

ISSB publishes first two EDs on sustainability disclosure requirements

What you need to know

- ▶ The ISSB published its first two EDs on IFRS Sustainability Disclosure Standards, namely, *General Requirements for Disclosure of Sustainability-related Financial Information* and *Climate-related Disclosures* for public comment.
- ▶ The comment period for these EDs will end on 29 July 2022. The ISSB intends to redeliberate the EDs in the second half of 2022.
- ▶ The effective date of the standards will be set by the ISSB later in the process.

Introduction

On 31 March 2022, the International Sustainability Standards Board (ISSB or the Board) published its first two exposure drafts (EDs) on IFRS Sustainability Disclosure Standards, namely, *General Requirements for Disclosure of Sustainability-related Financial Information* and *Climate-related Disclosures* for public comment. The comment period for these EDs will end on 29 July 2022.

The ISSB was established by the IFRS Foundation (the Foundation) in November 2021 with the aim to develop, in the public interest, a comprehensive global baseline of sustainability disclosures for the financial markets. The ISSB will have a global and multi-location presence. The Foundation has so far announced the appointment of its Chair and Vice-Chair and is expected to announce the appointment of a further six Board members within the next months.

Background

Prior to the establishment of the ISSB, the Foundation had 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. This preparatory work includes prototypes of the two standards, which form the basis of the EDs. The prototypes were released on the Foundation's website in November 2021, to provide stakeholders and market participants with direction on how to report sustainability-related risks and opportunities. Additional work has been done under the guidance of the ISSB's Chair and Vice-Chair to advance the prototypes and transform them into the two EDs. Each of the EDs includes a number of detailed questions and stakeholders are invited to provide feedback on the matters addressed in them.

Overview of the exposure drafts

General requirements for Disclosure of Sustainability-related Financial Information

The objective of this proposed standard is to require entities to provide all material information about the entity's exposure to sustainability-related risks and opportunities that is useful to users of general purpose financial reporting in making decisions about whether to provide economic resources to the entity.

The proposed standard requires an entity to disclose a complete, neutral and accurate depiction of an entity's significant sustainability risks and opportunities. The proposed standard also provides a definition of materiality, aligned with the *Conceptual Framework for Financial Reporting*, IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In addition, the proposed standard requires a consistent approach for the disclosure of information about significant sustainability-related risks and opportunities built on a consideration of an entity's governance, strategy and risk management and supported by metrics and targets. There are further requirements and guidance that support the provision of comparable and connected information.

An entity is required to refer to the relevant IFRS Sustainability Disclosure Standards in order to identify disclosures, including metrics, about a significant sustainability-related risk or opportunity. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability matter, management is required to use judgement to identify the relevant disclosures. In making this judgement, among others, the metrics associated with the disclosure topics included in the industry-based SASB¹ standards and the most recent pronouncements of other standard-setting bodies should be considered to the extent that they do not conflict with the requirements of an IFRS Sustainability Disclosure Standard. The Board will progress to developing standards for other areas of sustainability over time.

Climate-related disclosures

The objective of the proposed standard is to require entities to provide information about their exposure to climate-related risks and opportunities. The proposed standard sets out the requirements for the identification, measurement and disclosure of climate-related financial information. It also requires an entity to disclose relevant information along the four content pillars as derived from the Recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD):

► Governance

The governance processes, controls and procedures the entity uses to monitor and manage climate-related risks and opportunities

► Strategy

The climate-related risks and opportunities that could enhance, threaten or change the entity's business model and strategy over the short, medium and long term, including:

- Whether and how information about climate-related risks and opportunities informs management's strategy and decision making
- The current and the anticipated effects of climate-related risks and opportunities on its business model
- The effects of climate-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term

¹ Sustainability Accounting Standards Board.

- ▶ The resilience of the entity's strategy (including its businessmodel) to climate-related risks
- ▶ **Risk management**
How climate-related risks are identified, assessed, managed and mitigated by the entity
- ▶ **Metrics and targets**
The metrics and targets used to manage and monitor the entity's performance in relation to climate-related risks and opportunities performance and outcome including measures that support the qualitative disclosures and targets that an entity uses to measure its performance goals. An entity is required to disclose cross-industry as well as industry-specific metrics. In addition, in identifying, selecting and disclosing the metrics, an entity is required to consider the relationship of these amounts with the amounts recognised and disclosed in the accompanying financial statements.

Due process

The ISSB Chair and Vice-Chair used the option provided by the Trustees of the Foundation, in the revised Constitution, to publish the EDs before the ISSB reaches a quorum. This was possible due to the maturity and high quality of the TRWG's preparatory work on the prototype standards and the urgent calls from stakeholders for standards building on established frameworks and requirements, particularly on climate.

This means that the ISSB Chair and the Vice-Chair are able to commence the consultation at an earlier point than when the quorum is reached. However, this is a targeted and temporary provision for these two specific EDs and relates only to the publication and comprehensive public consultation on the EDs. This consultation and all subsequent procedures, including consideration of the feedback and whether re-exposure of the proposals is required, will be undertaken by the ISSB applying a similar due process to the International Accounting Standards Board (the IASB). In essence, this means the quorum of eight board members needs to be available.

The ISSB intends to redeliberate the EDs in the second half of 2022 based on feedback from stakeholders and seeks to issue the resulting IFRS Sustainability Disclosure Standards expeditiously based on these proposals.

Effective date to be set by the ISSB

While the EDs do not propose an effective date for the standards, they propose allowing entities to apply the standards before the effective date to be set by the ISSB. The EDs also propose relief from the requirement to present comparative information in the first year to facilitate timely application of the standards.

Adoption of IFRS Sustainability Disclosure Standards in local jurisdictions

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. Therefore, an entity applying IFRS Accounting Standards for financial reporting purposes is currently not required to also apply the IFRS Sustainability Disclosure Standards and vice versa.

How we see it

We very much welcome the work of the IFRS Foundation and its ISSB to create a global set of standards for sustainability disclosures. These EDs represent the first public consultation undertaken by the ISSB since its establishment. Feedback from stakeholders will help ensure that the final standards are of high quality in order to achieve their intended objectives. Stakeholders are encouraged to comment on these EDs by the due date of 29 July 2022.

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ED None

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