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Meeting Summary

October 2022

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The meeting agenda and all of the staff papers are available on the ISSB website:
https://www.ifrs.org/news-and-events/calendar/2022/october/international-sustainability-standards-board/

Overview

The ISSB met in Montreal from 18-21 October. The following topics were discussed:

Consultation on Agenda Priorities

The staff previously stated the ISSB's intention to publish the RFI in Q4 of 2022. Due to the need to strongly emphasise foundational activities—and the importance of IFRS S1 and IFRS S2—the staff now expect to publish an RFI in the first half of 2023. The ISSB supported focusing on the work to build on the foundation established by IFRS S1 and IFRS S2, once finalised, and new research and standard-setting for stakeholder input to inform the IASB's decisions on the future work plan.

General Sustainability-related Disclosures

This was the first decision-making session of the ISSB in relation to the exposure drafts (EDs). The IASB confirmed that information is provided to meet the information needs of the primary users of general purpose financial reporting who are "existing and potential investors, lenders and other creditors", in alignment with the IASB's *Conceptual Framework* and decided to remove "enterprise value" from the objective and from the definition of materiality which would create alignment with the IASB's *Conceptual Framework* but not fundamentally change the focus of the required disclosures. Additional resources and language would clarify the concept of enterprise value and the scope of sustainability-related financial information required. The ISSB also decided to introduce a requirement to disclose the process of identifying and disclosing material information and/or materiality judgments and decided not to use the term "significant".

Climate-related Disclosures

The ISSB confirmed the requirements for an entity to disclose: its absolute gross Scope 1 and Scope 2 greenhouse gas (GHG) emissions generated during the reporting period, including separate disclosure for the consolidated accounting group and unconsolidated investees; and its Scope 3 GHG emissions, considering the 15 Scope 3 GHG emissions categories described in the *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard.* The ISSB will consider ways to help entities meet the Scope 3 disclosure requirements, such as deferring the effective date for this disclosure or developing additional guidance. The ISSB decided to proceed with the proposal that entities use the GHG Protocol Corporate Standard. However, entities that have been using a different measurement method would be permitted to do so during a transition period, or while a jurisdiction requires use of that other method.

General Sustainability-related Disclosures and Climate-related Disclosures

The ISSB decided to make some drafting changes that the staff think would improve the interoperability with proposals published in Europe and the US. The ISSB confirmed the use of the TCFD pillars for structuring the core content in IFRS S1 and IFRS S2 and confirm the meaning of the global baseline. In addition to the recommendations in the other papers, the ISSB decided to confirm that time horizons not be defined for short, medium and long term; that disclosures be required about the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period (i.e. the current effects); that disclosures are not required to be reported separately for physical risks, transition risks and climate-related opportunities; that separate disclosures be required about assets subject to physical and transition risks and climate-related opportunities, in the form of metrics; the disclosures proposed in relation to climate resilience; to add a requirement to disclose whether and how an entity uses climate-related scenario analysis to inform the identification of climate-related risks and opportunities; and use the term "carbon credit" instead of "carbon offset".

Industry-based Materials

The ISSB will begin alignment around the strategy for integrating industry-based materials into IFRS Sustainability Disclosure Standards, including the role of the SASB Standards in [draft] IFRS S1, the industry-based requirements in Appendix B of [draft] IFRS S2, improving the international applicability of the SASB Standards, the ISSB's upcoming consultation on agenda priorities and advancing SASB projects inherited by the ISSB. All ISSB members supported that IFRS S2 should maintain the requirement that entities provide industry-specific disclosures. They also supported that the ISSB classify the content in Appendix B as illustrative examples, while stating the intention to make Appendix B mandatory in the future, subject to further consultation.

Consultation on Agenda Priorities

Update on Planned Approach (Agenda Paper 2)

This paper provided the ISSB with an update on the planned approach to and timing of its consultation on agenda priorities and the publication of a request for information (RFI).

The ISSB was not asked to make any decisions in this session. However, ISSB members had the opportunity to provide their thoughts and feedback on the planned approach which will inform a subsequent discussion with the ISSB at a later decision-making meeting.

Recommended approach

The staff recommended that the RFI:

- Outlines the work to build on the foundation established by IFRS S1 and IFRS S2, once finalised
- Sets out proposals for new research and standard-setting for stakeholder input to inform the board's decisions on the future work plan

These two primary categories of work set out above are broadly aligned with the two aspects of the ISSB's 'strategic balance' discussed at the July 2022 ISSB meeting, i.e. 'advancing and enhancing existing materials' and 'developing new materials.' Based on clear feedback from the ISSB and stakeholders, the staff recommends that the ISSB initially devote a majority of its resources to work meant to build on the foundation established by IFRS S1 and IFRS S2, which may limit the ISSB's capacity to add a significant number of new research and standard-setting projects in its initial two-year work plan.

Recommended timeline

The staff previously stated the ISSB's intention to publish the RFI in the Q4 of 2022. Due to the need to strongly emphasise foundational activities—and the importance of IFRS S1 and IFRS S2 in that context—the staff will propose a timeline for the RFI that allows for significant re-deliberations on [draft] IFRS S1 and [draft] IFRS S2. These deliberations might affect the work plan (e.g. decisions on Appendix B of [draft] IFRS S2). Thus, the RFI can more appropriately reflect what is—and what is not—included in IFRS S1 and IFRS S2, as well as any ISSB decisions on other key aspects relevant to the foundational work (e.g. the role of industry-based materials). The staff expectation is that this would result in the publication of the RFI in the first half of 2023.

ISSB discussion

The Chair highlighted the integral nature of interoperability to the ISSB's mission and recommended that interoperability matters are part of the fundamental agenda going forward.

Several ISSB members made comments and suggestions surrounding the additional work related to continuing research and outreach to identify and assess IFRS S2 for areas of enhancement outlined in the agenda paper (i.e. materials to support capacity building, core concept and digital taxonomy). One ISSB member commented that this additional research may take longer than the two-year timeline due to the complex nature of climate change. Other ISSB members added that it is important to consider whether prioritising additional research on climate related topics over other areas is aligned with public/user interest. Further, ISSB members highlighted the need for IFRS S2 to adequately capture climate-related risks and opportunities, thus they questioned whether these additional topics should be considered within IFRS S2 or as a future off-shoot of the standard.

One ISSB member raised the importance of recognising that 'capacity building' needs to enable emerging countries and SMEs to be able to have an accelerated timeline in adopting IFRS S1 and IFRS S2. Another ISSB member added that it will be important to build out what 'capacity building' encompasses in terms of strengthening implementation guidance. However, the majority of ISSB members agreed that supporting the adoption, application and usefulness of IFRS S1 and IFRS S2 were foundational to the ISSB's work.

One ISSB member suggested that the focus on building the foundation established by IFRS S1 and IFRS S2 will limit the capacity of the ISSB to add a significant number of new research and standard setting projects within the two-year work plan; being clear about this language will ensure the public is not disillusioned about the capacity of the ISSB.

The ISSB members all voted in agreement with the recommended approach following the below two primary categories of work:

- Outline the work to build on the foundation established by IFRS S1 and IFRS S2, once finalised
- Set out proposals for new research and standard-setting for stakeholder input to inform the board's decisions on the future work plan

The members then voted on whether they agreed that the following should be included in the foundation:

- Work to make the SASB standards more internationally applicable—all members voted in favour
- Work to support the adoption, application, and usefulness of IFRS S1 and IFRS S2—all members voted in favour, with the caveat that the definition of capacity building needs to be further considered
- Work to present a coherent and comprehensive system of disclosures, performed in coordination with the IASB and other bodies—all members voted in favour
- Continuing research and outreach to identify areas of enhancement to IFRS S2—11 out of 14 members voted in favour of additional research and outreach, with the caveat that this research is subject to specific targeting

In relation to the proposed timeline to publish the RFI within the first half of 2023, the majority of ISSB members were in favour of this timeline extension. The Chair commented that it is important to be mindful of the resources that the ISSB has available when considering the feasibility of timelines. An ISSB member added that the staff should consider efficient ways to gather feedback that would simplify the overall process.

A number of ISSB members made comments related to the inclusion of corporate governance in the preliminary list of subject matters identified in the July meeting. The Chair commented that the ISSB needs to be mindful of what specific areas of corporate governance it needs to prioritise. An ISSB member added that governance over environmental and social issues would already be included in IFRS S1 and IFRS S2, therefore there is a question as to whether an additional governance piece is decision useful to investors. Another ISSB member further clarified that the decision to add corporate governance to the preliminary list of subject matters would allow staff to perform additional research, scoping and obtain stakeholder feedback to form a basis for the ISSB members to then decide on whether it is added to the consultation.

General Sustainability-related Disclosures

Cover note and summary of redeliberations (Agenda Paper 3)

At this meeting, the ISSB continued redeliberating the proposals in Exposure Draft (ED) IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, including an update to the plan for redeliberations for IFRS S1 and initiating redeliberations on fundamental concepts relating to proposals on materiality and enterprise value, use of the term "significant" and breadth of reporting, including value chain.

Additionally, the ISSB was asked to make decisions on aspects of IFRS S1 that are likely to influence the interoperability with jurisdictional requirements, including those in the European Financial Reporting Advisory Group's (EFRAG) European Sustainability Reporting Standards (ESRS). Finally, the staff presented for discussion by the ISSB a range of considerations related to industry-based requirements, which may have implications on the role of the SASB Standards in IFRS S1.

Update to the plan for redeliberations (Agenda Paper 3A)

At the September 2022 ISSB meeting, the ISSB tentatively agreed a number of topics for redeliberating IFRS S1 and ED IFRS S2 *Climate-related Disclosure*. In addition to the topics tentatively agreed, the ISSB also suggested the staff reconsider bringing back one further topic on the requirement to disclose comparative information that reflects updated estimates for redeliberation (paragraphs 63-65 of [draft] IFRS S1).

Respondents to the consultation on IFRS S1 raised potential challenges in meeting this requirement, in particular, respondents:

- Raised the complexity and burden associated with updating estimates for previous periods
- Queried why the proposal is not aligned with IAS 8 which requires a change in estimate to be reported in the current period and prospectively
- Questioned whether it is most decision-useful to provide comparative information to reflect updated estimates given that sustainability-related financial information is often based on estimates

Following feedback from the ISSB and respondents to the consultation, the staff proposed that the ISSB updates its plan for redeliberations to reconsider the requirement to disclose comparative information that reflects updated estimates. At this meeting, the ISSB was asked for any comments or questions on this additional topic proposed for redeliberation.

ISSB discussion

All ISSB members agreed to add the additional topic for redeliberation. They acknowledged the concerns raised by respondents and considered that the extent of disclosure on changes in estimate and clarity on differences between errors and changes in estimate should be further explained in future.

Fundamental concepts (Agenda Paper 3B)

This paper discussed the use of fundamental concepts and terms within IFRS S1 which includes description of matters raised in consultation period feedback and staff's recommendations. At this meeting, the ISSB was asked for feedback and decisions on the below matters to provide further clarity on a path to more comprehensive decisions at a future ISSB meeting.

Part 1: Materiality and enterprise value

Respondents' feedback centred around the concepts of "materiality" and "enterprise value" and how they should be applied to identify and assess decision useful information for disclosure. In the redeliberations of fundamental concepts of IFRS S1, the staff recommended that the ISSB:

- Consider whether the ISSB should revise IFRS S1 to maintain more consistent definition and language with the IASB *Conceptual Framework*
- Consider whether the term 'enterprise value' should continue to serve as a fundamental concept in IFRS S1
- Discuss whether further guidance and resources are needed to clarify the scope of sustainability-related risks and opportunities and the application of the materiality assessment

The ISSB does not have a separate conceptual framework and the definition of ISSB materiality was developed based on the objective and definitions of "material" and "materiality" in the IASB's *Conceptual Framework* and IAS 1. Some preparers may not have a strong understanding of what affects enterprise value and may find that information provided in order "to assess enterprise value" may be too restrictive and less decision useful than information provided under the broader definition of materiality in the IASB's *Conceptual Framework*.

In addition, the objective of sustainability-related financial disclosures defined in IFRS S1 is different from the objective of financial reporting which refers to "providing resources to the entity" but not to enterprise value. While the intent of using enterprise value was to broaden the scope of information captured, the use of this term may have constrained the objective of IFRS S1 and created a disconnect with the various use cases of sustainability-related financial disclosures by primary users and the decisions that they make. Type and scope of sustainability-related risks and opportunities and sustainability-related financial information will differ from the resources reflected in general purpose financial statements.

It is expected that reassessments of materiality are likely to be more common for sustainability-related financial information. The ISSB may also need to consider providing additional clarity on the relationship between the ISSB's concepts, terminologies, and definitions compared to other jurisdictional initiatives and sustainability reporting frameworks.

<u>Matter to address 1</u>—The staff recommended to confirm that information is being provided to meet the information needs of the primary users of general purpose financial reporting who are "existing and potential investors, lenders and other creditors", in alignment with the IASB's *Conceptual Framework*.

<u>Matter to address 2</u>—Is "enterprise value" a necessary and appropriate concept to help establish the objective of IFRS S1 and the definition of materiality?

The staff recommended to remove "enterprise value" from the objective and from the definition of materiality which would create alignment with the IASB's *Conceptual Framework* but not fundamentally change the focus of the required disclosures.

<u>Matter to address 3</u>—Is there a better way to frame the notion of enterprise value by clarifying its meaning and connection to sustainability?

The staff recommended to include additional resources and language in IFRS S1 or throughout the Basis for Conclusions (BC) to further clarify the concept of enterprise value and the scope of sustainability-related financial information required. There may even be opportunities to align and include concepts from the Integrated Reporting (IR) Framework.

<u>Matter to address 4</u>—Is additional disclosure needed for materiality assessment of sustainability-related financial disclosures?

The staff recommended to introduce a disclosure requirement about the process of identifying and disclosing material information and/or materiality judgments. Similar requirements are required or under development by the US Securities and Exchange Commission (SEC) and EFRAG.

Part 2: Use and definition of the term "significant"

Most respondents said that the term "significant" lacked a clear definition and some noted that the distinction between using the terms "significant" and "material" is unclear throughout IFRS S1. The term "significant" is used in IFRS S1 only as part of the phrase "significant sustainability-related risks and opportunities", with few exceptions on significant assumptions, significant changes in its performance, significant estimation uncertainty and sources of significant uncertainty.

The ISSB will need to consider whether the term "significant" is needed to achieve the objective of IFRS S1, or if it would be appropriate to replace or remove the term. The ISSB will also need to consider whether greater clarity needs to be provided on the process for identifying sustainability-related risks and opportunities and on the relationship between materiality and the concept of significant.

Matter to address 5—Is the term “significant” and phrase “all significant” necessary and/or appropriate to define the objective of IFRS S1?

Below options depend on the ISSB’s treatment of other fundamental concepts, such as materiality and enterprise value, and how these are incorporated into disclosure requirements.

- Option 1—Remove the term “significant” and “all significant” without replacing it with an alternative term
  The ISSB should consider whether insignificant sustainability-related risks and opportunities could result in material sustainability-related financial disclosures. If the ISSB cannot identify such instances, then removing the reference to “significant” could reduce confusion without fundamentally altering the objective and scope of the disclosure requirements.
- Option 2—Replace “significant” with a different term like “principal”, “relevant” or “key”
  The staff anticipates that market participants will continue to raise concerns over these new terms, how they are defined, whether they conflict with existing laws or frameworks and the effect they are intended to have on disclosure requirements. It may also be useful to explain how that term relates to the materiality assessment.
- Option 3—Maintain the existing approach
  If the ISSB determines that “significant” and “material” are truly different filters, then it may be appropriate to keep the existing language, while providing guidance for how those concepts should be interpreted and applied. However, it should be noted that the IASB has sought to avoid using the term “significant” due in part to the lack of clarity around that term. This was one reason that the IASB has moved to requiring material information about accounting policies in its recent amendments to IAS 1.

Part 3: Breadth of reporting – subsidiaries and value chain

Many respondents commented that the scope of reporting on value chains could be broad and subject to interpretation and they also anticipated challenges with reporting on activities in their value chain that they do not control.

Matter to address 6—Are the breadth of reporting requirements across an entity’s subsidiaries and value chain appropriate?

Although assessing important value chain risks and opportunities is a difficult exercise, it is not new or unique to the field of sustainability reporting. The staff considers that IFRS S1 does not require a radically new approach to risk management or strategic business model analysis, and therefore, did not recommend changing the substance of the IFRS S1 reporting requirements for value chain or reporting entity.

Matter to address 7—Does IFRS S1 require greater clarity on the breadth of reporting required across an entity’s subsidiaries and value chain?

In the short term, the ISSB may consider improving the examples in paragraph 40 of IFRS S1. However, the staff indicated that there is substantial market guidance and practice around reporting on a broad range of activities in the value chain and across subsidiaries. Specifically, many of the industry-based SASB Standards contain disclosure topics and metrics that demonstrate how an entity could report on value chain activities, and which activities may be relevant for a given industry. The ISSB could consider including similar guidance to support application of IFRS S1 or incorporating examples of how companies have reported to the SASB Standards or other frameworks or standards as part of its capacity building.

ISSB discussion

Matter to address 1—All ISSB members agreed with the staff recommendation.

Matter to address 2—All ISSB members confirmed that the defintion of materialty should align with the IASB's *Conceptual Framework* and agreed to remove "enterprise value" from the objective and from the definition of materiality. However, most ISSB members suggested to have an additional filter/anchor in order to faciliate preparers' understanding on how to apply the standard. There was a mixture of views on the terms to be used, for example value creation and value erosion, which required further discussion and research in future.

Matter to address 3—All ISSB members agreed with the staff recommendation and most of them supported the use of IR Framework to further describe the connection between sustainability and value.

Matter to address 4—A number of ISSB members expressed their concerns on introducing this additional disclosure. They were concerned that the disclosure would become boilerplate and the cost of complying with this disclosure would outweigh the benefit. Some ISSB members considered the existing IFRS S1 already covered this issue through the disclosure requirements on governance, strategy and risk management, and therefore, it would not be necessary to add an additional disclosure requirement. The ISSB eventually suggested that the staff reconsider this matter, check whether the IAS 1 guidance on judgement could be made reference to and consider whether additional guidance for making materialty assessment could be provided to support preparers.

Matter to address 5—There was a mixture of views on whether it was appropriate to remove the terms "significant" and "all". One of the ISSB Vice Chairs explained the differences between "significant" and "material" and provided examples on significant topics/assumptions versus material information for disclosure. However, she acknowledged the confusion expressed by a lot of respondents and some ISSB members also shared the same confusion. Translation issues were also highlighted by ISSB members from Asia as it was difficult for them to illustrate the differences in their languages. On the other hand, some ISSB members considered the terms "significant" and "all" should not be removed and thought it would be difficult to find alternative terms. The ISSB staff was eventually suggested to retain the term "all" and remove the term "significant", but at the same time, develop some materials or guidance to explain the assessment process. Leveraging the IASB's materials, for example IAS 1 and Practice Statement 2, and adding a flowchart as guidance were also suggested by ISSB members.

Matters to address 6 and 7—All ISSB members agreed with the staff recommendations. One of the ISSB Vice Chairs explained that the concept of "investments it controls" was different from the concept of "control of an investee" under IFRS Accounting Standards. IClarity and explanation would be provided within IFRS S1 in future. The ISSB staff also explained the referencing to industry-based SASB Standards in the staff paper was only used as an example for the scope and extent of disclosure and it was not intended to be a recommendation. During the discussion, ISSB members emphasised the importance of clarity which could also faciliate the development of future standards. Some ISSB members also suggested clarity and guidance should be provided for conglomerates because they had practical issues on materiality assessment and disclosing the appropriate amount of information. Other members responded that conglomerates involved in a broad range of activities might need to disclose a braod range of information and that the experience with SASB standards is that some use as many as 14 industry classifications.

Climate-related Disclosures

Cover note and summary of redeliberations (Agenda Paper 4)

At this meeting, the ISSB continued redeliberating the proposals in Exposure Draft (ED) IFRS S2 *Climate-related Disclosure*, in particular, covering the following topics:

- Scope 1 and Scope 2 greenhouse gas (GHG) emissions
- Scope 3 GHG emissions
- GHG emissions measurement methods
- Interoperability—key matters

- Industry-based materials

Scope 1 and Scope 2 greenhouse gas emissions (Agenda Paper 4A)

This paper discussed the proposed requirements in ED IFRS S2 that require an entity to disclose its absolute Scope 1 and Scope 2 GHG emissions generated during the reporting period to enable users of general purpose financial reporting to better understand an entity's exposure to particular climate-related risks and how the entity manages these risks.

Staff recommendation

The staff recommended that the ISSB:

- Proceed with the requirements for an entity to disclose its absolute gross Scope 1 and Scope 2 GHG emissions generated during the reporting period
- Proceed with the requirements with clarifications for an entity to:
  - Provide separate disclosure for the consolidated accounting group and unconsolidated investees
  - Disclose the approach used to include Scope 1 and Scope 2 GHG emissions for entities outside the consolidated accounting group, and an explanation of how the approach relates to the objective of the proposed requirement

The staff further recommended that the ISSB develop guidance, such as an illustrative example, to further clarify the requirement to provide separate disclosures for the consolidated accounting group and the unconsolidated investees.

ISSB discussion

ISSB members generally agreed with the staff recommendation. One ISSB member asked the staff whether stakeholders through their comment letters and/or outreach activities had expressed any confusion around whether entities are required to disclose GHG emissions disaggregated for each associate and joint venture. The staff said that the staff had not identified any such confusion from its discussions with the stakeholders and their comment letters. Another ISSB member asked whether GSG emissions related to associates and joint ventures would be categorised as Scope 3 emissions because they are not in a reporting group of their investors. The staff replied that it was not the intent of the proposals in the ED and that Scope 1 and Scope 2 emissions related to associates and joint ventures would have to be separately disclosed.

Another ISSB member questioned whether the staff proposals included in the agenda paper would override the GHG Protocol Corporate Standard. One of the Vice Chairs clarified that even though at some point before the ED was published considerations had been given as to whether there should be fewer options than those included in the GHG Protocol Corporate Standard, no adjustments were made to the proposals in that respect and the staff proposals for this meeting would not change that status, either.

ISSB members said that illustrative examples would be helpful to show how the Scope 1 and Scope 2 methods could look different depending on the different choices entities make within the GHG Protocol Corporate Standard and then how those calculations would be presented applying the ISSB's requirements.

ISSB decision

11 of the 12 ISSB members voted in favour of proceeding with the requirements to disclose absolute gross Scope 1 and Scope 2 GHG emissions generated during the reporting period. One ISSB member was absent.

11 of the 12 ISSB members also voted in favour of improving the clarity of the requirements regarding disaggregating information between consolidated accounting group and unconsolidated investees. One ISSB member was absent.

Scope 3 greenhouse gas emissions (Agenda Paper 4B)

This paper discussed the proposed requirements in the ED IFRS S2 that require an entity to disclose its Scope 3 GHG emissions.

Staff recommendation

For decision-making the staff recommended that the ISSB:

- Proceed with the proposal to require an entity to disclose its Scope 3 GHG emissions
- Confirm that this includes considering the 15 Scope 3 GHG emissions categories described in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard

For further considerations by the ISSB the staff recommended that the ISSB:

- Address the data availability and data quality challenges by considering:
  - Introducing a later effective date for Scope 3 GHG emissions—addressing transitional challenges associated with data availability
  - Collaboration with security regulators to provide safe harbour provisions—addressing transitional data availability challenges
  - Supporting preparers in the application of the requirement by developing implementation guidance for Scope 3 GHG emissions—addressing persistent data quality challenges
  - Amending the proposed requirement to introduce data quality tiers—addressing data availability and data quality challenges to differentiate between the levels of quality present in the entity's underlying data
- Assist preparers in the application of the proposed requirement by considering:
  - Amending the requirement to specify when the 'scope' of the Scope 3 GHG emissions disclosures must be reassessed
  - Amending the requirement to specify what a preparer can do when reporting cycles for entities in the value chain do not align with each other and/or with that of the preparer

ISSB discussion

ISSB members generally agreed with the staff recommendation. Some of them emphasised that disclosure on Scope 3 emissions is very important because it is important part of understanding whether an entity's business model is sustainable. ISSB members also emphasised that capacity building is very important for entities to be able to provide Scope 3 emissions disclosure, acknowledging capacity and preparedness are different from jurisdiction and jurisdiction and also from entity to entity.

With regard to the staff proposal regarding the 15 Scope 3 GHG emissions categories, one ISSB member asked whether the proposal was to require entities to disclose all 15 categories of Scope 3 information. The staff clarified that entities would only need to consider them in assessing which of those categories are relevant and thus should result in disclosure. This includes considerations of materiality. Another ISSB member raised a related question asking whether the staff proposal suggests entities to apply supplementary guidance related to the GHG Protocol Corporate Value Chain Standard, which is voluminous. Staff clarified that its intent was merely to clarify which standard to refer to when entities consider the requirements relating to categories of Scope 3 GHG emissions and that it does not extend to requiring entities to apply all related supplementary guidance. The ISSB member suggested that staff be careful to convey that intent clearly when drafting the requirements.

With respect to the requirements in which an entity is required to provide the reason why it is omitting Scope 3 GHG emissions relating to entities in its value chain, the Chair expressed a concern that the requirement could indicate that an entity could omit information for such emissions as long as the entity provides the reason. The staff responded saying that is not the intent of the requirements and clarified that in cases in which an entity cannot obtain reliable information from entities in its value chain, it should move towards filling the missing information with estimates. The staff said that the staff would further consider how this can be clarified and bring a paper to a future ISSB meeting.

ISSB members welcomed the staff proposals relating to introducing safe harbour provisions. One ISSB member observed that it would help instill confidence in preparers. While agreeing with the direction of the proposal, some ISSB members cautioned the staff in two aspects as the staff further considers this proposal. One is that it would be the regulator in each jurisdiction that decides whether to provide such provisions, so the drafting of the requirements should reflect that. Another point is that safe harbour provisions should not deprive asset owners of their litigation rights and it should not give a message that by such provisions the ISSB is not elevating preparers over investors. Another ISSB member also observed that this would be a good opportunity to lessen misunderstandings that exist between preparers and investors regarding the extent of the burden associated with disclosing Scope 3 GHG emissions.

ISSB members also discussed other staff proposals to address data availability and data quality. They agreed with the direction of the travel relating to proposing a later effective date for Scope 3 GHG emissions disclosure. One ISSB member commented that even if the ISSB decided on a later effective date, it would be important for the ISSB to encourage entities to disclose Scope 3 GHG emissions early if preparers have capacity to do so. With respect to the staff proposal relating to introducing data quality tier, one ISSB member said that before making such a decision, the ISSB should consider whether benefits obtained by information disclosed applying such a new requirement exceed costs on preparers associated with providing the information.

ISSB decision

All of the 12 ISSB members voted in favour of proceeding with the requirements to disclose Scope 3 GHG emissions.

They also voted in favour of confirming that entities consider the 15 Scope 3 GHG emissions categories described in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

They also agreed that staff should develop proposals to address measures to assist prepares in the implementation and application of the Scope 3 GHG emissions disclosure requirements, by taking account of the approach included in the agenda paper and the ISSB's discussions.

Greenhouse gas emissions measurement methods (Agenda Paper 4C)

This paper discussed the proposed requirements in the ED IFRS S2 that require an entity to measure and disclose its Scope 1, Scope 2 and Scope 3 GHG emissions applying GHG Protocol Corporate Standard.

Staff recommendation

- The staff recommended that the ISSB proceeds with the requirement for an entity to measure and dicsclose its Scope 1, Scope 2 and Scope 3 GHG emissions applying the GHG Protocol Corporate Standard, subject to the following reliefs:
  - When an entity has been using a GHG emissions measurement method that is different from the GHG Protocol Standards, the entity may continue to use its existing measurement method for a defined period following the effective date of the requirement prior to applying the GHG Protocol Standards
  - When an entity is required by jurisdictional authorities or the exchange on which it is listed to use a GHG emissions measurement method that is different from the GHG Protocol Standards, the entity may continue to use that measurement method, so long as it is required, to avoid duplicative reporting
- The staff recommended that the ISSB specify that entities be required to use the version of the GHG Protocol Standards as of the date that ED IFRS S2 was exposed for comment on 31 March 2022, which is

the 2004 version for the GHG Protocol Corporate Standard and the 2011 version for the GHG Protocol Corporate Value Chain Standard.

- The staff recommended that the ISSB consider addressing concerns about comparability by requiring an entity to disclose information about:
    - The measurement method it has used (if not using the GHG Protocol Standards)
    - The reason why the GHG Protocol Standards have not been used, and when relevant, when they will use the GHG Protocol Standards
    - Its key assumptions and inputs, including emissions factors or global warming potentials
    - Any changes the entity has made to its GHG emissions disclosure from previous reporting periods

ISSB discussion

One ISSB member asked the staff how common the GHG Protocol Corporate Standard was among the current practice now that the ISSB is proposing to require entities to use the Standard. The staff responded that comment letter feedback indicated it was one of the most commonly used standard. The staff also noted that this was consistent with the findings by the survey recently conducted by CDP (formerly the Carbon Disclosure Project).

Referring to the earlier tentative decision made regarding entities having to consider the 15 Scope 3 GHG emissions categories, another ISSB member asked the staff how this decision interacts with the proposed relief in which entities are not required to use GHG Protocol Corporate Standard in specified circumstances. The staff said it would have to consider it further to clarify the interaction.

Noting one of the IASB's projects coming out of its recent agenda consultation was climate-related disclosure, one ISSB member questioned whether the ISSB's decision-making on the measurement method for GHG emissions should wait until the IASB's project progresses. One of the Vice Chairs explained that the IASB's project focuses more on the financial effects during the current reporting period, so its project should not hold up the ISSB's discussion in this aspect.

ISSB decision

All of the 12 ISSB members supported the staff recommendations as laid out in the agenda paper. They also supported the direction of travel regarding the proposed disclosures to address concerns about comparability.

General Sustainability-related Disclosures and Climate-related Disclosures

Interoperability—key matters (Agenda Paper 3C & 4D)

Many respondents noted the importance of achieving interoperability with the proposals published in Europe and the US in developing a global baseline of sustainability-related financial disclosures. Many respondents also pointed to key differences in concepts, terminologies, and definitions between the ISSB's proposals and jurisdictional initiatives, including EFRAG's and the US SEC's proposals. At this meeting, the ISSB was asked to make some decisions in areas where further related deliberations will be considered at subsequent meetings.

The staff recommended that the ISSB:

- In relation to overarching matters:
    - Confirm the use of the TCFD pillars for structuring the core content in IFRS S1 and IFRS S2—that is, information will be required on governance, strategy, risk management and metrics and targets
    - Confirm the meaning of the global baseline—in particular that disclosures are designed to meet the information needs of investors, creditors and other lenders, information provided

is subject to an assessment of materiality and that the information required by IFRS Sustainability Disclosure Standards can be presented with information disclosed to meet other requirements, such as that required by regulation, but cannot be obscured by that additional information

- In relation to matters related to IFRS S1:
    - (As set out in Agenda Paper 3B) confirm that information is being provided to meet the information needs of the primary users of general purpose financial reporting as proposed in IFRS S1
    - (As set out in Agenda Paper 3B) remove the definition of enterprise value that was included in IFRS S1 and remove the words "to assess enterprise value" from the IFRS S1 objective and definition of materiality
    - Confirm that, consistent with IFRS S1 and IFRS S2, time horizons are not defined for short, medium and long term–which should be based on entity-specific assessments
    - Confirm the definition of "value chain" that was proposed in IFRS S1
- In relation to matters related to IFRS S2:
    - In relation to current effects:
        - Consistent with paragraph 14 of IFRS S2, confirm that disclosures be required about the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period (ie the current effects)
        - Consistent with IFRS S2, confirm that disclosures are not required to be reported separately for physical risks, transition risks and climate-related opportunities
        - Confirm that separate disclosures be required about assets subject to physical and transition risks and climate-related opportunities, in the form of metrics
    - (As set out in Agenda Paper 4C) confirm the use of the Greenhouse Gas Protocol Corporate Standard (GHG Protocol Standard) to measure GHG emissions (subject to proposed reliefs)
    - (As set out in Agenda Paper 4B) confirm the requirement to disclose Scope 3 emissions (subject to proposed reliefs to address practical challenges)
    - (As set out in Agenda Paper 4B) confirm the granularity/number of categories of Scope 3 GHG emissions—in particular, confirm the use of the 15 categories from the GHG Protocol Standard
    - Confirm the disclosures proposed in paragraph 15(a) of IFRS S2—that is, that an entity is required to disclose the results of its analysis of climate resilience and the particular information set out in that paragraph
    - Confirm the disclosures in IFRS S2 that describe how the climate resilience analysis has been conducted
    - Confirm the disclosure requirement proposed in IFRS S2 that an entity disclose whether it has used, among its scenarios, a scenario aligned with the latest international agreement on climate change. This confirms that:
        - The language on the latest international agreement on climate change (i.e. the Paris Agreement is not "hard coded" into the requirements)
        - That entities are not required to use a specific scenario related to the latest international agreement on climate change or a 1.5C° scenario
    - Add a requirement to disclose whether and how an entity uses climate-related scenario analysis to inform the identification of climate-related risks and opportunities
    - Confirm the requirement to disclose the intended use of carbon credits. However, the staff recommends that the ISSB clarify that an entity's net emissions target(s) and intended use of

carbon credits should be disclosed separately from the entity's gross emission reduction target(s)
    - Use the term "carbon credit" instead of "carbon offset"
    - Clarify the different types of targets—in particular, that a climate-related target is set by an entity to address aspects of its climate-related risks and opportunities and the role of emissions targets in transitioning to a low-carbon economy
    - Clarify that an entity is required to disclose any emissions targets it has set (both net emission targets and gross emissions reduction targets) and those it is required to meet by national or regional legislation

ISSB discussion

In relation to overarching matters, all ISSB members agreed with the staff recommendations.

In relation to matters related to IFRS S1, the first two and last matters were discussed in the previous session (see meeting notes of Agenda Paper 3B) and therefore the ISSB members focused on the time horizons at this meeting. Although ESRS currently defined short and medium term as 12 months, and medium and long term as a specific timeframe, it is possible for reporting entities to have different time horizons based on their own circumstances. All ISSB members agreed that time horizons should not be defined and should be based on entity-specific assessments.

In relation to matters related to IFRS S2, matters in relation to GHG emissions were discussed in the previous session (see meeting notes of Agenda Paper 4B) and all ISSB members agreed with the staff recommendations for the remaining matters. One of the Vice Chairs confirmed that guidance will be provided in the future for the additional disclosure requirement on how an entity uses climate-related scenario analysis to inform the identification of climate-related risks and opportunities and also for the entire climate resilience section. ISSB members emphasised the importance of a clear definition in relation to carbon credit, highlighted the different possible sources for carbon credit, including carbon trade and carbon offset, and considered it necessary for reporting entities to disclose such different sources.

Industry-based Materials

Industry-based Materials (Agenda Paper 6)

The objective of this paper was to:

- Discuss and begin alignment around the strategy for integrating industry-based materials into IFRS Sustainability Disclosure Standards
- Discuss the staff's summary of and the staff's draft plan for navigating decisions the ISSB will need to make regarding:
    - The role of the SASB Standards in [draft] IFRS S1
    - The industry-based requirements in Appendix B of [draft] IFRS S2
    - Improving the international applicability of the SASB Standards
    - The ISSB's upcoming consultation on agenda priorities
    - Advancing SASB projects inherited by the ISSB

The ISSB's input in this session will inform the staff's recommendations in future papers related to these points.

The staff did not ask the ISSB to make any decisions in this meeting. While this paper contained a set of the staff's initial recommendations regarding the points above, these recommendations were intended primarily to draw attention to the ways in which the ISSB's decisions on these matters are interconnected.

The staff's draft plan for advancing industry-based materials

The staff's draft plan, which includes the staff estimates of when different actions could be taken, is summarised as follows:

- Q4 2022: The staff recommend maintaining the role of the SASB Standards in [draft] IFRS S1 as materials that shall be considered by preparers
- Q4 2022: The staff recommend that the contents of Appendix B of [draft] S2 be made non-mandatory implementation guidance, and that the ISSB state its intention to make the topics and metrics mandatory in the future following additional research, consultation and revisions
- Early 2023: The staff recommends including legacy SASB projects and the international applicability of SASB Standards as 'foundational' work in connection with the ISSB's consultation on agenda priorities
- Early 2023: Work is advanced by the ISSB on improvements to the international applicability of SASB Standards covering topics beyond climate
- Mid 2023: The ISSB seeks public input on changes to address the international applicability of the SASB Standards on topics beyond climate
- Mid 2023: If agreed as part of the work to build on the foundations of S1 and S2, the ISSB issues Exposure Drafts of proposed changes to five industry standards in connection with the three active SASB projects on which the SASB Standards Board previously released 'recommended changes'
- Late 2023: the ISSB issues updates to the SASB Standards that improve their international applicability and states its intention to continue research, consultation and revisions to the SASB Standards to evolve them into industry-based requirements in the future.
- 2024 and beyond: the technical staff engages in targeted research & consultations to pursue further improvements to the SASB Standards in alignment with the ISSB's agenda priorities, including other active projects inherited by the ISSB
- 2025: the ISSB issues exposure drafts of industry-based requirements derived from the SASB Standards as new IFRS Sustainability Disclosure Standards

ISSB discussion

It was noted that many jurisdictions struggled with the SASB metrics included in Appendix B of ED IFRS S2, however, they were not opposed to industry-based guidance per se. One of the main points raised was that SASB Standards were not developed with a view to be a global baseline. Instead, they are heavily based on US circumstances and particularities.

ISSB members seemed to agree that industry-specific climate-related disclosures should be included in IFRS S2. However, there was some discussion as to how this can be achieved. One of the Vice Chairs said that the ISSB needs to decide whether Appendix B should be mandatory guidance or whether it should just serve as an illustration of how industry-based climate-related disclosures can be developed. ISSB members agreed and said that a truly global baseline should also leverage other guidance and take into account feedback from stakeholders worldwide.

There was also some discussion about whether it was the ISSB's remit to maintain the SASB Standards. Most ISSB members shared the view that the ISSB should be the steward of SASB Standards. One of the Vice Chairs noted that the Due Process Oversights Committee has approved that the ISSB can make changes to SASB Standards based on the comment letters received on ED IFRS S1 and S2. Eventually, the modified SASB Standards could be moved into IFRS Sustainability Disclosure Standards if that was the stakeholder desire. This way IFRS Sustainability Disclosure Standards could be developed quickly.

Some ISSB members challenged whether the term 'internationalisation' was appropriate for the work that is currently being done on SASB Standards. The Chair suggested that 'ensuring international applicability' might be a better term for what is currently happening.

ISSB decision

When asked by one of the Vice Chairs, all ISSB members supported that IFRS S2 should maintain the requirement that entities provide industry-specific disclosures. They also supported that the ISSB classify the content in Appendix B as illustrative examples, while stating the intention to make Appendix B mandatory in the future, subject to further consultation.