a range of expert advice, including guidance from the International Monetary Fund, the Organisation for Economic Co-operation and Development, the World Bank, the United Nations and others.

It is the Foundation's intention that the standards will form a comprehensive global baseline for sustainability-related financial disclosures. They can be used on a standalone basis or integrated into jurisdictional requirements to serve broader stakeholder or other public policy needs.

The ISSB's global presence will enable it to introduce mechanisms to formally engage with jurisdictions developing their own sustainability reporting requirements. To further enable this interaction, the Trustees have formed a working group to create a mechanism for formal engagement on standard-setting between the ISSB and jurisdictional representatives, including those from emerging markets.

## Next steps

The establishment of the ISSB creates a structure intended to deliver high-quality sustainability disclosure standards that will enable preparers to report consistently on matters that affect enterprise value. In the first quarter of 2022, the ISSB will issue exposure drafts on the standards that are to be developed, with prototypes for two standards as prepared by the TRWG having been released already.

### How we see it

Sustainability reporting has attracted increasing interest from various stakeholders in recent years. The establishment of the ISSB is a key step by the Foundation in its role to develop globally accepted sustainability reporting standards, leveraging off its existing structures, due process and significant experience as a global standard-setter.

Sustainability reporting is not a compliance programme - it collects, analyses and interprets data to provide both internal and external stakeholders with useful information on sustainability performance to enable more informed decision-making.

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EYG No. 009569-21Gbl

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