

# ISSB

## Meeting Summary

February 2023

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Overview.....	1
General Sustainability-related Disclosures.....	2
Sources of guidance to identify sustainability-related risks and opportunities and disclosures (Agenda Paper 3A).....	2
General Sustainability-related Disclosures and Climate-related Disclosures.....	3
Effective Date (Agenda Paper 3B/4A).....	3
Due process and permission to ballot (Agenda Paper 3C/4B).....	5
Proportionality and support for those applying IFRS S1 and IFRS S2 (Agenda Paper 3D/4C).....	6

## Overview

The ISSB met in Montreal on 16 February 2023. The following topics were discussed.

### **Sources of guidance to identify sustainability-related risks and opportunities and disclosures**

The ISSB decided to amend the references to ‘other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting’ and ‘entities that operate in the same industries or geographies’ to state that preparers *may* consider such sources, both in the identification of sustainability-related risks and opportunities and in the identification of disclosures about those risks and opportunities, but that such consideration is not a requirement. The ISSB also decided to amend the sources of guidance to explicitly state that preparers may consider the GRI Standards and ESRS to identify disclosures about sustainability-related risks and opportunities that meet the objectives of [draft] S1. However, this reference will be made in an appendix to IFRS S1.

### **Effective date**

The ISSB decided to require that both IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after 1 January 2024. The ISSB also confirmed that early application of IFRS S1 and IFRS S2 is permitted, but only if an entity applies both IFRS S1 and IFRS S2 at the same time. An entity will be required to disclose that it applies IFRS S1 and IFRS S2 early. ISSB members also voted in favour of the staff recommendation related to the applicable timing of the transitional relief from the requirement for an entity to report their sustainability-related financial disclosures at the same time as their financial statements; from the requirement for an entity to measure Scope 1, Scope 2, and Scope 3 emission in accordance with the *GHG Protocol Corporate Standard*, when they are doing so for the first time by applying IFRS S2; and from the requirement for an entity to disclose its Scope 3 GHG emissions.

## **Due process and permission to ballot**

The staff summarised the due process steps undertaken throughout the General Sustainability-related Disclosures and the Climate-related Disclosures projects and the ISSB confirmed that it is satisfied that the mandatory due process steps have been met in finalising redeliberations of [draft] S1 and [draft] S2. The ISSB also granted permission for the staff to begin the balloting process for IFRS S1 and IFRS S2 and none of the ISSB members indicated that they intend to dissent from the publication of IFRS S1 or IFRS S2.

## **General Sustainability-related Disclosures**

In this session, the staff sought decisions from the ISSB on the open issues related to the sources of guidance in [draft] S1 that that were discussed but not voted on in the 3 November 2022 supplementary ISSB meeting.

### **Sources of guidance to identify sustainability-related risks and opportunities and disclosures (Agenda Paper 3A)**

This paper discussed the sources of guidance to identify sustainability-related risks and opportunities and related disclosures in paragraphs 50-54 of [draft] S1 within the ‘fair presentation’ section.

The objective of this paper was to seek decisions from the ISSB on the open issues related to the sources of guidance in [draft] S1 that that were discussed but not voted on in the 3 November 2022 supplementary ISSB meeting.

#### **Staff recommendation**

The staff was seeking decisions from the ISSB on these recommendations:

- Recommendation 1—Open-ended sources of guidance—the staff recommended that the ISSB amend the references to ‘other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting’ and ‘entities that operate in the same industries or geographies’ to state that preparers may consider such sources, both in the identification of sustainability-related risks and opportunities and in the identification of disclosures about those risks and opportunities, but that such consideration is not a requirement (so amending ‘shall consider’ as proposed in [draft] S1 to ‘may consider’)
- Recommendation 2a—Global Reporting Initiative (GRI) Standards—the staff recommended that the ISSB amend the sources of guidance to explicitly state that preparers may consider the GRI Standards to identify disclosures about sustainability-related risks and opportunities that meet the objectives of [draft] S1
- Recommendation 2b—European Sustainability Reporting Standards (ESRS)—the staff recommended that the ISSB amend the sources of guidance to explicitly state that preparers may consider ESRS to identify disclosures about sustainability-related risks and opportunities that meet the objectives of [draft] S1

#### **ISSB discussion**

The ISSB agreed with Recommendation 1.

Regarding Recommendations 2a and 2b, there was an interesting discussion emphasising certain advantages and disadvantages of explicitly referencing to GRI Standards and/or ESRS.

Since GRI application is widely spread, ISSB members repeatedly cited cost efficiency as a main argument. The argument of different materiality concepts, which was mentioned as an argument against referencing, was refuted by the remark that double materiality frameworks can also be helpful to identify financially material

metrics, since rebound effects from impacts of companies are also relevant for users of general purpose financial reporting. Therefore, the ISSB decided to highlight that the focus for referencing should be on metrics and on financial materiality, which should also be reflected in the basis for conclusions of [draft] S1. Therein it should be clarified, among other things, that users cannot simply repurpose GRI and/or ESRS disclosures without further thoughts.

At the end, 13 of the 14 ISSB members decided to amend the sources of guidance to explicitly state that preparers may consider GRI Standards to identify metrics and disclosures about sustainability-related risks and opportunities that meet the objective of [draft] S1.

Regarding the reference of ESRS, some ISSB members were initially sceptical, because ESRS will only be applied in one jurisdiction in the future and are therefore localised. However, in addition to the arguments mentioned above, the Chair emphasised that referencing to other standards will not be included in the standards forever and reassessed whether needed in the future. At the end of the discussion, 13 of the 14 ISSB members agreed on referencing to ESRS Standards to identify metrics and disclosures about sustainability-related risks and opportunities that meet the objective of [draft] S1.

To emphasise the non-permanence of these references, the ISSB decided to include the guidance that preparers may consider the GRI Standards and/or ESRS in the appendix rather than in the main text.

## General Sustainability-related Disclosures and Climate-related Disclosures

In this session, ISSB members decided on the effective dates of IFRS S1 and IFRS S2 based on the assumption that the ISSB issues the standards mid-2023. ISSB members also confirmed the duration of the previously agreed transitional reliefs. Furthermore, the staff asked the ISSB for permission to ballot.

### Effective Date (Agenda Paper 3B/4A)

#### Background

The staff analysed feedback provided on the effective date of IFRS S1 and IFRS S2; during this meeting ISSB members were asked to vote on the staff recommendation related to the effective date of the Standards.

Further, ISSB members voted on the staff recommendation related to the applicable timing of the transitional relief from:

- (a) The requirement for an entity to report their sustainability-related financial disclosures at the same time as their financial statements
- (b) The requirement for an entity to measure Scope 1, Scope 2, and Scope 3 emission in accordance with the *GHG Protocol Corporate Standard*, when they are doing so for the first time by applying IFRS S2
- (c) The requirement for an entity to disclose its Scope 3 GHG emissions

#### Staff recommendation

##### Recommendation 1: the effective date of IFRS S1 and S2

The staff recommended that the ISSB:

- Require both IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after 1 January 2024 (meaning an entity would report its first sustainability related disclosures in 2025)
- Confirm that early application of IFRS S1 and IFRS S2 is permitted
- Permit early application only if an entity applies both IFRS S1 and IFRS S2 at the same time
- Confirm that if an entity applies IFRS S1 and IFRS S2 early, it is required to disclose that fact

In arriving at this recommendation, the staff considered jurisdictional adoption of the Standards, the ability of preparers to apply the Standards, the urgent need for sustainability and climate-related disclosure standards, and the interoperability with other jurisdiction's sustainability and climate reporting timelines.

#### Recommendation 2: transitional reliefs for specific requirements

The staff recommended that the ISSB:

- Permit an entity, in applying short term transitional relief, to report its sustainability-related financial disclosures:
  - At the same time as its next second quarter or half-year interim report if the entity is required to provide such an interim report
  - At the same time as its next second quarter or half-year interim report, but no later than nine months after the end of its annual reporting period, if the entity voluntarily provides such an interim report
  - No later than nine months after the end of its annual reporting period, if the entity is not required and does not voluntarily provide an interim report
- Make the transitional relief available in the first annual reporting period in which an entity applies IFRS S1 and IFRS S2 (i.e. transitional relief would be provided for one year)

The staff considered various jurisdictional half-year interim reporting requirements (or lack thereof) when analysing an acceptable lag between an entity's financial and sustainability reporting.

Further, the staff analysed the appropriate balance in providing relief to preparers, whilst recognising the reduced decision-usefulness of information required by users when recommending the duration that the transitional relief should be available for.

#### **ISSB discussion**

##### Recommendation 1: the effective date of IFRS S1 and S2

One ISSB member questioned the realistic nature of an effective date being on or after 1 January 2024, given the reporting systems and processes that entities will need to put in place after the release date of IFRS S1 and S2. However, other ISSB members and the staff discussed the transitional relief that will aid companies in meeting this timeline as well as the jurisdictional considerations that will have to be taken when entities apply the Standards, and the majority of ISSB members voiced their agreement with an effective date that is as soon as possible.

One member asked about the perspective of assurers and how they were considered in determining this proposed timeline. The staff responded that in this scenario, the ISSB cannot wait for assurance standards to be developed before issuing an effective date. One of the Vice-Chairs added that the expectation is that the level of assurance for ISSB Standards will increase over time, and she anticipates that this style of approach will help in entities' sustainability reporting journeys.

ISSB members discussed how the ISSB does not want to hinder companies from starting to apply the Standards by preparing partial disclosures. One of the Vice-Chairs clarified that preparing partial disclosures would not allow an entity to state that they were wholly compliant with the ISSB's Standards, and the transition reliefs are only meant to apply to companies who are fully applying the Standards.

ISSB members voted on whether they agreed with the following:

- Require both IFRS S1 and IFRS S2 to be effective for annual reporting periods beginning on or after 1 January 2024 – 13 out of the 14 ISSB members voted in agreement

- Confirm that early application of IFRS S1 and IFRS S2 is permitted – all 14 ISSB members voted in agreement
- Permit early application only if an entity applies both IFRS S1 and IFRS S2 at the same time – all 14 ISSB members voted in agreement
- Confirm that if an entity applies IFRS S1 and IFRS S2 early, it is required to disclose that fact – all 14 ISSB members voted in agreement

#### Recommendation 2: transitional reliefs for specific requirements

One ISSB member indicated their concern that waiting to publish sustainability-related financial disclosures under IFRS S1 and IFRS S2 until the interim report of the following year would not be decision-useful to users, as receiving information on last year's sustainability reporting at the same time as half of the current year's financial information may not be relevant. However, another ISSB member clarified that this mismatch would only be applicable in the first year the entity qualifies for transitional relief.

ISSB members then voted on whether they agreed with the following:

- Permit an entity, in applying short term transitional relief, to report its sustainability-related financial disclosures after the company's financial disclosures for the first year of Standard adoption (as outlined above) – 13 out of 14 ISSB members voted in agreement
- Make the transitional relief available in the first annual reporting period in which an entity applies IFRS S1 and IFRS S2 (i.e. transitional relief would be provided for one year) – all 14 ISSB members voted in agreement

#### **Due process and permission to ballot (Agenda Paper 3C/4B)**

This paper outlined the steps taken in developing [draft] S1 and [draft] S2, which are subject to the due process provisions outlined in the IFRS Foundation *Constitution*, the IFRS Foundation Due Process Handbook (Handbook, updated in August 2020) and are overseen by the IFRS Foundation Trustee's Due Process Oversight Committee (DPOC).

The objectives of this paper were to:

- Summarise the due process steps undertaken throughout the General Sustainability-related Disclosures and the Climate-related Disclosures projects and ask the ISSB if it is satisfied that the mandatory due process steps have been met in finalising redeliberations of the [draft] S1 and [draft] S2
- Request permission for the staff to begin the balloting process for IFRS S1 and IFRS S2
- Ask whether any ISSB member intends to dissent from the publication of IFRS S1 or IFRS S2

#### **Permission to begin the balloting process**

At this meeting, the ISSB completed the planned technical decisions needed to finalise IFRS S1 and IFRS S2.

The staff believe that:

- All of the required steps in the Handbook have been complied with and the ISSB has satisfied many of the options due process steps set out in the Handbook
- The proposal for [draft] S1 and [draft] S2 are sufficiently developed and therefore, the staff can proceed to begin the balloting process for the Standards

Accordingly, the staff sought permission to begin the balloting process. As a necessary step before beginning the balloting process, at this month's meeting the staff recommended an effective date for IFRS S1 and IFRS S2 for the ISSB to decide. The staff will consider the need for future ISSB discussions of issues that may arise during the balloting process.

## **ISSB discussion**

Throughout the discussion, ISSB members were overall supportive that the mandatory due process steps were met throughout the General Sustainability-related Disclosures and the Climate-related Disclosures projects.

Several ISSB members pointed out the thorough, diligent, and high-quality work done over the last year which supports granting the staff permission to begin the balloting process for IFRS S1 and IFRS S2. A few ISSB members noted that the paper effectively highlighted the diligence of the due process followed and that this paper was an excellent recap capturing all the decisions the ISSB has made and all the work the staff has done.

With regard to re-exposure, one ISSB member asked a question about the seven areas of change that the staff highlighted in the paper that were identified as being more significant. The ISSB member raised the question of what would be considered a fundamental change, if anything. The staff responded that these changes highlighted in the paper, while significant, do not represent fundamental change due to the fact stakeholders had the opportunity to comment.

The Chair discussed that despite the last feedback received being from July 2022, there has been constant feedback outside of the formal comment period through speaking to companies and investors. Additionally, there were 1,400 comments letters which are only seven months old. If it had taken longer, it may suggest that market conditions had changed but the feedback received is very recent.

One ISSB member highlighted that a lot of the decisions made by the ISSB that got more public attention were things that had originally been exposed and were not new.

A fellow ISSB member asked whether there was going to be a fatal flaw review and whether this would occur after the discussion at this meeting. The staff confirmed that this would be part of the next stage, and that there is an option in the handbook to have an external fatal flaw review. The ISSB member noted that particularly with standards that are as detailed as these, with a level of uncertainty, it is necessary to have that review.

Another ISSB member noted that he agrees that the ISSB is ready to ballot and raised a question about what the due process would be for guidance which may come later in the event additional guidance is needed. The staff responded that the focus will be on the ongoing work, and that one of the changes undertaken that was relevant is the detail around the level of ISSB review before publication. The existing due process that the IASB has utilised in the past will be used by the ISSB in the future.

## **ISSB decision**

All ISSB members agreed that they were satisfied that all the mandatory due process steps have been met in these projects.

All ISSB members agreed with the staff recommendation not to re-expose [draft] S1 and [draft] S2.

None of the ISSB members indicated that they intend to dissent from the publication of IFRS S1 and IFRS S2.

All ISSB members voted to grant the staff permission to begin the balloting process for the standards.

## **Proportionality and support for those applying IFRS S1 and IFRS S2 (Agenda Paper 3D/4C)**

This paper was for informational purposes and summarised tentative decisions made by the ISSB that are intended to address challenges faced by a subset of preparers: those that are less able to comply with the proposed disclosure requirements in the [draft] S1 and S2. Addressing the unique challenges faced by these preparers is described as addressing 'proportionality'.