ISSB

Meeting Summary

September 2022

This is a compilation of the summary available on IAS Plus at:
https://www.iasplus.com/en/meeting-notes/issb/2022/september/
The meeting agenda and all of the staff papers are available on the ISSB website:
https://www.ifrs.org/news-and-events/calendar/2022/september/international-sustainability-standards-board/

Overview

The ISSB met in Frankfurt on 20-23 September 2022. The following topics were discussed:

General Sustainability-related Disclosures—Summary of Comments

The ISSB received over 700 comment letters and/or surveys. Almost all respondents supported the ISSB's overall aim to develop a comprehensive global baseline of sustainability-related financial disclosures for the capital markets. However, many respondents asked for greater clarity, support, guidance and examples to enable effective application of the ED IFRS S1. Many respondents also suggested that the ISSB should give more consideration to the range of capabilities and preparedness of entities around the world, especially for smaller entities and entities in emerging markets, to apply IFRS S1. Many respondents emphasised the importance of close collaboration with the IASB and the importance of improving understandability, connectivity and consistency by using shared definitions and concepts across IFRS Sustainability Disclosures Standards and IFRS Accounting Standards. In addition, many respondents observed that key differences in concepts, terminologies, and definitions remain between the ISSB's proposals and jurisdictional initiatives. They emphasised the importance for the ISSB to work together with jurisdictions, including Europe and the United States, in developing a global baseline of sustainability-related financial disclosures.

Climate-related Disclosures—Summary of Comments

The ISSB received comment letters and survey responses from nearly 700 respondents. The proposals in the ED were generally well-received, in particular by users of general purpose financial reporting, who expressed strong agreement with the proposed objective and the specific proposals. While there was broad support for IFRS S2, many respondents also asked for greater support, guidance and examples to enable effective application of the proposals.

Plan for redeliberations

Noting that there has been widespread support for the proposed requirements in the EDs, the staff suggested focusing on a limited number of topics for redeliberations, which are for joint topics relevant to both EDs: scalability, and current and anticipated effects of sustainability-related and climate-related risks and opportunities. For IFRS S1: enterprise value; breadth of reporting required; 'significant' sustainability-related risk or opportunity; identifying significant sustainability-related risks and opportunities and disclosures; application of the materiality assessment; connected information; and frequency of reporting. For IFRS S2: strategy and decision-making, including transition planning; climate resilience; greenhouse gas emissions; and industry-based requirements, including financed and facilitated emissions.

Scalability

Most respondents to the consultation suggested that the ISSB should give more consideration to the range of capabilities and preparedness of entities around the world to apply the proposals in the EDs. At this meeting, the ISSB members were asked (i) whether they want to explore mechanisms to enable the requirements to be scalable, (ii) for feedback on the proposed mechanisms for addressing scalability and (iii) for feedback on the factors that should be used when evaluating which mechanism could be used for addressing particular scalability challenges.

Climate-related Disclosures—Financed and Facilitated Emissions

The ED IFRS S2 proposed the addition of “transition risks exposure” as a disclosure topic in the industry-based disclosure requirements for four industries–commercial banks, investment banking and brokerage, asset management and custody activities and insurance. The staff thinks the ISSB will need to consider in its future redeliberations the scope of the proposals, data considerations, industry breakdown, complexity and requests for increased flexibility.

IASB Update—developing the IASB’s future work programme

In the presentation, the staff outlined a breakdown of the IASB’s activities, its projects, key messages from the IASB’s agenda consultation and financial reporting issues added to the IASB’s work plan. The staff also provided a closer look at the IASB projects on Intangible Assets, Climate-related Risks in the Financial Statements and Management Commentary.

ISSB discussions

As this was a meeting to discuss feedback the ISSB was not asked to make any decisions. The summary meeting notes capture the main reflections of the ISSB members. Importantly, the ISSB supported the proposed redeliberation plan. The ISSB will start to discuss specific issues in October.

General Sustainability-related Disclosures—Summary of Comments

Summary of comments (Agenda Paper 3A)

The comment period for ED IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* closed on 29 July 2022. Over 700 respondents from a range of stakeholder types and geographies submitted comment letters and/or surveys. This suggests significant and widespread interest across the global capital markets in the ED.

Almost all respondents supported the ISSB’s overall aim to develop a comprehensive global baseline of sustainability-related financial disclosures for the capital markets. However, many respondents asked for greater clarity, support, guidance and examples to enable effective application of the ED IFRS S1. Many respondents also suggested that the ISSB should give more consideration to the range of capabilities and preparedness of entities around the world, especially for smaller entities and entities in emerging markets, to apply IFRS S1.

At the same time, many respondents emphasised the importance of close collaboration with the International Accounting Standards Board (IASB) and the importance of improving understandability, connectivity and consistency by using shared definitions and concepts across IFRS Sustainability Disclosures Standards and IFRS Accounting Standards. In addition, many respondents observed key differences in concepts, terminologies, and definitions remain between the ISSB's proposals and jurisdictional initiatives and they emphasised the importance for the ISSB to work together with jurisdictions, including Europe and the United States, in developing a global baseline of sustainability-related financial disclosures.

Except for the above comments, key comments from respondents for each questions are stated below:

- Overall approach—Most respondents asked for greater clarity on (i) the scope of and the process for identifying significant sustainability-related risks and opportunities and disclosures and (ii) the definition and meaning of terms and concepts used in the ED, including sustainability, siginificant, sustainability-related financial information, sustainability-related risks and opportunities, and enterprise value. Many respondents also provided feedback on aspects of the ED that may prove challenging for auditors and regulators regarding the completeness and accuracy of information disclosed
- Objective—Similar to 'Overall approach'
- Scope—Most respondents agreed that IFRS S1 could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP and/or using IFRS Accounting Standards. Many respondents also suggested that the ISSB should provide guidance for preparers on how to navigate any potential differences
- Core content—Many respondents suggested that IFRS S1 should contain generic requirements that need not be duplicated in other specific IFRS Sustainability Disclosure Standards. Many respondents suggested expanding the requirements on how sustainability-related risks and opportunities are managed from a governance perspective to be more explicit and more detailed and asked for clarification on the time horizons applicable to the short, medium and long term. Some respondents also asked for greater clarity on the type of disclosures that require entities to describe how their financial position and financial performance are expected to change over time and queried the meaning of "unable to do so". At the same time, almost all respondents suggested that the ISSB considers how metrics and targets would be used where measures are at an early stage of development and data availability and quality varies
- Reporting entity— Many respondents asked for clarification on the information required on sustainability-related risks and opportunities arising from an entity's associates and joint venturesMost respondents said that the scope of reporting on value chain activities could be very broad, and without further guidance this requirement could produce disclosures of widely varying scope. Many preparers also said that it would be difficult and potentially costly to report on activities in their value chain that they do not control
- Connected information—Many respondents commented on the challenges associated with the practical application of the proposed requirements and would welcome further illustrative guidance and examples. Many preparers also asked for greater clarity on determining what constitutes sufficiently connected information
- Fair presentation—No major comments.
- Materiality—Many respondents anticipated challenges associated with the application of materiality in the context of sustainability-related financial information and requested further guidance. Most respondents suggested that without further clarification and guidance, there could be varying and

subjective interpretations made by preparers to assess the breadth of sustainability-related risks and opportunities relevant to an entity's enterprise value

- Frequency of reporting—Most respondents agreed but expected challenges on the proposal that sustainability-related financial disclosures be provided for the same period as the financial statements. Some respondents suggested a staggered approach which could include different reporting periods or a delay in the disclosure of sustainability-related information or time-bound transitional arrangements to the effective date of the proposed requirements on the timing of reporting
- Location of information—Many respondents said that the proposed requirements on location may create potential challenges and suggested that the ISSB should be clearer on the preferred location of information, whilst not mandating this to allow for jurisdictional flexibility. Many respondents also said that reporting in different locations with incorporation by cross-reference should be encouraged as it is cost effective for preparers, allows preparers to adapt to jurisdictional requirements, and reduces reporting duplication
- Comparative information, sources of estimation and outcome uncertainty, and errors—Many respondents referred to the complexities and onerous administrative burdens of restating estimated information for previous periods and either objected to or invited the ISSB to reconsider the requirement to restate and/or update estimated information
- Statement of compliance—Many respondents recommended that the ISSB consider expanding the statement of compliance to require entities to include their rationale for non-compliance in instances in which local law or regulation was prohibiting them from disclosing particular information
- Effective date—Most respondents suggested an effective date of two or more years and commented on the importance of allowing sufficient time to comply with the proposed requirements. Most respondents also suggested that the ISSB considers a phased approach to the effective date, meaning requiring some parts of the proposals to come into effect before others or different types of entities to apply the requirements at different times
- Global baseline—No major comments
- Digital reporting—No major comments
- Costs, benefits and likely effects—Almost all preparers said that the costs of implementing the proposals were likely to be substantial, citing the costs of developing and implementing systems for reporting and internal controls on data, which would be new for many preparers. Many preparers also expressed concerns about potentially high ongoing application costs. Many respondents expressed that implementation costs were likely to be lower if the ISSB could facilitate the interoperability of its proposals with jurisdictional initiatives
- Any other comments—Many respondents commented on the upcoming ISSB consultation on agenda priorities and the expected development of future standards, most of which called for standards on additional sustainability-related risks and opportunities, including broader environmental and social matters. Many respondents raised concerns about confidentiality, commercially sensitive information, and litigation risk

At this meeting, the ISSB members were not asked to make any decisions but they were asked to comment on any feedback that is unclear, that provides new information, or that needs further research.

ISSB discussion

- ISSB members agreed that clarification on interpretation and illustrative guidance/examples should be provided for preparers to better understand how to apply IFRS S1. The ISSB staff indicated that questions commonly asked by stakeholders included but were not limited to "significant", "material", "enterprise value", "value chain" and "unable to do so"

- Frequency of reporting should be clarified in IFRS S1
- One ISSB member emphasised that reporting entities may face challenges in relation to investments in different aspects, e.g. data collection and human resources, in order to comply with the requirements
- One ISSB member expected stakeholders would request a reduced disclosure framework limited to entities under the control of the reporting entity. The ISSB staff then confirmed that although only a few respondents explicitly suggested to limit the scope for those entities, many preparers also expressed concern on the scope of disclosures on their value chain activities. The ISSB Vice-Chair confirmed that the ISSB staff will further work on how to capture the activities within the value chain and the related practical issues on collecting relevant data
- One ISSB member asked for more information on the comments for connected information. The ISSB staff elaborated that there were various reponses including connectivity with management commentary and connected information between different sustainability risks and opportunties and financial statements
- One ISSB member questioned whether the comments indicated how the respondents identified sustainability risks and opportnities, for example, whether they used the SASB standards. The ISSB staff stated that IFRS S1 clearly refers to other standards or guidance, including SASB Standards, but admitted that some stakeholders may be less familiar with SASB Standards and raised further concerns for the use of SASB Standards
- One ISSB member commented that litigation risk was not well addressed within the entire IFRS S1 and the ISSB staff admited they have received a number of comments in this area as well
- The ISSB Vice Chair acknowledged the different treatment for changes in estimate in relation to comparative information between IAS 8 and IFRS S1 and reiterated that it was intentionally drafted in such way. She would like to underdstand what are the investors' views on this and whether such restatement of comparative information is most useful for the readers
- There were concerns from smaller entities and entities in emerging markets for meeting the globlal baseline requirements which will be further discussed in the "Scalability" (Agenda Paper 3C & 4C) session. A few ISSB members expressed their concerns on the appropriate weighting for the feedback received from smaller entities and entities from emerging markets and also whether the comments in the staff paper reflected the majority views from those entities. The ISSB Vice Chair acknowledged this issue and the ISSB Staff will try their best to address it

Climate-related Disclosures—Summary of Comments

Summary of comments (Agenda Paper 4A)

The comment period for the Exposure Draft (ED) IFRS S2 *Climate-related Disclosure* ended on 29 July 2022. The ISSB received comment letters and survey responses from nearly 700 respondents on the ED.

This paper summarised the feedback received from these respondents by each question included in the ED.

Key themes the staff has identified arising from the feedback are:

- Robust stakeholder response—The stakeholder response to the ED was robust in terms of the volume (nearly 700) and the diversity of the respondents. The respondents represented a range of stakeholder types and geographies. The strong response rate suggests significant and widespread interest across the global capital markets in IFRS S2. While preparers of climate-related financial disclosure represented the single largest stakeholder type that provided feedback, the number of responses from users of general purpose financial reporting was high relative to commonly observed response rates to consultations from other standard-setters

- Broad support for the proposals—The proposals in the ED were generally well-received, in particular by users of general purpose financial reporting, who expressed strong agreement with the proposed objective and the specific proposals. While there was broad support for IFRS S2, many respondents also asked for greater support, guidance and examples to enable effective application of the proposals
- Mixed views on certain aspects of the proposals—Most respondents agreed that most of the proposals would result in disclosures that enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on an entity's enterprise value. While almost all respondents agreed with the proposals on governance, strategy, risks management and the cross-industry metric categories and targets, views were mixed on specific proposals, including those relating to Scope 3 greenhouse gas emissions, the use of scenario analysis and the industry-based requirements
- Emphasis on the scalability of the proposals—While respondents generally expressed agreement with most of the proposals, most respondents also raised concerns about the range of capabilities and preparedness of entities around the world to apply some of the proposals in the ED. Most respondents noted that some disclosures will require significant resources, both in a transition phase and on an ongoing basis and also that there was a need for more illustrative examples and guidance on specific requirements to aid application

ISSB discussion

One ISSB member commented that sometimes interpreting comments could be difficult but it would be very good if the staff and the ISSB could understand whether the feedback received relate to a concern for items that would not apply to an entity (e.g. because it is not material) versus a concern related to the aspects of the standards that would apply to an entity, which he said was a huge differentiation in terms of redeliberations.

Noting a few respondents had suggested that Appendix B should be non-mandatory requirements due to concerns that respondents may have had insufficient time to engage with the material given the volume, he asked the staff how comfortable they were with the quality of feedback on Appendix B. The staff replied with caution that this point alone would not necessarily mean that the quality of feedback on Appendix B was not good.

One ISSB member asked the staff whether for both preparers and users the staff had a sense of experiences those had with TCFD and whether there was any learning from that. The staff replied that while it was difficult to give an overview in that respect, it was clear that the fact the proposals were built on TCFD was highly valued, which also affected the responses to an effective date. The staff also said that financial industries, especially large financial services firms and large firms in developed parts of the world have more experiences with TCFD.

With respect to industry-based metrics, while noting that there was mixed feedback on the proposals relating to these metrics, the Vice-Chair asked whether there was a support for the concept of industry-specific disclosures itself. She suggested that as the ISSB moves forward with redeliberations of this topic, it would be very important to understand whether it is the concept of industry-specific disclosures that stakeholders disagree with, or the content of Appendix B to IFRS S2. She also observed that the feedback on this matter was different depending on jurisdictions. The staff replied that there was broad support for the concept and the mixed feedback was on specific implementation of the concept in the Appendix B to IFRS S2. The staff also agreed with the Vice-Chair's observation and commented that mixed feedback had been received from the Asia-Oceania regions, including Japan, China and Australia.

One ISSB member asked whether the statement that "only some investors agreed" with the proposed disclosure relating to financed emissions associated with total asset under management meant that many other investors disagreed with such proposals or it was simply that most investor respondents had not commented on it. Another ISSB member asked whether the investors mentioned represented users of information or preparers of sustainability-related disclosure. The staff replied to the first question that the comment summary was based on the responses that had answered particular questions so it is not to say that many investors disagreed with the proposals. As for the second question, the staff suggested the staff would look at more granular breakdown during a redeliberation phase.

With respect to cost-benefit aspects of the proposals, one ISSB member observed that the feedback summarised in this aspect did not seem specific to the proposals in IFRS S2. The staff said that its observations were consistent, except for the feedback to the effect that IFRS S2 implementations would reduce the risk that fragmented jurisdictional disclosure requirements will increase complexity for preparers and users of information.

Another ISSB member asked the staff what the banking sector represented, which was mentioned in the context of respondents who commented that IFRS S2 would entail substantial costs and investments for banks. He also asked whether the comment that costs associated with industry-based requirements would be significant was due to the proposals added to the SASB requirements (i.e. financed and facilitated emissions). The staff replied that the banking sector in this case represented lenders rather than the financial sector more broadly and to the second question that that could be a reason.

On the question relating to verifiability, the Vice-Chair noted that some respondents had said that proposed requirements relating to scenario analysis and anticipated effects of climate-related risks and opportunities could be difficult to verify because of their prospective nature and levels of uncertainty. She commented that such feedback could be interpreted as relating to assurances of whether information provided is correct but that that was not what was meant here so she suggested that the ISSB should keep that in mind during redeliberations.

No decisions were made at this meeting.

General Sustainability-related Disclosures and Climate-related Disclosures

Plan for redeliberations (Agenda Paper 3B & 4B)

This paper discussed the proposed plan for redeliberating the Exposure Drafts (EDs) IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosure*.

The staff considered the following five main factors in deciding how to approach redeliberations:

- Timeliness and maintaining momentum
- Leveraging existing sustainability-related frameworks and standards
- Linkages between topics
- Future work plan
- Efficiency

Considering the factors above, the staff's proposed approach to redeliberations involves assessing feedback on the EDs, establishing the scope of topics for redeliberations and establishing the approach on topics for redeliberations.

The staff proposed different approaches for redeliberations, depending on the complexity of the matters subject to redeliberations. In cases in which a matter is less complex, the staff suggests bringing analysis and recommendations in a single meeting. In contrast, in cases in which a matter is more complex, the staff suggests initially seeking a general direction from the ISSB and then bringing a paper in line with the direction to discus and facilitate a decision.

Noting that there has been widespread support for the proposed requirements in the EDs, the staff suggests focusing on a limited number of topics for redeliberations, which are:

For joint topics relevant to both EDs:

- Scalability
- Current and anticipated effects of sustainability-related and climate-related risks and opportunities

For IFRS S1 topics:

- Enterprise value
- Breadth of reporting required
- 'Significant' sustainability-related risk or opportunity
- Identifying significant sustainability-related risks and opportunities and disclosures
- Application of the materiality assessment
- Connected information
- Frequency of reporting

For IFRS S2 topics:

- Strategy and decision-making, including transition planning
- Climate resilience
- Greenhouse gas emissions
- Industry-based requirements, including financed and facilitated emissions

The ISSB was asked to confirm the list of topics for redeliberations.

ISSB discussion

The ISSB members spent the first half of the meeting discussing the factors in deciding how to approach redeliberations and the general approach to the redeliberations that were described in the agenda paper.

Before starting the discussion, the Vice-Chair made a comment that while it is very unusual for the ISSB to discuss redeliberation plans right after the comment deadline, it is very important to do so to get direction as quickly as possible to build on the momentum that many stakeholders said matters.

Many ISSB members appreciated the staff putting together redeliberation plans in a timely manner and they agreed that the factors the staff considered in deciding how to approach redeliberations were very important.

On the aspect of future work plan, one of the factors considered by the staff, one ISSB member asked the staff what the staff meant by saying there may be instances when the staff recommends that the ISSB make a decision with an understanding that a topic should be considered as part of the development of its work plan. The staff clarified that the staff would not want the ISSB to simply view the redeliberations for IFRS S1 and S2 in isolation from the development and they may possibly lead to adding projects to the ISSB’s future work plan.

On the aspect of leveraging existing sustainability-related frameworks and standards, the Vice-Chair emphasised that considerations of this factor are not to say that the ISSB does not worry too much about the feedback that the ISSB received on these related topics, but instead that the ISSB has the benefit of some more understanding from experiences based on existing frameworks and standards.

One ISSB member asked whether the staff considered which of the 13 topics to prioritise. Discussions on this question by the staff and other ISSB members indicated that the staff had considered prioritisation of the topics when coming up with those topics. This was done by, for example, focusing more on topics where stakeholders provided new or emphasised different information than what was relied on in determining the proposals in the exposure draft. One ISSB member commented that the topics that are relevant to both IFRS S1 and S2 should be prioritised.

Another ISSB member asked if the ISSB were to develop any educational materials such as guidance and/or illustrative examples, and whether they would come out at the same time as the finalised requirements. The staff suggested that the ISSB has flexibility so that would not necessarily be the case. The ISSB could choose to first focus on materials that the stakeholders considered important based on the feedback received.

The ISSB members then spent the second half of the meeting discussing the topics for redeliberations proposed by the staff.

Many ISSB members, including the Chair and the Vice-Chair appreciated and supported the list of the topics for redeliberations.

No ISSB member, except the Vice-Chair, suggested topics for redeliberations other than those already included in the agenda paper. Considering the comments received and the results of outreach, the Vice-Chair said that proposals around comparative information having to reflect updated estimates were a good topic to discuss further. While the staff replied that it could be addressed as a drafting process, the Vice-Chair said it would require more than a refinement during the drafting process.

While agreeing with the list of topics for redeliberations proposed by the staff, one ISSB member asked the staff how the ISSB will consider other topics that are not included in the list but that still received useful and constructive comments from stakeholders for further improvement of the proposals. The Vice-Chair suggested that like the IASB does, the staff should prepare an agenda paper including a list of those comments along with a brief staff analysis and recommendations so that the ISSB has a chance to consider them.

The Chair asked what the staff meant by alternatives in the agenda paper, in which strategy and decision-making and targets in the context of IFRS S2 proposals are discussed. He specifically asked whether they were alternatives to the substance of the proposals. The staff clarified that this topic received supportive feedback in general so the intent was not to look at the topic broadly but to focus on those questions and confusion described in the agenda paper.

ISSB decision

All of the 10 ISSB members confirmed the list of topics for redeliberations that was included in the agenda paper.

Scalability (Agenda Paper 3C & 4C)

Most respondents to the consultation on the exposure drafts (EDs) IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* suggested that the ISSB should give more consideration to the range of capabilities and preparedness of entities around the world to apply the proposals in the EDs. Some respondents proposed that disclosures would require significant resources, both in a transition phase and more permanently, which would be especially challenging for smaller entities and entities in emerging markets. Respondents gave some examples of requirements proposed in the EDs that would likely be particularly challenging for some entities, including the requirements to disclose forward-looking information and Scope 3 greenhouse gas (GHG) emissions, as well as, the requirement to report sustainability-related financial disclosures at the same time as the related financial statements.

A list of options (mechanisms) as set out below is used by the ISSB staff to inform recommendations to the ISSB members in subsequent papers relating to the EDs. The paper does not address whether the ISSB should develop separate requirements akin to the *IFRS for SMEs* Accounting Standard that the International

Accounting Standards Board (IASB) has developed. The mechanisms for addressing scalability are designed to address challenges that affect a subset of preparers: those that are less able to comply with the proposed disclosure requirements in the EDs, for example, entities which are more resource constrained and entities operating in a market where high-quality external data is less available or where it is more challenging to attract the human resources and talent needed to comply with the EDs.

The proposed disclosure requirements could be amended:

- So that an entity, based on a specific criterion related to scalability, would not be required to provide a particular disclosure—such as, the entity being unable to provide a disclosure would either not be required to provide that disclosure or would be required to provide an alternative disclosure that is simpler to apply. Additional explanation of when an entity may be unable to provide a disclosure should be made to illustrate the intended meaning, such as when an entity currently is 'unable to' obtain the required information or lacks the expertise necessary to undertake analysis required to provide a disclosure
- So that an entity that meets on of the criteria of being unable to provide a disclosure is required to explain how it meets the criterion
- To differentiate the application by entities by identifying requirements that are 'basic' and 'advanced' for a transition period—in order to facilitate a phased implementation by entities. The staff do not recommend that the ISSB set different effective dates for different categories of information. However, the staff recommend that this approach could be used to facilitate a scalability mechanism to be used by jurisdictions

Providing materials to assist preparers in the application of the standards

- Providing guidance to support application—This would enable comparability, enhance responsiveness to evolving practices and techniques and facilitate high-quality and consistent disclosures for all entities
- Referring to other sustainability-related protocols, frameworks and guidance as further resources—This would be a resource efficient mechanism

Other mechanisms considered but not recommended

- Amending the EDs to require companies to make disclosures on a 'comply or explain' basis applicable to the entire standard or specific requirements
- Amending the proposed disclosure requirements so that an entity, based on the criterion that the costs of disclosure would outweigh the benefit, would not be required to provide a particular disclosure
- Amending the proposed disclosure requirements to differentiate between the effective date by industries

The staff have also identified factors they recommend to be used when assessing which scalability mechanism to recommend, to ensure that the mechanism is appropriate to the specific scalability challenge and to ensure consistency in their recommendations to the ISSB in future agenda papers:

- Whether the scalability challenges are temporary or more permanent
- The extent to which the set of entities with a scalability challenge can be specifically identified
- The extent of available market guidance, methods, industry-practices and techniques
- The maturity of the underlying methods and techniques that underpin the disclosure requirement

At this meeting, the ISSB members were asked (i) whether they want to explore mechanisms to enable the requirements to be scalable, (ii) for feedback on the proposed mechanisms for addressing scalability and (iii) for feedback on the factors that should be used when evaluating which mechanism could be used for addressing particular scalability challenges.

ISSB discussion

Two ISSB members showed strong support for the paper and considered it is the appropriate direction.

One ISSB member emphasised the importance of a global baseline and consistency among all reporting entities' disclosures and, therefore, the objective for this session should only be to reduce the variation and to increase the comparability among all reporting entities' disclosure. The ISSB Vice-Chair explained that these mechanisms focused more on the long-term constraints and the alternative disclosures would still provide good quality of disclosures that investors need. The ISSB would like to take the lead in considering the scalability, rather than allowing different approaches adopted by different jurisdictions. In addition, the phased implementation suggested in the paper would help reporting entities achieve the ultimate set of high quality disclosures gradually.

One ISSB member suggested that the paper should clearly state the composition of preparers, including those that are less able to comply with the proposed disclosure requirements in the EDs. These are not limited to smaller entities and entities in emerging markets only. The ISSB Vice-Chair agreed that there could be other circumstances in which entities are less able to comply with the proposed disclosure requirements, even among large companies, for example if they have specific restrictions. She believed these mechanisms can address these different circumstances and different reporting entities.

One ISSB member asked whether the concept of "basic" and "advanced" requirements would create two sets of the global baseline. The ISSB staff agreed that the "basic" requirements could become the de facto global baseline and therefore the ISSB staff would suggest these requirements be limited to reporting entities meeting certain criteria for a transition period only.

The ISSB Chair emphasised that it is the management's judgement to interpret the "unable to do so" exemption. It would be an entity-specific judgement made by the management and, if used, disclosure for the underlying reasons should be made. The ISSB Vice-Chair further suggested that it would be worthwhile to provide some examples explaining what are not valid reasons that would qualify as "unable to do so".

At the end of the meeting, all ISSB members agreed that the ISSB staff should use this paper for their further analysis.

Climate-related Disclosures—Financed and Facilitated Emissions

Financed and Facilitated Emissions (Agenda Paper 4D)

The Exposure Draft (ED) IFRS S2 *Climate-related Disclosure* proposed the addition of "Transition Risks Exposure" as a disclosure topic in the industry-based disclosure requirements for four industries–commercial banks, investment banking and brokerage, asset management and custody activities and insurance. The ED proposed to require entities in these industries to disclose several metrics relating to financed and facilitated emissions. The absolute greenhouse gas emissions that financial institutions finance through their loans and investments are often referred to as financed emissions and facilitated emissions has been applied to describe other off-balance-sheet activities performed by financial institutions, such as underwriting, securitisation and advisory services.

This paper provided a high-level summary of the feedback received on the proposals related to financed and facilitated emissions, described the matters that the staff thinks the ISSB may need to consider in its redeliberations and discussed the staff's preliminary proposed approach to redeliberations.

The matters the staff thinks the ISSB may need to consider in its future redeliberations include:

Scope of the proposals:

- Objective, description, and name of the proposed disclosure topic
- Asset management and custody activities—Financed emissions as a total of assets under management
- Investment banking and brokerage—Facilitated emissions

Data considerations:

- Timing of underlying data
- Inclusion of Scope 3 emissions in financed and facilitated emissions ("Scope 3 of Scope 3")

Industry breakdown:

- Carbon-related industries
- Use of Global Industry Classification System
- Emissions intensity—defining units of measure

Complexity:

- Derivatives
- Use of risk mitigants

Requests for increased flexibility:

- Prescription of calculation methodology
- Effective date of the financed and facilitated emissions disclosures

The ISSB was not asked to make any decisions at this meeting, but it was asked to provide input on the staff's proposed approach.

ISSB discussion

At the beginning of the discussion, the Vice-Chair and the staff clarified that one of the purposes of this meeting is to get input from ISSB members that could help the staff steer future discussions in terms of what the ISSB should do in response to the feedback received.

Referring to the graph of breakdown by region of respondses in the agenda paper, one ISSB member asked why the number of reponses was high in Europe relative to other regions. The staff replied that in cases where an industry body provided a response, it was counted as one in the graph. However, in reality there are many entities beloging to that industry body. The staff said that much of the input, including from outreach activities, was from other regions outside of Europe.

With respect to the scope of the proposals, the Vice-Chair observed that there are two aspects of transition risks related to entities in financial sector. One aspect is potential impacts on the credit risk of loans that an entity advances to its counterparty, which can be affected as the counterparty changes its business model in transitioning to lower-carbon economy. The other aspect is that financial instituions are subject to reputational risks and customer preferences. The Vice-Chair and other ISSB members said that it was very critical to understand which aspect of the transition risks the ISSB tries to address when the ISSB redeliberates the proposals.

One ISSB member said that the proposals on financed and facilitated emissions are only a part of the industry-based metrics disclosure requirements for entities in the financial sector and that when redeliberating, the ISSB should be mindful of other disclosure required for these entities in addition to those relating to financed and facilitated emissions.

The Chair suggested that the standards should be clear as to what falls into financed emissions and what falls into facilitated emissions, especially when different disclosure is required for different types of emissions.

With respect to the proposals relating to asset management and custody activities, one ISSB member noted that the propsed metric would not require a breakdown by asset class, sector or strategy. He also noted that some respondents said that a breakdown by portfolio or strategy would be more useful and suggested that the staff consider how the proposals can lead to more useful information by potentially including a further breakdown.

With respect to the topic on data consideration, one ISSB member suggested the staff to consider providing an exemption to entities regarding disclosure stemming from transactions in which a structured entity is involved. The Chair commented that there is not much substance in the notion of "scope 3 of scope 3" and that in his experience most of the funding from financial institutions to a counterparty ends up in scope 3 of that counterparty and not in scope 1 or scope 2. Accordingly, it is not compelling for him that financial institutions would only look at scope 1 and scope 2 of their couterparty. While another ISSB member agreed with the Chair's comments from a conceptual standapoint, he suggested that the ISSB should be aware of practical challenges in providing "scope 3 of scope 3" information with high quality. The Vice-Chair suggested that when the ISSB redeliberates, it would be helpful for the ISSB to consider the issue from a conceptual standpoint separately from a practical standpoint.

With regard to the topic on complexity, one ISSB member noted responses relating to proposals on facilitated emissions and derivatives were similar, in a sense that calculating methodologies related to these are too nascent, but that the staff took a different stance in terms of its proposed actions towards these concerns. The staff explained that the staff had observed that banks disclosed information relating to facilitated emissions now and that this topic came up often during the consultation process whereas with regard to derivatives many industry bodies the staff reached out to said that it was too early. The Vice-Chair suggested when the ISSB considers a way forward for derivatives, it should not be based on whether the disclosure practice around derivatives is new or not, and instead it should be based on what information would be useful regarding derivatives keeping in mind the two aspects of transition risks she mentioned at the beginning of the discussion.

No decisions were made at this meeting.

IASB Update

Developing the IASB's future work programme (Agenda Paper 5)

This agenda paper was a presentation.

In the presentation, the IASB Chair outlined:

- A breakdown of the IASB's activities
- The IASB's projects and which phases they are in
- Key messages obtained from the IASB's agenda consultation
- Financial reporting issues added to the IASB's work plan
- A closer look at the following IASB projects:
    - Intangible Assets
    - Climate-related Risks in the Financial Statements project
    - Management Commentary

ISSB discussion

The IASB Chair led through the presentation.

One ISSB member asked about the link between sustainability-related disclosures and the IASB's project on extractive activities. The IASB Chair replied that one IASB member suggested to provide a stronger link for entities in the extractives industry to sustainability-related disclosures. However, the risk is that this could put undue emphasis on the extractive sector which might be interpreted as these disclosures not being relevant to other industries. The IASB staff was asked to find a balance in this regard. The ISSB member asked whether the IASB would look into guidance on reserve accounting to which the IASB Chair replied that the IASB would only look at the exploration and evaluation phase. Industry has already developed in that regard and users do not seem to ask for more information than already provided.

The ISSB Chair asked how decisions made by management which would be disclosed under the governance pillar in IFRS S1 affect financial statements, for example the commitment to a net zero strategy. The IASB Chair replied that there are high hurdles as to when a statement becomes a constructive obligation that requires recognition of a liability in the financial statements. For example, restructuring plans need to meet certain criteria before they are recognised as a liability under IAS 37.

One ISSB member asked about how information about intangible assets can be provided if they are not recognised as an asset. The IASB Chair replied that this could be solved by way of disclosure. He said that, for example, entities could be made to disclose expenses that are investments but that do not meet the criteria for recognition as an asset.

The ISSB Vice-Chair noted that ISSB standards and IASB standards will not be that different as they are both capturing activity, rather than industries. However, given ISSB standards are only requiring disclosures, there is a difference in approach when developing them.

One ISSB member asked why the IASB are restricting themselves to climate-related impacts on financial statements and not include wider sustainability impacts. The IASB Chair replied that climate was the predominant concern of IASB stakeholders, which does not mean that in the future there may be other sustainability-related projects.

The ISSB member also asked if integrated thinking played a role in preparation of financial statements. The IASB Chair confirmed that and said that integrated thinking reminds him of the balanced scorecard which is a concept used by accountants. It also means to look at items holistically and not only from an accounting perspective. He said that the management commentary could be a starting point for implementing integrated thinking into the preparation of financial statements.

The IASB Chair also noted that guidance on climate-related impacts on financial statements would not be continuously updated as the ISSB publishes guidance. It will be principles-based guidance that should be able to be applied to different circumstances. However, it should be ensured that the boards are not sending conflicting messages.

One ISSB member asked how ISSB guidance can be implemented into management commentary. The IASB Chair replied that the project is still ongoing and the feedback showed that there is demand for action. The IASB staff already integrated some of the principles of TCFD and the TRWG prototypes into management commentary so it should be easier to link with ISSB.

No decisions were made.