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# Special Session 2: ISSB Update and IFRS Foundation Adoption Guide

## AOSSG Meeting November 2023

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# Update on the ISSB's Activities



# ISSB milestones



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# Investor materiality assessment now aligned between ISSB Standards and European standards (ESRS)

The Delegated Acts of 31 July 2023, which adopted final ESRS in the EU, align the definition of Financial Materiality with the ISSB's definition of materiality in that paragraph 48 of ESRS 1 states:

*“information is considered material for primary users of general-purpose financial reports if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking’s sustainability statement”.*

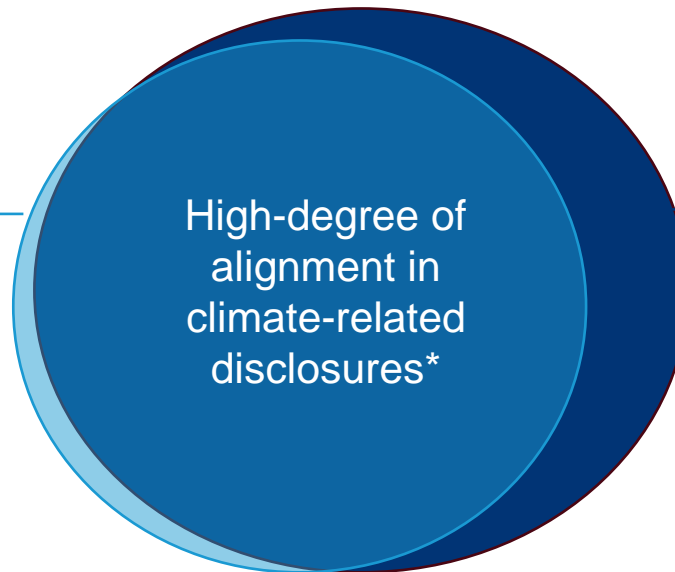


This alignment was an important change in the final Delegated Acts; critical to ensuring that ESRS and the ISSB Standards are fully interoperable and to limit the reporting burden on companies that will report based on both sets of standards.

# High degree of climate-disclosure alignment between ISSB Standards and European standards (ESRS)



**ISSB Standards:**  
additional requirements  
(eg financed emissions)



**ESRS:** additional requirements for stakeholders interested in impacts (that do not create risks or opportunities for a company's prospects) and information that if missing or obscured is not reasonably expected to affect investor decisions



High-degree of alignment around disclosures to provide decision-useful information for investors on risk management and how dependencies and impacts create risks and opportunities for a company's financial position and prospects

\* The ISSB, the European Commission and EFRAG are discussing how to explain the alignment and interoperability between the respective standards, including the choices a company needs to make to enhance alignment and where the standards have specific requirements.

# Supporting implementation of IFRS S1 and IFRS S2

## Establishment of the Transition Implementation Group

- Composition of the Group announced in September 2023: 17 members, of which 13 preparers and 4 assurance providers; 3 official observers
- The frequency of the meetings of the Group depends on the volume and the complexity of the implementation questions submitted
- A submission log with the list of questions submitted to the group and the actions will be publicly available
- Meetings will be chaired by ISSB Vice-Chair – a total of 5 ISSB members will officially participate in the meetings

## Development of Knowledge Hub

- Free online resources to help preparers get ready for applying IFRS S1 and IFRS S2 (including an archive of key resources from consolidated organisations (IR, SASB and CDSB))

## Development of educational material for nature and social aspects of climate-related risks and opportunities

- Explain and illustrate how a company might apply some requirements in IFRS S2 to disclose information about some nature and social aspects of climate-related risks and opportunities

## Work on interoperability

- Developing material to support the interoperability of ISSB Standards with other relevant standards, including:
  - work on interoperability with European Sustainability Reporting Standards (ESRS)
  - work in relation to GHG emissions disclosures in the Global Reporting Initiative (GRI) Standards

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# Supporting implementation of IFRS S1 and IFRS S2 - project in the ISSB work plan

## IFRS Sustainability Disclosure Taxonomy

- **Objective:** enable digital reporting of IFRS S1 and IFRS S2 information
- **Current stage:** analysis of feedback on the Exposure Draft of the IFRS Sustainability Disclosure Taxonomy based on final IFRS S1 and IFRS S2, which was open for comment until 26 September 2023
- **Next step:** the ISSB will consider feedback on the proposals and the need for further changes before publishing the IFRS Sustainability Disclosure Taxonomy

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# Projects in the ISSB work plan (continued)

## International Applicability of the SASB Standards<sup>1</sup>

- **Objective:** ensure the SASB Standards can be used by international stakeholders to provide information beyond climate
- **Current stage:** in September 2023 the ISSB discussed the feedback on the Exposure Draft which proposed the methodology for updating references to jurisdiction-specific laws and regulations in the SASB Standards. In October 2023 a blackline was posted on the IFRS Foundation website for information before final publication.
- **Next step:** the SASB Standards Board Advisor Group will recommend amendments to the SASB Standards for ratification by the ISSB

## ISSB Consultation on Agenda Priorities

- **Objective:** determine strategic direction and balance of ISSB's activities, including assessment of potential new projects (biodiversity, ecosystems and ecosystem services, human capital, human rights, integration in reporting)
- **Current stage:** analysis of feedback on the Request for Information, which was open for comment until 1 September 2023
- **Next step:** discussion of feedback on the Request for Information and draft of work plan for a two-year period following the determination of the work plan

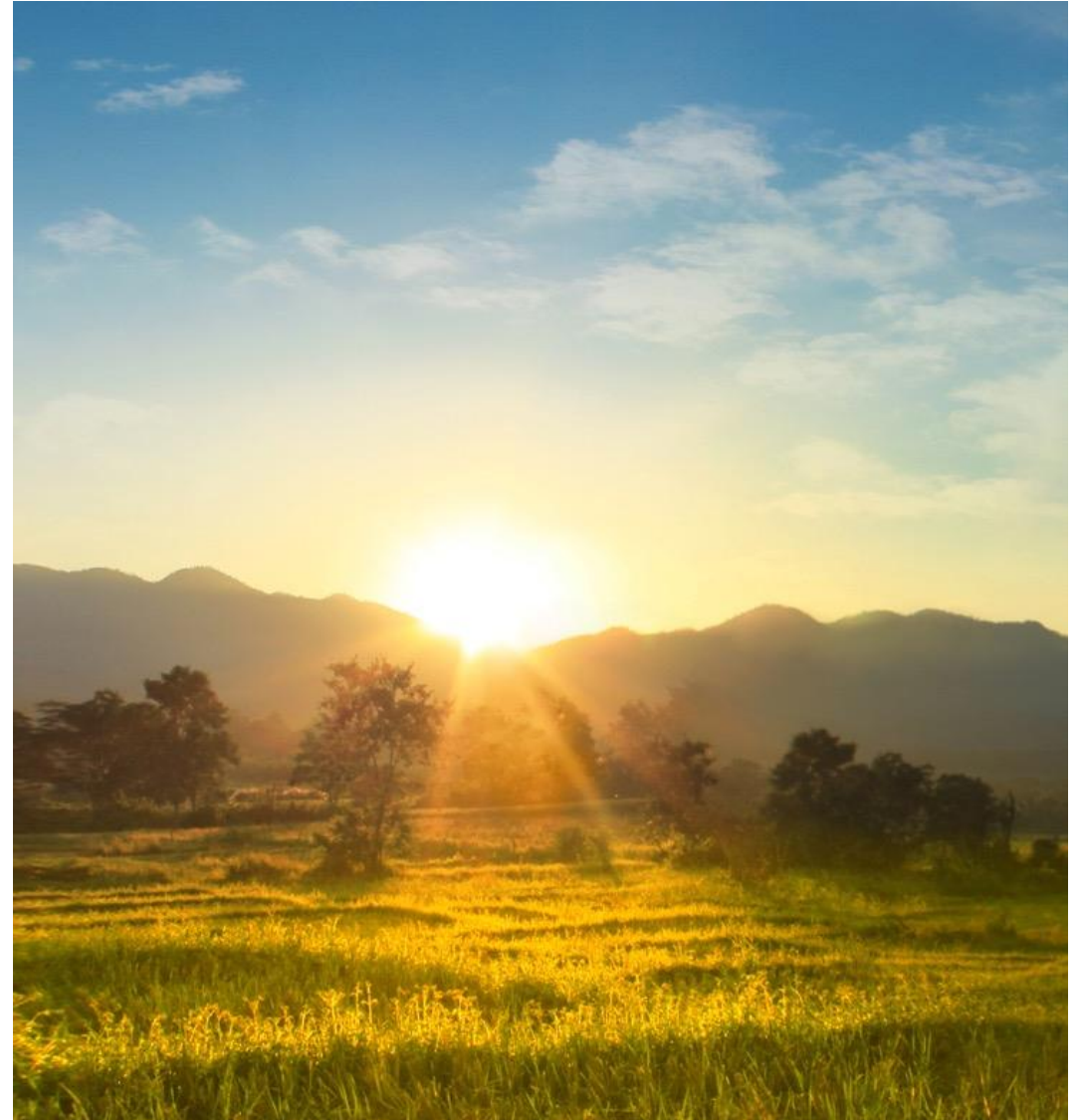
<sup>1</sup> The SASB Standards will serve as an important source of guidance to help companies produce relevant and comparable disclosures when applying IFRS S1 in the absence of specific disclosure requirements in an ISSB Standard.



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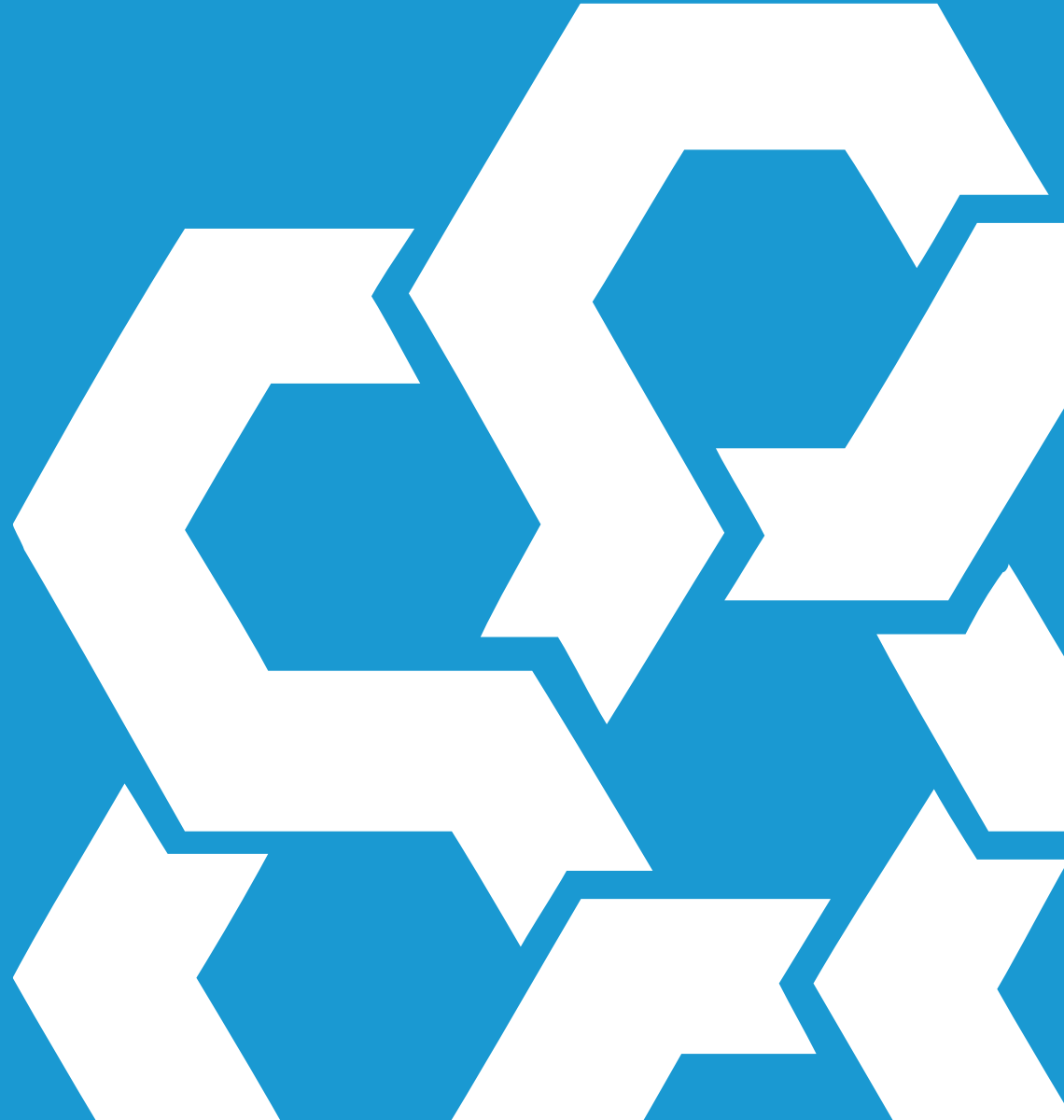
# Preliminary common themes on agenda consultation

- Desire for a **roadmap** showing ISSB overall strategic direction
- Demand for the ISSB to pursue **interoperability** to reduce duplication for preparers and secure consistency and comparability for investors
- Need to balance different views on **timelines**:
  - many noted it is important to take time to support implementation of IFRS S1 and IFRS S2 – focus on capacity building initiatives
  - those already well advanced with disclosures are more keen for the ISSB to move more quickly to develop new ISSB Standards
- General support for **research** in areas related to the four potential research projects discussed in the Request for Information – to balance with different views on timelines



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## Next steps



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## What will keep the ISSB busy in the next few months?

- Support implementation of IFRS S1 and IFRS S2
- Get IFRS S1 and IFRS S2 used
  - regulatory adoption, continuing working with jurisdictions, in coordination with IOSCO and FSB, and making available the Adoption Guide
  - voluntary application, continuing working with companies and investors
  - ensuring the market is aware and prepared (capacity building programme)
- Continue engagement on climate data, including working with the Jurisdictional Working Group
- Substantial presence at COP28
- Interoperability
  - GRI (technical work / capacity building / communications)
  - TNFD (nature-related disclosures)
  - IPSASB (public sector)
  - Basel Committee and International Association of Insurance Supervisors (climate disclosures)
- Progress projects on ISSB work plan

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# Introduction to IFRS Foundation Adoption Guide



# Making ISSB Standards the global baseline



## **ISSB**

provide comprehensive global baseline through Standards



## **IOSCO**

endorses the ISSB Standards recommending adoption



## **Audit standard-setters**

enhance and develop assurance standards



## **Jurisdictions**

require by adopting the Standards



## **Market participants**

voluntarily opt to apply the Standards

## Jurisdictional journey: adopting ISSB Standards

- Supporting regulators adopt the Standards in a timely, consistent and comprehensive manner
- Adoption Guide to be published later this year - supporting jurisdictional regulatory pathways to adoption
- IFRS Foundation [High-level roadmap](#) (a precursor to the Adoption Guide) outlines approach to adoption considerations

Jurisdictions on the adoption journey include:



- Australia
- Brazil
- Canada
- Hong Kong
- Japan
- Kenya
- Nigeria
- Mexico
- Philippines
- Singapore
- UK

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## Objectives of the Jurisdictional Adoption Guide

- Ultimate objective is for **IFRS S1 and IFRS S2 to be widely applied**.
- Facilitate **consistent adoption approaches** while supporting jurisdictions in **transitioning to full application** of IFRS S1 and IFRS S2.
- Balance jurisdictional considerations about phasing-in of requirements with the need to achieve **global consistency and comparability**.
- **Set expectations** on scope of application of ISSB requirements and pace for introduction of requirements.
- **Support regulators** in their adoption considerations and **facilitate monitoring across jurisdictions**
- **Develop principles** for assessing jurisdictional adoption of ISSB Standards

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# The journey towards implementation of IFRS S1 and IFRS S2

- The ISSB was established in response to **strong global demand**, including calls from investors, stakeholders and bodies such as the G7, G20, IOSCO and the FSB to:
  - deliver a global baseline of sustainability disclosures of decision-useful comparable information that support capital markets and investors' decisions about providing resources to companies
  - end the alphabet soup of voluntary frameworks and reduce fragmentation in disclosures
  - promote transparency, comparability and consistency
  - provide an efficient reporting landscape
- The ISSB acknowledges the significant **change management exercise** for preparers and regulators and has balanced the initial implementation challenges preparers could face with investors' information needs
- **Benefits** of implementation to **outweigh the costs** by reducing fragmentation, promoting transparency and comparability and streamlining process for preparers
- ISSB adopting a **four-pillar strategy** to balance these considerations



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## Four-pillar strategy to support adoption

Proportionality and guidance  
built into  
IFRS S1 and IFRS S2

Transition Reliefs – with possibility of  
Jurisdictional extensions

**Implementation  
strategy of ISSB  
Standards**

Adoption Guide  
to support  
scalability and jurisdictional phasing in

Additional support –  
including Capacity Building  
for industry and jurisdictions

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## IFRS S1 and IFRS S2 transition reliefs

- Intended to facilitate initial implementation of IFRS S1 and IFRS S2
- **Climate first:** preparers can limit disclosures to climate-related information in first year IFRS S1 is used (other sustainability-related risks and opportunities from second year)
- **Scope 3 GHG** disclosure not required in first year
- **Timing of reporting:** sustainability reporting can be provided later than financial statements in first year - annual information can be provided with half year financial reports
- **Comparative reporting:** not required in first annual reporting period (and if only report on climate in year one – in the second year, comparative information only required for climate information)
- **GHG Protocol:** need not apply Greenhouse Gas Protocol in first year if preparer already using a different measurement approach

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# IFRS S2 needs to be applied with IFRS S1

## IFRS S1:

- establishes **key concepts** such as connected information, value chains, and which sustainability- and climate-related risks and opportunities to report on
- provides vital guidance on the **assessment of materiality**
- sets out the **qualitative characteristics** of the information to be provided, eg that it needs to be relevant and represented faithfully
- sets out **requirements** for reporting, such as:
  - the reporting entity
  - timing and location of reporting
  - connections and comparatives in reporting
- sets out how to deal with changes in estimates and errors, disclosures on judgements, assumptions and estimates, requirements on when to aggregate and disaggregate information, focussed exemptions from disclosing commercially sensitive opportunities, and the interaction with law and regulation

# Companies providing climate disclosures still need IFRS S1

Answers provided by IFRS S1		
Who reports (reporting entity)	Timing of reporting (with financial statements)	Value chain concepts
Describes sustainability	Location of reporting (in general purpose financial report)	Materiality – meaning and assessment
Connections in information (including with financial statements)	Relief from disclosing commercially sensitive opportunities	Quality of information (eg relevant and representationally faithful)
What to do with changes in estimates and errors	When disaggregation is needed	Comparative information
Interactions with law and regulation	Disclosures about key judgements	Assertion using ISSB Standards

**Overarching requirements in IFRS S1 necessary for any disclosures**

This is why if a company only reports on climate it still must use IFRS S1



# Scalability and jurisdictional phasing-in: focus on PAEs

## In scope

Entities whose securities are traded in public markets

Entities in the process of issuing securities for trading in public markets

## Out of scope

Entities whose securities are traded in relatively small public markets or in private markets

Private entities or entities without public accountability (SMEs)

# Phase-in of Application to PAEs



## First Tier or Prime/Premium

- Large shareholder base and global orientation
- Large volume of traded securities
- High financial, liquidity and corporate governance thresholds
- Subject to highest standards of transparency
- Required to meet extended disclosure requirements

**First adopters**



## Second Tier or Standard

- Significant shareholder base
- Significant volume of traded securities
- High financial, liquidity and corporate governance thresholds
- Subject to high standards of transparency
- Required to meet comprehensive disclosure requirements

**Later adopters**



## Third Tier or Growth

- Entry level issuers
- Smaller volume of shareholders and traded securities
- Domestic orientation
- Subject to less stringent standards of transparency and disclosure requirements

**Not focus for adoption**

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# Jurisdictional roadmaps



## Illustration of possible components of a jurisdictional roadmap – Scope of reporting requirements

Component	Description
<b>What?</b>	Determination on scope of sustainability topics (i.e. climate, all sustainability topics, metrics, industry-specific etc).
<b>Who?</b>	Determination on scope of entities subject to requirements by nature, size or industry (i.e. listed entities, financial institutions including banks, private entities, SMEs, parent, subsidiary).
<b>When?</b>	Determination of timelines for requirements: effective dates, early application, transition reliefs, phasing-in of requirements. Determination of timelines for reporting: together with AR.
<b>Where?</b>	Determination of location and placement: within annual report? Supplement financial statements? For consolidated?



## Illustration of possible components of a jurisdictional roadmap – Scope of entities

Scope of entities	Elements
<b>Listed entities</b>	Market tier Thresholds Shareholder base
<b>Reporting boundaries</b>	Consolidated information – parent level Sperate information – subsidiary level
<b>Gradual implementation</b>	Accelerated path for larger listed entities and banks Transition reliefs for others

# Other key components of jurisdictional roadmaps



## Assurance

- Scope: limited, reasonable
- Framework: ISSA 5000?
- Provider: ASAP – NASAP?



## Materiality

- Investor-focussed
- Other stakeholder or jurisdictional specific information not to obscure ISSB baseline



## Identification of legislation to be amended

- Securities regulations
- Listing rules
- Companies' Act
- Audit Directives



## Supervision / enforcement

- Surveillance
- Initial lighter touch approach – forbearance
- Sectorial and thematic regulators

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