

Sustainability Standards-related Update

Executive Summary

Project Type	Monitoring
Project scope	Various
Purpose of the paper	
<p>This paper provides the Board with an update on ISSB projects currently being monitored by the UKEB Secretariat. This work is undertaken to inform the Board about the progress and decisions being made by the ISSB on their active projects.</p> <p>The UKEB Chair and Technical Director also participate in various international standard setting meetings, including ASAF, CFSS and WSS, that contribute to the ongoing work of the IFRS Foundation. These discussions with the Board help to inform those interactions, and may identify specific concerns, or areas of focus for future work.</p>	
Summary of the Issue	
<p>This paper summarises the agenda and outcomes of ISSB September 2022 meeting. The paper provides a summary of the ISSB topics relevant to the UKEB remit of overlap and potential implications for IFRS Accounting Standards. The content is therefore not intended as a complete summary of the ISSB's meeting papers, discussions, or decisions.</p>	
Questions for the Board	
<p>Do Board members have any questions or comments on the updates provided in this paper?</p>	
Next steps	
<p>Feedback from the Board will help inform future UKEB discussions and, where appropriate, project work.</p>	

ISSB September board meeting

1. The ISSB met on 20–23 September, in Frankfurt, Germany¹. A summary of the meeting relevant to the UKEB remit is below.
2. The ISSB reviewed a summary of comments received on:
 - a) ED S1 *General Sustainability-related Disclosures*; and
 - b) ED S2 *Climate-related Disclosures*,
3. Stakeholder feedback indicated that the potential areas for challenge:
 - a) in [draft] IFRS S1 related to enterprise value, breadth of reporting, materiality, current and anticipated financial effects and the timing of reporting.
 - b) in [draft] IFRS S2 were noted as transition planning, current and anticipated effects, climate resilience, greenhouse gas emissions metrics, industry-based requirements, and proportionality.
4. ISSB Board members discussed a range of topics including stakeholder confusion over the differences in the meaning of the terms 'significant' and 'material', application guidance for preparers when unable to meet the disclosure requirements, reporting for complex global companies, and linking financial effects of sustainability risks to the financial statements.
5. The ISSB tentatively decided on the following topics for redeliberation at future meetings:

ED S1

 - a) enterprise value;
 - b) breadth of reporting required;
 - c) 'significant' sustainability-related risk or opportunity;
 - d) identifying significant sustainability-related risks and opportunities and disclosures (including using the materials of other standard-setters);
 - e) application of the materiality assessment;
 - f) connected information; and
 - g) frequency of reporting.

¹ A summary of the meeting can be found here: ISSB Update [September 2022](#)

ED S2

- h) strategy and decision-making, including transition planning;
 - i) climate resilience;
 - j) greenhouse gas emissions; and
 - k) industry-based requirements, including financed and facilitated emissions.
6. It was noted that the list had not been prioritised but that the more complex and interrelated topics could be presented first with a 'sweep' paper covering the less complex or controversial topics towards the end of the decision-making timeline. The ISSB intends to cover all the topics over the remaining three meetings in 2022.
7. The ISSB noted that a subset of preparers, including those in emerging economies and small to medium enterprises had highlighted challenges engaging with the standards due to limited knowledge and capacity regarding sustainability reporting. To avoid lowering the ambition of a global baseline but still providing users with good quality and consistent disclosures, the ISSB staff proposed options or 'mechanisms' for the ISSB to consider to support this subset of preparers during the transition phase. The ISSB noted that application guidance regarding these mechanisms would be critical.
8. The ISSB tentatively agreed with the use of mechanisms to enable disclosure requirements to be scalable, on a transitional basis and in specific circumstances.

IASB work plan

9. The ISSB also received an update from the IASB Chair, Andreas Barckow, on the IASBs activities, agenda consultation outcomes and the future work plan. The ISSB was not asked to make any decisions on this agenda item.
10. The IASB Chair presented topics and projects for potential collaboration with the ISSB. He advised that intangible assets, statement of cash flows and related matters had been added to the IASB pipeline of research projects, and that climate-related risks had been added to the maintenance and consistent application projects. Mr Barckow considered that these topics may be appropriate for joint projects between the two Boards.
11. The Management Commentary project was also discussed as another possible candidate for a joint approach. The IASB Chair noted that some of the TCFD Recommendations and Technical Readiness Working Group principles had already been considered by the IASB project team in preparation for the formation of the ISSB.
12. The Mr Barckow had a wide-ranging discussion with ISSB members which included the financial accounting recognition criteria for liabilities in financial statements, connectivity with sustainability in the Extractive Activities project and the rationale for IASB guidance for climate-related disclosures in financial statements.

13. Mr Barckow was keen to clarify potential interactions between these IASB projects and the ISSB and begin collaborating at the earliest opportunity. No decisions were taken in relation to when collaboration may commence.

ISSB October 2022 meeting

14. The ISSB is due to meet between 18–21 October in Montreal, Canada. Areas relevant to the UKEB remit of overlap and potential implications for IFRS Accounting Standards is noted below for information.²

ISSB Agenda Consultation - Priorities³

15. The objective of the paper is to provide the ISSB with an update on the proposed approach and timing of the ISSB agenda consultation. The ISSB will not be asked to make any decisions.
16. The paper notes that stakeholders raised a range of queries that may have implications for the ISSB work plan, one of which was how the standards would interact with IFRS Accounting Standards⁴. Part of a recommended phase of ‘foundational work’ includes collaborating with the IASB to ensure ‘respective requirements are compatible and avoid inconsistencies and conflicts⁵’. This phase of work, which is noted as essential is recommended to begin ‘upon the finalisation of IFRS S1 and IFRS S2.⁶’
17. To provide capacity for the ISSB to complete the foundational work the ISSB staff recommend that the agenda consultation is deferred until the first half of 2023.

ED S1 - Plan for redeliberation⁷

18. The objective of the paper is to provide an update on the proposed approach for redeliberating [draft] IFRS S1 and includes an additional topic for the ISSB to consider. Based on mixed feedback, the ISSB staff have proposed that the ISSB also reconsider the requirement to disclose comparative information that reflects updated estimates.

ED S1 - Fundamental concepts⁸

19. The paper discusses the use of fundamental concepts and terms including the objective, definition, and application of the concepts of materiality and enterprise value, the use of

² The complete October ISSB agenda topics include Agenda Priorities, General Sustainability-related Disclosure – Fundamental concepts, Climate-related Disclosures – greenhouse gas emissions, General Sustainability and Climate-related Disclosures- Interoperability: Key matters and Industry-based materials ISSB Consultation on Agenda Priorities – ([Update on Planned Approach](#))

³ Paragraph 6(d), Page 2 ([Update on Planned Approach](#))

⁴ Paragraph 12 (c)(i), Page 4 ([Update on Planned Approach](#))

⁵ Paragraph 11, Page 3 ([Update on Planned Approach](#))

⁶ General Sustainability-related Disclosure–[Plan for redeliberations](#)

⁷ General Sustainability-related Disclosure–[Fundamental concepts](#)

the term 'significant' and the breadth of reporting required. The ISSB is not asked to make any decisions on this agenda item. The ISSB staff recommendations are noted below for information.

- I. Materiality and enterprise value
 - a) Confirm that information is being provided to meet the information needs of the primary users of general-purpose financial reporting as proposed in [draft] S1
 - b) Remove the definition of enterprise value that was included in [draft] S1 and remove the words 'assess enterprise value' from the [draft] S1 objective and definition of materiality
 - c) Draw on existing frameworks to more clearly articulate the notion of enterprise value and its link with sustainability
- II. Use of the term 'significant' – remove the term 'significant' and the phrase 'all significant' in relation to sustainability-related risks and opportunities
- III. Breadth of reporting
 - a) Confirm that the substance of the reporting requirements for the value chain and reporting entity will remain unchanged from [draft] S1
 - b) Consider providing guidance or further emphasising existing guidance on how entities should approach reporting on subsidiary and value chain activities.

Interoperability - key matters⁹

20. This paper arises from the respondents' request for achieving interoperability with sustainability proposals from EFRAG and the SEC. ISSB members and staff have identified differences through bilateral meetings with both Europe and the United States and through discussions with the ISSB's Jurisdictional Working Group.

21. The paper seeks decisions from the ISSB to align key differences in 'concepts, terminologies, and definitions' between the ISSB's and jurisdictional sustainability proposals.

22. Summary of ISSB staff recommendations in relation to areas that are overarching and specific to both exposure drafts and are provided below for information.

- I. Overarching matters:

⁹ Interoperability - [Key matters](#)

- a) Confirm the use of the TCFD pillars for structuring the core content in [draft] S1 and [draft] S2 – that is, information will be required on governance, strategy, risk management and metrics and targets; and
- b) 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.

II. Matters related to [draft] S1:

- a) Confirm that information is being provided to meet the information needs of the primary users of general-purpose financial reporting as proposed in [draft] S1;
- b) Remove the definition of enterprise value included in [draft] S1 as well as the words 'to assess enterprise value' from the [draft] S1 objective and definition of materiality;
- c) Confirm that, consistent with [draft] S1 and [draft] S2, time horizons are not defined for short, medium and long term; and
- d) Confirm the definition of 'value chain' previously proposed in [draft] S1.

III. Matters related to [draft] S2: In relation to current financial effects:

- a) Consistent with paragraph 14 of [draft] S2, confirm that disclosures are 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)

23. In relation to the above recommendations for draft IFRS S2, ISSB staff noted the approach and guidance provided by the IASB in relation to climate-related risks and 'do not believe that this negates the need for a specific requirement about climate-related risks and opportunities in S2¹⁰. They also note the potential interaction with IFRS Accounting Standards and that they are currently co-ordinating further guidance with IASB staff.

Industry-based materials¹¹

24. The objective of this paper is to discuss the strategy for integrating industry-based materials into ISSB Standards and discuss their role in the two exposure drafts, improving their international applicability and how they may feature in the ISSB agenda consultation. The ISSB is not being asked to make any decisions regarding this agenda item.

¹⁰ Paragraphs 53 -55, Page 10-11 (Interoperability - [Key matters](#))

¹¹ [Industry-based materials](#)

25. The ISSB staff have recommended that the requirement for entities to consider the SASB Standards disclosure topics and metrics is retained in draft S1 but do on to recommend changing the status use of SASB Standards in draft S2 Appendix B, from mandatory to non-mandatory i.e., implementation guidance¹².
26. As the ISSB meetings are scheduled to take place after the finalisation of this paper, UKEB Secretariat will provide a verbal update at the UKEB meeting and a full written report at the November 2022 meeting.

Questions for the Board

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| 21. Do Board members have any questions or comments on the ISSB updates? |
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Other International Developments

27. The ISSB featured significantly on the conference agendas during the September 2022 international 'Festival of Accounting'.
28. At the World Standards Setters (WSS) forum, both the IASB Chair, Andreas Barckow, and the ISSB Chair, Emmanuel Faber, addressed the forum on sustainability. The IASB Chair, noted the connectivity between the boards and potential for joint projects with the ISSB regarding Climate-related risks and Management Commentary.
29. The ISSB Chair noted the importance of building on the work of the IASB and the need for interoperability between accounting and sustainability standards. He provided an update on the set up of the ISSB Board and the setup of the ISSB Jurisdictional Working Group. He noted the criticality of momentum for ISSB Standards but also the practical tension created between application guidance, scalability, speed of delivery and the ambition for achieving a global baseline.
30. At the International Forum of Accounting Standard Setters (IFASS) a session on the 'Jurisdictional perspective on sustainability reporting' provided the opportunity for the EFRAG Head of Unit to provide an update on the status of the EU-ESRS. He noted that the likelihood of ISSB issued standards being granted equivalence to ESRS in the European Union (along the same lines as IFRS Accounting Standards issued by IASB are deemed equivalent for financial reporting purposes) was still to be determined by the European Commission.
31. The SEC Acting Chief Accountant's presentation at IFASS provided a status update on the SEC proposed Climate Standard. He noted that the SEC had received 14,000 comment letters and was at the early stages of considering the feedback received. He noted that the SEC had received approximately 300 responses relating to whether foreign private issuers should be allowed to report under ISSB Standards, that SEC disclosures intentionally used the word 'if' to avoid dictating requirements to companies

¹² Paragraph 47, page 10-11 ([Industry-based materials](#))

that may not be applicable and that a phased in approach with several 'safe harbour' provisions being included.

32. IFASS also held a panel discussion to discuss feedback on the ISSB exposure drafts, moderated by the ISSB Vice Chair, Sue Lloyd, with panel members from AASB, FRC, ICPAK, ASBJ and the KASB. The panel collectively voiced support from their stakeholders for international consistency & alignment with sustainability standards but also noted some challenges, such as:
- I. Significant implementation guidance and capacity building was likely to be required across all stakeholders;
 - II. Emerging economies and listed SMEs were likely to have a lower state of readiness and higher capacity constraints;
 - III. Due to different reporting time horizons between IASB and ISSB standards, guidance was likely to be required to enable users to connect the information provided;
 - IV. Strong support for industry-based disclosures however, the current state and granularity of the SASB Standards and their mandatory application was considered a significant challenge;
 - V. Conflicts were noted between the ED disclosure requirements and existing jurisdictional requirements e.g., Greenhouse gas emissions; and
 - VI. Concerns noted with potential litigation risks which may result in more qualitative than quantitative disclosures.