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Meeting Summary

January 2023

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Overview

The ISSB met in Frankfurt on Tuesday 17, Wednesday 18 and Thursday 19 January 2023. The following topics were discussed.

Metrics and Targets

The ISSB agreed minor drafting changes to clarify that the objective of disclosures on metrics and targets in the proposals is to enable users to understand performance on sustainability-related risks and opportunities, including (but not limited to) how an entity measures, monitors and manages such risks and opportunities.

Disclosure of judgements, assumptions and estimates

The ISSB decided to require, in addition to requiring disclosure of the sources of estimation uncertainty, the judgements that the entity has made in the process of preparing and disclosing its sustainability-related financial information. They also decided requiring disclosure of the sources that have been applied in preparing the entity's sustainability-related financial disclosures, including the industry or industries specified in IFRS Sustainability Disclosure Standards, SASB Standards or other industry-based sources of guidance.

In addition, the ISSB decided to clarify that the words 'to the extent possible' mean 'to the extent possible taking into consideration the requirements of IFRS Accounting Standards (or other relevant GAAP)' and to require an entity to explain significant differences in the financial data and assumptions that the entity has used in preparing its sustainability-related financial disclosures, in comparison to those that the entity has used in preparing its financial statements.

Furthermore, the ISSB decided to clarify that the disclosure requirements on estimation uncertainty relating to metrics also apply to current and anticipated effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows. The ISSB also decided to provide guidance on the disclosure of judgements, assumptions and estimates that an entity is required to make in applying IFRS Sustainability Disclosure Standards.

Commercially sensitive information about opportunities

The ISSB decided to introduce an exemption in [draft] S1 that would permit entities, in limited circumstances, to exclude information about a sustainability-related opportunity when the information is commercially sensitive. It would specify that this would not be applicable to information which is already publicly available, nor would it able to be used to justify broad non-disclosure, using commercial sensitivity as a justification, or to avoid disclosing information about risks.

Reasonable and supportable information that is available at the reporting date without undue cost or effort

The ISSB decided to introduce the concept of 'reasonable and supportable information that is available at the reporting date without undue cost or effort' into IFRS S1 and IFRS S2, to help an entity to apply specific requirements in the Standards.

Current and anticipated financial effects and connected information

The ISSB decided to make minor drafting changes to clarify that when sustainability-related risks and opportunities have affected or are expected to affect the information in an entity's financial statements, the entity is required to explain the connections between those current and anticipated financial effects and the sustainability-related risks and opportunities. They also decided to clarify the relationship between resilience assessment requirements and the requirements to disclose current and anticipated financial effects by emphasising those requirements can be applied independently, but the resilience assessment can inform the disclosures of current and anticipated financial effects. Furthermore, the ISSB decided to clarify that there is no requirement for an entity to perform a resilience assessment to determine current and anticipated financial effects of sustainability-related risks and opportunities.

Using scenario analysis to assess climate resilience

The ISSB decided to require an entity to use an approach to climate-related scenario analysis that enables the entity to consider all reasonable and supportable information that is available without undue cost or effort, at the reporting date, including information about past events, current conditions and forecasts of future economic conditions, taking into consideration the degree of the entity's exposure to climate-related risks and opportunities and the skills, capabilities and resources available to the entity to conduct climate-related scenario analysis.

Greenhouse gas emissions—reporting period relief

The ISSB decided to provide relief that allows an entity to measure its GHG emissions using information for reporting periods that are different from the entity's reporting period when that information arises from entities in its value chain with reporting periods that are different from that of the entity, on condition that the entity uses the most recent data available without undue cost or effort to measure and disclose its GHG emissions, the length of the reporting periods is the same and the entity discloses the effects of significant events and changes in circumstances (relevant to its GHG emissions information) that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reporting.

Climate-related targets—Latest international agreement on climate change

The ISSB decided to amend the proposal in paragraph 23(e) of [draft] S2 to require an entity to disclose how the latest international agreement on climate change has informed any climate-related targets it has set.

General Sustainability-related Disclosures

At this meeting, the ISSB continued redeliberating the proposals in the Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ([draft] S1).

Cover note and summary of redeliberations (Agenda Paper 3)

At this meeting, the ISSB continued redeliberating the proposals in the Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ([draft] S1), including the following topics:

- Agenda Paper 3A: Metrics and targets objective
- Agenda Paper 3B: Disclosure of judgements, assumptions and estimates
- Agenda Paper 3C and 4D: Reasonable and supportable information that is available at the reporting date without undue cost and effort
- Agenda Paper 3D: Commercially sensitive information about opportunities
- Agenda Paper 3E and 4E: Current and anticipated financial effects and connected information

It is expected that the February ISSB meeting will be the last decision-making meeting on [draft] S1.

Metrics and Targets Objective (Agenda Paper 3A)

IFRS Sustainability Disclosure Standards do not state how an entity should conduct its governance, strategy, and risk management with respect to sustainability-related risks and opportunities. This means that the purpose of disclosures on governance, strategy and risk management is to enable primary users to understand an entity's existing policies and processes, etc.

The staff has received some feedback that market participants may interpret the objective of disclosures around metrics and targets as being limited to disclosures on metrics and targets the entity uses. This interpretation would, in the staff's view, incorrectly limit an entity's disclosures to the metrics and targets that the entity already uses and excludes metrics required by IFRS Sustainability Disclosure Standards (but not used by the entity) even if that information was material for users of general purpose financial reporting.

Therefore, the staff recommended clarifying that the objective of disclosures on metrics and targets in [draft] S1 and [Draft] IFRS S2 *Climate-related Disclosures* [draft] S2 is to enable users to understand performance on sustainability-related risks and opportunities, including (but not limited to) how an entity measures, monitors and manages such risks and opportunities.

ISSB discussion

All ISSB members (with one being absent) agreed with the staff recommendation.

A few suggestions were made by ISSB members including (i) adding the word "assessing" in the objective, (ii) explaining in the Basis for Conclusions (BC) the differences between the objective of disclosures on metrics and targets and the objective of disclosures on governance, strategy and risk management and (iii) adding a short guidance with example (e.g. on greenhouse gas protocol) to illustrate the differences. One of the Vice-Chairs and the staff confirmed that they will consider and further work on these suggestions.

Disclosure of judgements, assumptions and estimates (Agenda Paper 3B)

Disclosure of judgements, assumptions and estimates that an entity made in applying IFRS Sustainability Disclosure Standards

Some respondents asked the ISSB to introduce a requirement for an entity to disclose judgements, assumptions, and estimates that the entity made in preparing and presenting its sustainability-related financial disclosures. They explained that it is important for users' understanding and enables assurance providers to assure the entity's sustainability-related financial disclosures and for regulators to enforce the compliance of the entity's sustainability-related financial disclosures with IFRS Sustainability Disclosure Standards.

The current [draft] S1 does not explicitly require an entity to disclose the judgements that the entity has made in preparing and presenting its sustainability-related financial disclosures. Following the respondents' feedback, the staff has identified a requirement in IAS 1 on the disclosure of judgements that the staff thinks could be adapted into [draft] S1.

Also, following feedback from respondents, the staff recognise that estimation uncertainty may not solely arise when metrics cannot be measured directly and can only be estimated. Estimation uncertainty may also arise when an entity discloses information that enables users of general purpose financial reporting to understand the effects of significant sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term ('current and anticipated financial effects').

Therefore, the staff recommended that the ISSB:

- Introduce a requirement for an entity to disclose judgements that the entity has made in the process of preparing and disclosing its sustainability-related financial information that have the most significant effect on the information provided in those disclosures
- Amend paragraph 55 of [draft] S1 to require an entity to identify the sources that have been applied in preparing the entity's sustainability-related financial disclosures, including the industry or industries specified in IFRS Sustainability Disclosure Standards, SASB Standards or other industry-based sources of guidance;

- Clarify that the disclosure requirements related to estimation uncertainty (paragraph 79 of [draft] S1) are also applicable to the requirements on current and anticipated financial effects (paragraph 22 of [draft] S1), including estimation uncertainty that has a significant risk of resulting in a material adjustment within the next financial year to the carrying amounts of assets and liabilities reported in the financial statements.

<u>ISSB discussion</u>

All ISSB members (with one being absent) agreed with the staff recommendations. A number of ISSB members were supportive and appreciated the connectivity of sustainability information and financial information in this paper.

One ISSB member suggested to change "significant effect on the information provided in those disclosures" to "significant effect on the types and amounts of information provided in those disclosures", in order to emphasise that sustainability disclosures do not only focus on quantitative information but also qualitative information (e.g. sources of disclosure). Also, another ISSB member clarified with the staff that "most significant effect" referred to multiple effects instead of a singular effect. Therefore, one of the Vice-Chairs and the staff agreed that changing the wording to "significant effect on the types and amounts of information provided in those disclosures" would help and they will carefully draft the wording going forward.

Consistent use of financial data and assumptions to the extent possible

Some respondents raised concerns about how to connect information when an entity uses different financial data and assumptions to prepare its sustainability-related financial disclosures compared to those the entity uses to prepare its financial statements.

The staff thinks that an entity should ideally use consistent financial data and assumptions given that those financial data and assumptions would represent management’s view about the entity and so should not differ in the preparation and disclosure of its sustainability-related financial information and financial statements. However, an entity’s financial statements must also reflect specific recognition criteria and other specific requirements in IFRS Accounting Standards (or other relevant GAAP). As a consequence, it is not possible to impose the use of consistent financial data and assumptions without attaching a condition to acknowledge relevant accounting requirements.

However, the staff agrees with suggestions made by respondents that requiring an entity to explain the differences in the financial data and assumptions used by the entity would enable users to better understand the extent to which those financial data and assumptions have been applied consistently in the entity’s sustainability-related financial disclosures and financial statements and the reasons why differences may arise.

Therefore, the staff recommended that the ISSB:

- Clarify that the words ‘to the extent possible’ mean ‘to the extent possible taking into consideration the requirements of IFRS Accounting Standards (or other relevant GAAP)’
- Require an entity to explain significant differences in the financial data and assumptions that the entity has used in preparing its sustainability-related financial disclosures, in comparison to those that the entity has used in preparing its financial statements

<u>ISSB discussion</u>

12 of 14 ISSB members (with one being absent) agreed with the first staff recommendation and all members (with one being absent) agreed with the second staff recommendation.

There were different views expressed by the ISSB members. Some of them were highly supportive of the recommendations because they believed it would improve the consistency and connectivity between sustainability reporting and financial reporting. They agreed with the staff that the same set of fact pattern, assumptions and data should be used in both reporting frameworks.

However, one ISSB member expressed his concern on consistency because he believed financial reporting was sometimes driven by management judgements and expectations. He used the accounting depreciation policy as an example. A fully depreciated asset carried a zero value based on management expectation in financial reporting but could still be used by the management and should be reported under sustainability reporting. He believed that connectivity and disclosures of differences should be the main focuses instead of consistency. One ISSB member then suggested that adding an explanation in the BC may help to ease this concern.

On the other hand, another ISSB member suggested to disclose all differences in one single note in order to not obscure the information.

Supporting preparers to disclose judgements, assumptions and estimates made in preparing and presenting sustainability-related financial disclosures

The staff recommended that the ISSB provide guidance to illustrate how to disclose the judgements, assumptions and estimates made in applying IFRS Sustainability Disclosure Standards. Appendix A of the agenda paper provides an indication as to the type of content that might be provided to illustrate the types of judgements, assumptions and estimates made in applying IFRS Sustainability Disclosure Standards. This Appendix A will be further developed subject to the ISSB's decision.

<u>ISSB discussion</u>

All ISSB members (with one being absent) agreed to provide illustrative guidance in [draft] S1 to illustrate how to disclose the judgements, assumptions and estimates made in applying IFRS Sustainability Disclosure Standards. In addition, all ISSB members (with one being absent) agreed to separately develop some educational materials that illustrate the types of disclosure an entity may provide in order to meet this requirement.

Commercially sensitive information about opportunities (Agenda Paper 3D)

This paper presented the staff recommendations based on feedback received from respondents on [draft] S1 and [draft] S2 regarding the disclosure of information about sustainability-related opportunities which may be commercially sensitive.

The objectives of this paper were to:

- Summarise the stakeholder feedback on particular disclosure requirements proposed in [draft] S1 and [draft] S2 that could result in the disclosure of commercially sensitive information
- Seek the ISSB's feedback on the staff's analysis and recommendations regarding information to be disclosed
- Seek decisions from the ISSB on the staff's recommendations

Staff recommendation

The staff recommended:

- To introduce an exemption in [draft] S1 that would permit entities, in limited circumstances where information is not already publicly available, to exclude information about a sustainability-related opportunity when the information is commercially sensitive
- To base this exemption on addressing a particular situation—that is, permitting entities to not disclose a particular item of information in situations when disclosing that item of information related to an opportunity 'can be expected to prejudice seriously' the economic benefits the entity is able to realise in pursuing the opportunity
- Require entities, when assessing such situations, to consider whether it is possible to disclose the information about the opportunity at a sufficiently aggregated level that would resolve the entity's concerns about commercial sensitivity, while still meeting the objectives of the disclosure requirements
- To include the following requirements associated with the exemption:
    - Entities must identify a specific reason for non-disclosure of information, and that to qualify for the exemption, the information must provide an entity with an economic benefit that translates to a competitive advantage because the information is not publicly available
    - By item of information omitted, require an entity to disclose the fact that information has been omitted and the general reason why the information has been omitted
    - Require entities to reassess whether the information qualifies for the exemption from disclosure at each reporting date
- To specify that this would not:
    - Be applicable to information which is already publicly available
    - Permit broad non-disclosure, with commercial sensitivity being used as a justification
    - Permit non-disclosure of information about risks

ISSB discussion

Throughout the discussion, ISSB members were overall supportive of the staff recommendations related to disclosure of commercially sensitive information about opportunities.

One key topic discussed by several of the ISSB members throughout the meeting was the question of asymmetry, and the focus of the exemption being on the opportunity side, with risks not being subject to the exemption. A few ISSB members questioned the ability in some situations to separate an opportunity from a risk and confirmed that the staff's view is that companies would still be required to disclose these situations, as the disclosure requirement for risks would trump the exemption. The staff clarified that the exemption is meant to be used in limited circumstances and would typically be relevant in the earlier stages before the company is ready to disclose information about the opportunity.

Continuing on the topic of asymmetry, one ISSB member raised that [draft] S1 mentions the concept of neutrality and that preparers cannot treat risks and opportunities differently. The ISSB member drew comparison to the language describing prudence which comes from the IASB and the treatment of assets and liabilities. The ISSB member commented that risk is something an entity is currently being exposed to, whereas an opportunity is something the entity might do. The ISSB member made the connection that trade secrets therefore speak to opportunity rather than risk and that in this aspect, there may not be an absence of neutrality due to the nature of opportunities being different from risks and the notion of commercial sensitivity applying to opportunities but not to risks. The ISSB member showed support for the staff recommendation, however noted that it may be beneficial to revisit the references to risks and opportunities throughout [draft] S1 to make sure that it is consistently used with the asymmetry discussed in this paper.

One of the Vice-Chairs mentioned that the approach taken for the exemption is similar to the disclosure requirements introduced by the IASB related to business combinations. That Vice-Chair noted that the disclosure requirement provides a good balance between helping companies protect value in a way that reduces the risk of disadvantage to users of the information.

A few ISSB members discussed drawing a connection between timing of disclosure requirements for financial reporting purposes and sustainability reporting, noting that often the information may become applicable for sustainability reporting before it has an impact on financial reporting. The Chair emphasised that public companies in particular will need to incorporate the sustainability topic into the existing frameworks and protocols in place for managing confidential information. The Chair noted that before a matter becomes relevant for accounting purposes, many companies are operating with long-term visions and are disclosing their progress towards achieving that long-term vision. This contributes to their price earnings multiple. The Chair noted that the ISSB will need to rely on management's assessment of determining what is material and price sensitive information when determining the applicability of the exemption. The Chair agreed with the notion of asymmetry and noted that the existing market mechanisms, pressure from investors and board mechanisms in place will encourage the appropriate disclosure of information. The Vice-Chair added that the topic of sustainability leads entities to face several uncomfortable truths which are often related to risks. Likely, entities may want to disclose the positive side, and opportunities that are present.

One ISSB member raised whether it was necessary to provide the exemption and drew connection to a similar exemption that exists in Chinese accounting standards, where in practice the exemption is not used by many entities. They suggested to add a minor wording adjustment, to make it clear that the exemption should be applied on a gross basis for situations where an opportunity and risk may be combined. They also noted that it may be beneficial to mention that the application of the exemption is expected to be very rare.

The Chair mentioned that caution should be used when referring to opportunities mattering less to investors than risks. Opportunities are infinite, and the question to entities should be when entities pick an opportunity to pursue at what point do they need to disclose it. The Chair noted that quite often an entity would wait until they have made a decision about pursuing an opportunity before announcing it, and therefore until it is in the pipeline of management there is a risk of alerting the market of a false opportunity if the disclosure occurs too early. On the other hand, he noted that a risk is something an entity has identified and is managing. One ISSB member commented that if an entity believes they will lose an opportunity to a competitor if they were to disclose it and if they were pushed to disclose all opportunities, it may encourage entities to avoid pursuing opportunities to avoid having to disclose them.

One ISSB member mentioned that it is difficult to anticipate the various types of commercial situations that may arise, and therefore the guidance must be robust. The ISSB member discussed the potential situation where information may be publicly discussed but the company has not confirmed if they are moving forward. It may be beneficial to add colour on what is meant by public information.

One ISSB member asked whether the exemption should be extended to certain situations surrounding risk, where disclosure of a particular risk may prejudice their ability to achieve the risk they are trying to manage. The ISSB member noted that this may not occur often but could be helpful in limited situations to expand the disclosure.

One ISSB member raised a question surrounding what the additional disclosure would look like in practice, when a company chooses not to disclose the specific opportunity but is required to disclose the fact and reason why the information was not disclosed. The staff clarified that the disclosure in practice may end up being fairly boilerplate, where, for example, management gives a nod to something that is occurring but that further details are being withheld due to proprietary reasons. However, in some situations it may be even more generic. One of the Vice-Chairs noted that the wording for the exemption was borrowed from IAS 37. The staff provided some colour on what the disclosure looks like in practice for IAS 37, however noted that it is difficult to make a direct comparison. The staff confirmed that they anticipate that the disclosure may end up looking fairly boilerplate in practice. The Vice-Chair added that an alternative would be for the company to disclose if it has used the exemption full stop. Another ISSB member raised that the objective of the exemption is to provide as much information to users as possible without disclosing something commercially sensitive.

One ISSB member said that commercial sensitivity is being discussed in the context of [draft] S1 but is likely to come up again in specific disclosure requirements. The staff confirmed that the plan is for the exemption to be housed in [draft] S1, but that it would also apply to opportunities in future standards unless otherwise specified.

ISSB decision

All 13 of the ISSB members present agreed with the staff recommendation regarding the introduction of an exemption in [draft] S1 that would permit entities, in limited circumstances where information is not already publicly available, to exclude the information about a sustainability-related opportunity when the information is commercially sensitive.

All 13 of the ISSB members present agreed with the staff recommendation regarding basing the exemption on addressing a particular situation and requiring entities to consider whether it is possible to disclose the information about the opportunity at a sufficiently aggregated level that would resolve the entity's concern about commercial sensitivity.

All 13 of the ISSB members present agreed with the staff recommendation regarding inclusion of the specific reason for non-disclosure of information, disclosure of the fact that the entity has used the exemption and that the entity must reassess whether the information qualified for the exemption from disclosure at each reporting date. The ISSB members voted in favour of adjusting part of the disclosure wording to read "by item of information omitted, require an entity to disclose the fact that it has used the exemption."

All 13 of the ISSB members present agreed with the staff recommendation regarding specifying that this would not be applicable to information that is already publicly available, would not permit broad non-disclosure with commercial sensitivity being used as a justification and would not permit non-disclosure of information about risks.

Climate-related Disclosures

At this meeting, the ISSB continued redeliberating the proposals on scenario analysis, GHG emissions and targets in the Exposure Draft IFRS S2 *Climate-related Disclosure.*

Cover note and summary of redeliberations (Agenda Paper 4)

At this meeting, the ISSB continued redeliberating the proposals in the Exposure Draft (ED) IFRS S2 *Climate-related Disclosure* ([draft] S2), in particular, by continuing the redeliberations of:

- Climate resilience—the proposed requirement in paragraph 15 of [draft] S2, focusing on how an entity would determine which approach to climate-related scenario analysis it should apply
- Climate-related metrics—the proposed requirement in paragraph 21(a) of [draft] S2, focusing on whether and what relief the ISSB should provide relating to the compilation of an entity's Scope 1 and Scope 2 GHG emissions information when there are differences in the reporting entity's reporting period and that of entities in its value chain

- Climate-related targets—the proposed requirement in paragraph 23(e) of [draft] S2, focusing on the requirement that an entity disclose how its target compares with those created in the latest international agreement on climate change
- Current and anticipated effects—the proposed requirements in [draft] S1 and [draft] S2 that an entity disclose the effects of sustainability-related (and climate-related) risks and opportunities on an entity's financial position, financial performance and cash flows for the reporting period and the anticipated effects over the short, medium and long term
- Reasonable and supportable—the proposed requirements in [draft] S1 and [draft] S2 that involve a high level of outcome or measurement uncertainty, particularly requirements where forward-looking information is required to be considered or disclosed

The ISSB also redeliberated on topics led by the General Sustainability-related Disclosures project that had implications for [draft] S2. This included the proposed requirements in [draft] S1 and [draft] S2 related to opportunities, which had raised concerns among stakeholders that those requirements may result in the disclosure of commercially sensitive information.

Using scenario analysis to assess climate resilience (Agenda Paper 4A)

This paper continued the ISSB's redeliberations of the requirements proposed in paragraph 15 of [draft] S2 for entities to disclose their resilience to climate-related changes, developments or uncertainties.

In relation to this topic, at its supplementary meeting in November 2022, the ISSB decided:

- To require an entity to assess its climate resilience using climate-related scenario analysis
- That entities be required to apply a method of climate-related scenario analysis commensurate with their circumstances

The ISSB also asked the staff to do further work to clarify the criteria an entity would use to select a method of climate-related scenario analysis, including by developing application guidance for the requirements proposed in paragraph 15 of [draft] S2 based on guidance from the TCFD.

At this meeting, the ISSB discussed the staff's recommended requirements that would enable an entity to determine the approach to climate-related scenario analysis the entity should apply.

Staff recommendation

The staff recommended that the ISSB require an entity to use an approach to climate-related scenario analysis that enables the entity to consider all reasonable and supportable information that is available without undue cost or effort, at the reporting date, including information about past events, current conditions and forecasts of future economic conditions, taking into consideration:

- The degree of the entity's exposure to climate-related risks and opportunities
- The skills, capabilities and resources available to the entity to conduct climate-related scenario analysis

ISSB discussion

ISSB members were generally supportive of the staff recommendations.

A number of ISSB members said that the reasonable and supportable and without undue cost or effort notion is very important both in preparers' perspectives and in assurers' perspectives because it would provide them with comfort that the scenarios being selected would be appropriate. In contrast, one ISSB member expressed a concern over this notion, which he explained comes from expected difficulties associated with how an entity could demonstrate whether it has used all reasonable and supportable information.

One ISSB member observed that this notion would be used in S1, S2 and potentially future standards and suggested that it is important to use the notion in a consistent manner to minimise the risk that stakeholders have a different understanding or interpretation depending on where the notion is used in.

One ISSB member preferred the original approach where an entity would be required to apply an approach required for experienced preparers unless unable to do so, in which case the entity would apply the method one level lower and so on. He observed that the staff recommendation would work in the opposite direction.

One ISSB member asked whether resources available to an entity included not only internal resources but also external resources, such as TCFD guidance. The staff replied that that was the staff's intention.

A number of ISSB members observed that the two figures included in the agenda paper would be very helpful in applying the proposed requirements and suggested that those figures should be included either in the finalised Standard itself or in the application guidance.

Some ISSB members, including the Chair and one of the Vice-Chairs, said that it is important to acknowledge that the choice an entity first makes in selecting an approach to climate-related scenario analysis is not a static decision and it is expected to change over time as the entity gains more experience and more methodologies develop. They suggested that this should be noted either in the finalised Standard or in the basis for conclusions.

ISSB decision

13 of 14 ISSB members agreed with the staff recommendation to require an entity to use an approach to climate-related scenario analysis that enables the entity to consider all reasonable and supportable information that is available without undue cost or effort, at the reporting date, including information about past events, current conditions and forecasts of future economic conditions.

All ISSB members agreed with the staff recommendation that the guidance should require an entity to consider:

- The degree of the entity's exposure to climate-related risks and opportunities
- The skills, capabilities and resources available to the entity to conduct climate-related scenario analysis

Greenhouse gas emissions—reporting period relief (Agenda Paper 4B)

At its December meeting, the ISSB tentatively decided to provide relief that allows an entity to measure its Scope 3 GHG emissions using information for reporting periods that are different from its own reporting period when that information arises from entities in its value chain with reporting periods that are different from that of the entity, on the condition that:

- The entity uses the most recent data available without undue cost or effort to measure and disclose its GHG emissions
- The length of the reporting periods is the same
- The entity discloses the effects of significant events and changes in circumstances (relevant to its GHG emissions information) that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reporting

During the ISSB's discussion on this matter in December, the question was raised whether a similar relief should be provided for an entity's disclosure of Scope 1 and Scope 2 GHG emissions because these disclosures also may include GHG emission information from entities in the reporting entity's value chain that have reporting periods that do not align with that of the reporting entity.

At this meeting, the ISSB discussed whether it should extend the relief described earlier to an entity's disclosure of Scope 1 and Scope 2 GHG emissions.

Staff recommendation

The staff recommended that the ISSB provide relief that allows an entity to measure its GHG emissions using information for reporting periods that are different from the entity's reporting period when that information arises from entities in its value chain with reporting periods that are different from that of the entity, on condition that:

- The entity uses the most recent data available without undue cost or effort to measure and disclose its GHG emissions
- The length of the reporting periods is the same
- The entity discloses the effects of significant events and changes in circumstances (relevant to its GHG emissions information) that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reporting

ISSB discussion

One of the Vice-Chairs shared with other ISSB members that the staff had considered whether a similar relief relating to information from an entity's value chain should be provided in [draft] S1 but decided not to do so because there had been a concern that providing such a broad relief without any specific context would be too big a decision for the ISSB to make at this time. She also emphasised that this does not mean that a similar relief would never be provided in S1 and any other future standards. A few ISSB members suggested that this should be explained in the Basis for Conclusions.

ISSB decision

All ISSB members agreed with the staff recommendation to extend the relief that the ISSB tentatively agreed on in December to an entity's disclosure of Scope 1 and Scope 2 GHG emissions.

Climate-related targets—Latest international agreement on climate change (Agenda Paper 4C)

Background

In the initial Exposure Draft IFRS S2 *Climate-related Disclosures* ([draft] S2), paragraph 23(e) proposes that entities disclose how their climate-related targets compare with those created in the latest international agreement on climate change. Feedback was received that this wording caused two common interpretations of the disclosure requirement:

(a) Entities provide a yes-or-no disclosure of whether the entity's climate-related targets compare with the latest international agreement on climate change
(b) Entities provide a qualitative or quantitative disclosure on the extent to which their climate-related targets compare with the latest international agreement on climate change, for example, an entity may compare their emissions reductions target to the Paris Agreement

To address this inconsistency in interpretation the staff analysed stakeholder feedback within comment letters and surveys to provide two alternative approaches for ISSB members to consider.

Summary of proposed approaches

Approach 1: Amend the proposal in paragraph 23(e) to require an entity to disclose how the latest international agreement on climate change has informed any climate-related targets it has set.

For example, an entity may disclose how the Paris Agreement has informed their climate-related targets including the amount of the emissions reduction target, the GHG emissions scopes included in the target and the timeframe over which the target applies.

The staff believe this approach will allow users of general-purpose financial reporting to understand how the entity is thinking about its exposure to risks and opportunities associated with the latest international agreements and/or associated jurisdictional Nationally Determined Contribution (NDC) measures. This approach will also enable users to understand whether the entity's actions align with the latest international agreements. Further, the staff believe this approach is closer to the proposed objectives stated in [draft] S2, specifically, that disclosures should allow users 'to evaluate the entity's ability to adapt its planning, business model and operations to significant climate-related risks and opportunities'.

Based on this analysis, the staff recommended the ISSB use Approach 1.

Approach 2: Confirm the requirement as proposed in paragraph 23(e) of [draft] S2, and provide additional guidance—for example, illustrative examples—of this disclosure requirement.

This approach would not change the current wording of paragraph 23(e); however, it would provide additional guidance for preparers. The staff noted that although illustrative examples will help preparers understand the Standard, these examples may be difficult to develop in a way that is not too general nor too specific to translate to other contexts or circumstances. Further, entities are not required to use illustrative examples when preparing their disclosures, which may limit the usefulness of this approach.

The staff also raised concerns that this approach would not address questions related to how an entity would 'compare' all climate-related targets to the Paris Agreement, which encompasses a range of ambition from curbing global temperature rise to well below 2°C above pre-industrial levels to pursuing efforts to limit warming to 1.5°C.

Staff recommendation

Based on the analysis, the staff did not recommend the ISSB use Approach 2. Instead, they recommended amending [draft] S2 paragraph 23(e) consistent with Approach 1.

ISSB discussion

The staff began by clarifying that the latest international agreement, referred to within [draft] S2 paragraph 23(e), does not only refer to the Paris Agreement but could also encompass the NDCs or other related agreements.

Several ISSB members commented on whether additional guidance would be provided to preparers regardless of which approach is chosen. The staff responded that additional educational materials to inform the application of this standard could be considered if necessary and selecting Approach 1 does not rule out providing these supplemental materials.

Another ISSB member clarified that the ISSB does not intend to call out entities who do not create targets informed by the latest international agreement on climate change with this disclosure requirement, the intention is to improve comparability for those who are using international agreements to inform their target setting.

One of the Vice-Chairs recommended that the staff include discussion on what the ISSB is attempting to achieve with this disclosure to increase the consistency of interpretation of this requirement.

An ISSB member questioned the appropriateness of the word "political" which is used to describe the latest consensus on limiting climate change as this may affect the interpretation of the standard, given varying political views. The staff responded that this was a poor choice of words, and that they were trying to convey the regulatory and policy making implications within jurisdictions, not the political climate; wording choices in future will be more conscious to avoid similar misinterpretation.

Other ISSB members asked the staff to include additional documentation on what a “climate target” refers to within the standard and asked the staff to ensure the term “international agreement” is defined as more than just an agreement on emissions in order to ‘future proof’ this definition.

ISSB decision

All ISSB members voted in favour of using Approach 1 to adjust [draft] S2 paragraph 23(e) with the following additions: the staff will clarify that the latest international agreement does not only refer to the Paris Agreement but could also include NDCs or other similar agreements and the staff will add discussion on what kind of understanding this disclosure paragraph is trying to elicit from prepares in order to increase clarity.

General Sustainability-related Disclosures and Climate-related Disclosures

In this session, the ISSB discussed the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’, and current and anticipated effects and connected information.

Reasonable and supportable information that is available at the reporting date without undue cost or effort (Agenda Paper 3C/4D)

This paper introduced the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ and its potential applicability to IFRS Sustainability Disclosure Standards.

The objectives of this paper was:

- To discuss the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’, including its use in IFRS Accounting Standards
- To seek the ISSB’s feedback on the staff’s analysis and recommendations regarding the application of this concept in specific areas of [draft] S1 and [draft] S2
- To seek decisions from the ISSB on the staff’s recommendations

Staff recommendation

Preparers may be challenged to apply disclosure requirements that involve a high level of outcome or measurement uncertainty including where forward-looking information is required to be considered or disclosed. The staff recommended that the ISSB introduce the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’—which is used in similar circumstances in some IFRS Accounting Standards—as a mechanism to facilitate application of particular requirements of IFRS S1 and IFRS S2, specifically:

- The identification of risks and opportunities ([draft] S1 and [draft] S2)
- Applying value chain-related requirements, specifically in relation to:
    - The scope of the value chain ([draft] S1 and [draft] S2)
    - Measurement of Scope 3 greenhouse gas (GHG) emissions ([draft] S2)
- The determination of anticipated financial effects on an entity’s financial performance, financial position and cash flows ([draft] S1 and [draft] S2)
- Applying climate-related scenario analysis ([draft] S2)
- The calculation of metrics in particular cross-industry metric categories ([draft] S2)

The staff emphasised that the introduction of this concept would not exempt entities from providing required disclosure and that these recommendations do not propose additional disclosure requirements. Rather, these recommendations would provide clarity about the information that entities would use in the preparation of disclosures.

ISSB discussion

ISSB members considered the paper the staff had prepared as very helpful and were very supportive of the staff recommendation to introduce the concept of 'reasonable and supportable information that is available at the reporting date without undue cost or effort' to provide clarity to entities in the application of certain ISSB standards.

The Chair emphasised that ISSB standards will require transparency on the full value chain and this will inevitably lead to costs and effort required. Hence, the introduction of this concept would not exempt entities from providing required disclosure. Based on the relationship between costs and the usefulness of information, the standards should embed more in terms of understanding the meaning of "undue cost or effort". Some ISSB members also suggested that more resources explaining "undue cost or effort" should be provided.

In conclusion, all ISSB members agreed with the staff recommendations related to the areas described above where the concept of 'reasonable and supportable information that is available at the reporting date without undue cost or effort' should be introduced. The staff recommendation to require an entity to use an approach to climate-related scenario analysis that enables the entity to consider all reasonable and supportable information that is available without undue cost or effort, at the reporting date, including information about past events, current conditions and forecasts of future economic conditions, was part of the discussion of Agenda Paper 4A (Using scenario analysis to assess climate resilience).

Current and anticipated financial effects and connected information (Agenda Paper 3E/4E)

Following the ISSB discussion in November 2022, this agenda paper informed the ISSB's redeliberations of:

- The proposed requirements in paragraph 22 of [draft] S1 and equivalent requirements in paragraph 14 of [draft] S2 for an entity to disclose the effects of its sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period and the anticipated effects over the short, medium and long term. It was proposed that an entity shall disclose quantitative information, either single amounts or a range, unless it is unable to do so. If an entity is unable to provide quantitative information, it shall provide qualitative information. These proposed requirements were referred to as the 'current and anticipated financial effects requirements' in this paper
- The proposed requirements in paragraphs 42–44 of [draft] S1 for an entity to provide information that enables users of general-purpose financial reporting to assess the connections between various sustainability-related risks and opportunities, and to assess how information about these risks and opportunities is linked to information in the general-purpose financial statements. These proposed requirements were referred to as the 'connected information requirements' in this paper

Staff recommendation

The staff was seeking decisions from the ISSB on its recommendations summarised below:

- Clarify that when sustainability-related risks and opportunities have affected or are expected to affect the information in an entity's financial statements, the entity is required to explain the connections between those current and anticipated financial effects and the sustainability-related risks and opportunities. In explaining these connections, the entity is required to avoid unnecessary duplication and is permitted to provide information by cross-reference subject to the specified conditions

- Clarify that an entity is required to provide quantitative and qualitative information about the current and anticipated effects of sustainability-related risks and opportunities on the entity's financial position, performance and cash flows unless the entity is unable to provide quantitative information. In the specified circumstances when the entity is unable to provide quantitative about the financial effects of a particular sustainability-related risk or opportunity the entity is required to provide qualitative information
- Use consistent language to refer to the reporting period for which sustainability-related financial disclosures are prepared and to refer to the related financial statements for that reporting period. Additionally, use the phrase 'short, medium and long term' rather than the term 'over time' consistently in IFRS S1 and IFRS S2
- Clarify the relationship between resilience assessment requirements and the requirements to disclose current and anticipated financial effects by emphasising those requirements can be applied independently but the resilience assessment can inform the disclosures of current and anticipated financial effects. Furthermore, clarifying that there is no requirement for an entity to perform a resilience assessment to determine current and anticipated financial effects of sustainability-related risks and opportunities

ISSB discussion

The discussions relating to this agenda paper primarily focused on the first two of the four staff recommendations described above. All ISSB members agreed with the first recommendation to clarify that when sustainability-related risks and opportunities have affected or are expected to affect the information in an entity's financial statements, the entity should be required to explain the connections between those current and anticipated financial effects and the sustainability-related risks and opportunities. Nevertheless, it was highlighted that with respect to the objective to avoid unnecessary duplication, the term "unnecessary" is the key word. In some cases, duplication, especially when connecting sustainability-related information to the information in entity's financial statements, is inevitable and will be helpful. Parts of these discussions are planned to be included in the Basis for Conclusions of the ISSB Standards.

The second staff recommendation was considered to be very helpful. The Chair of the ISSB emphasised that the clarification regarding quantitative and qualitative information should be even stronger. Even when quantitative information can be provided, it might be helpful to complement that information with qualitative information. Hence, the clarification should also emphasise that quantitative and qualitative information are not mutually exclusive. In conclusion, all ISSB members agreed with the staff recommendation to clarify that an entity is required to provide quantitative and qualitative information about the current and anticipated effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows unless the entity is unable to provide quantitative information.

With respect to determining whether an entity is able to provide quantitative information about the financial effects of a particular sustainability-related risk or opportunity or not, 13 of the 14 ISSB members (one ISSB member did not support this recommendation because of the criteria of separate identification) agreed with the staff recommendation that an entity should take into consideration:

- Whether the financial effects of that sustainability-related risk or opportunity are separately identifiable
- Whether a high level of outcome or measurement uncertainty is involved in quantifying the financial effects of that sustainability-related risk or opportunity
- In case of the anticipated financial effects only, whether the entity has the skills, capabilities and resources to provide quantitative information about those effects (addressing the need of scalability and proportionality)

If an entity is unable to provide quantitative information about the financial effects of a particular sustainability-related risk or opportunity, the ISSB agreed with the staff recommendation that the entity should be required to:

- Explain why it is unable to provide quantitative information about the financial effects of that sustainability-related risk or opportunity
- Provide qualitative information about the financial effects of that sustainability-related risk or opportunity, including identifying line items, totals and subtotals within financial statements that are likely to be affected by that sustainability-related risk or opportunity
- Provide quantitative information about sustainability-related risks and opportunities—including that particular sustainability-related risk or opportunity—at the lowest possible level of aggregation at which the entity is able to provide that information

In addition, the ISSB agreed that educational material would be helpful and should be developed.

With respect to the third and fourth recommendation, all ISSB members were very supportive and agreed with the staff recommendations.