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Staff draft of IFRS Sustainability Disclosure Taxonomy
Relationships and connections

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Topics

(1) Reflecting relationship between ISSB's exposure drafts (EDs)

1. Reflecting relationship between ISSB's EDs

The issue

- Both exposure drafts focus on core content--governance, strategy and risk management and metrics and targets.
- The proposed disclosure **requirements within core content are similar** in both exposure drafts.

The staff considered whether and how best to reflect in the Taxonomy the relationship between similar disclosure requirements proposed in exposure drafts (and any future Sustainability Disclosure Standards).

Staff recommendation

The staff recommended reflecting the proposed disclosure requirements related to core content in each exposure draft as **separate lists of specific elements (line items)** because it:

- Is **consistent with IFRS Accounting Taxonomy** approach for narrative disclosures;
- Is **less confusing** for preparers and users when disclosures between Standards differ;
- **Limited the risk** that stakeholders will view the Taxonomy as **an interpretation** of the relationship not directly noted in the Standards;
- **Limited risk of need for remodelling** taxonomy if future Standards diverge from the pattern.

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1. Similar requirements between exposure drafts

Alternatives rejected

Option 1: Dimensional modelling in which elements reflect proposed requirements in exposure drafts and highlight the relationship between the proposed requirements by using an axis

- It may be easier to understand how to query information for all sustainability disclosures in the absence of (double) tagging of climate disclosures (fall back to same line item with 'general' member) and **results in a smaller taxonomy** with less elements (80 instead of approx. 150 elements)
- Rejected because the extensive use of such an Axis for narrative information **may be more complex** for preparers to tag and for users to query information
- it could easily become **confusing when the relationship was not consistent** throughout Standards or becomes less so in future Standards

See next slides for illustration of recommended and rejected approach and illustration of tagging using both approaches

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1. Illustration – Line items (recommended option)

General Requirements-IFRS S1 16(a):

Disclosure of significant sustainability-related risks or opportunities [Table]	Sustainability-related risk or opportunity [Axis]		
Line Items	*Extension 1*	*Extension 2*	*…*
Description of significant **sustainability**-related risks or opportunity [Text Block]			
Description of time horizon over which **sustainability**-related risk or opportunity could reasonably be expected to have effect on entity [Text Block]			

Different!

Climate-IFRS S2 9(a)-(c):

Disclosure of significant climate-related risks or opportunities	Climate-related risk or opportunity [Axis]		
Line Items	*Extension A*	*Extension B*	*…*
Description of significant **climate**-related risks or opportunity [Text Block]			
Description of time horizon over which **climate**-related risk or opportunity could reasonably be expected to have financial effect on entity [Text Block]			
Climate-related risk or opportunity ([Climate-related risk] or [Climate-related opportunity])			
Type of **climate**-related risk ([Physical],[Acute] or [Climate-related opportunity])			

In ELR's for each Standard, separate line items for sustainability and climate disclosures. In core content both tables.

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1. Illustration – 'Standard' Dimension (rejected option)

General Requirements:

Disclosure of significant sustainability-related risks or opportunities [Table]	Sustainability Standard [Axis]		
	General Requirements [Member]		
	Sustainability-related risk or opportunity [Axis]		
Line Items	*Extension 1*	*Extension 2*	*…*
Description of significant **sustainability**-related risks or opportunity [Text Block]			
Description of time horizon over which **sustainability**-related risk or opportunity could reasonably be expected to have effect on entity [Text Block]			

Climate:

Disclosure of significant climate-related risks or opportunities [Table]	Sustainability Standard [Axis]		
	Climate-related disclosures [Member]		
	Sustainability-related risk or opportunity [Axis]		
Line Items	*Extension A*	*Extension B*	*…*
Description of significant **sustainability**-related risks or opportunity [Text Block]			
Description of time horizon over which **sustainability**-related risk or opportunity could reasonably be expected to have financial effect on entity [Text Block]			
Climate-related risk or opportunity ([Climate-related risk] or [Climate-related opportunity])			
Type of **climate**-related risk ([Physical],[Acute] or [Climate-related opportunity])			

Different!

In ELR's for each Standard, separate tables with the same line items for consistent disclosures (dimension providing differentiation) plus additional elements for climate. In core content one table with Axis differentiating by Standards.

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1. Illustration of tagging using staff recommendation and rejected option

"Our factories in South Asia are at risk of flooding as a consequence of increased global temperatures"

(1) Line Items:

Description of significant **climate**-related risks or opportunity (Sustainability-related risk or opportunity [Axis]=*Flooding [Member]*)

+

Description of significant **sustainability**-related risks or opportunity (Sustainability-related risk or opportunity [Axis]=*Flooding [Member]*)

(2) 'Standard' Dimension:

Description of significant sustainability-related risks or opportunity (Sustainability-related risk or opportunity [Axis]=*Flooding [Member]*, Sustainability Standard [Axis]=**General Requirements** [Member])

+

Description of significant sustainability-related risks or opportunity (Sustainability-related risk or opportunity [Axis]=*Flooding [Member]*, Sustainability Standard [Axis]=**Climate-related disclosures** [Member])

Both approaches might require double tagging of information related to climate-related risks and opportunities to ensure consistent tagging and usability/ease of extraction of information.

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1. Reflecting relationship between ISSB's EDs

Question 1 ?	Question tailored to ITCG members

A. Which options (line items from the staff recommendation or dimensional modelling from the rejected option) do you think is most suitable, and why?

Are there other alternatives that should be considered?

B. Slide 8 illustrates that using any approach discussed in slides might require double tagging to achieve consistent tagging and increase the usability of the tagged information. However, jurisdictions would need to allow or to mandate double-tagging.

- Do you agree with the staff analysis on slide 8?
- Do you have any suggestion regarding effective implementation of this approach and its impact on tagging practice?

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2 Connection between disclosures

Representing relationship between information

2. Relationships between information

- ED requires entities to **describe the relationships between information**. These links could be reflected by disclosures, which, as well as describing the relationships, contain text such as 'also see paragraphs 3-6 of section X for related disclosures about Y'.
- The staff considered if digital tools should be used to improve the digital accessibility of information that describes connections between related disclosures.

Staff recommendation

Information about connections would be **captured in the narrative taxonomy elements** for a specific disclosure requirement. For example, a taxonomy element for risk management strategy might capture information about the production-cost effects of its strategy for reducing sustainability-related risks that is disclosed within the entity's risk management strategy.

The staff is **not recommending further improving the digital accessibility** of the information that highlights connections.

2. Relationship between information

Alternatives rejected

Option 1: using an XBRL mechanism to link facts – would enable analysis software to emphasise related information when viewing a particular disclosure.

An XBRL mechanism (fact-explanatoryFact link) **already exists within specification but it is not widely used**, so it would require the involvement of the reporting digital ecosystem:

- jurisdictional regulators to require the use of this feature;
- preparers to apply this feature; and
- analysis software providers to make available software.

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2. Relationship between information

Should the Taxonomy include a specific mechanism to capture connections between related pieces of information—for example, connections between information in the financial statements and sustainability-related financial information?

Are you aware of a mechanism that could be used without imposing undue costs on preparers and users of digital reporting?

Alternatively, would narrative elements in the Taxonomy adequately capture such connections without imposing undue costs for preparers and users of digital reporting?

Question 2B ❓ Question tailored to ITCG members

Are there any practical concerns and considerations related to the alternative rejected discussed on slide 12 - using an XBRL mechanism to link facts?

Are there any other options (digital tools) worth considering that could be used to improve the digital accessibility of information that describes connections between related disclosures?

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3. Connections between reports (cross-referencing)

The issue

- ED allows including information by cross-referring to another report if that information is available on the same terms and at the same time. Information incorporated by cross-reference becomes part of the complete set of sustainability-related financial disclosures.
- **Information included by cross-reference rarely is tagged and therefore provided in the digital format** because it is located in a document outside the scope of the regulatory tagging requirement.
- Consequently, the **tagged information might be incomplete** to the extent it is included by such a cross-reference. It also means that the digital representation of the report would differ depending on whether the cross-reference was used.

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3. Connections between reports (cross-referencing)

Staff recommendation

The staff recommends that requirements related to cross-references should **not be explicitly modelled** in the Taxonomy, because no suitable modelling approach has been identified. **Information provided by cross-reference** to other reports **should be tagged** in those reports the same way as it would be tagged if it were part of the main report. The staff **plans to provide guidance** in guides for using the taxonomy designed to help preparers and regulators.

Effectively **implementing** this approach might require **changes in reporting practice**, including:
- jurisdictional regulators would need to consider whether and how such practice would be considered in regulation, how the scope of tagging required would be defined, and how data collection would work; and
- preparers would need to consider the process of tagging additional reports, which might raise some practicality concerns.

This approach might benefit from the development or enhancement of XBRL technology.

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3. Connections between reports (cross-referencing)

Alternatives rejected

Option 1: create text elements, consistently with IFRS Accounting Taxonomy - to capture only narrative information related to the cross-reference in the digital format as provided in print or PDF (for example, 'see page 46 of the Green Report (2020)')

- Rejected because it would **not allow digital access to the information in the cross-referenced report** on a similar basis to that in the main report.
- Not be practicable because the cross-referencing allowance in the IFRS Sustainability Disclosure Standards is more general. In IFRS Accounting Standards cross-referencing is only allowed for a few specific requirements.

Option 2: use of hidden tags to include digital representation of the cross-referenced information within the digital representation of the main report, even it's not directly included in the paper version of that report.

- Rejected because including potentially **large quantities of hidden tagged data** is a novel idea, that **could require the enhancement of tools** used to prepare digital reports.
- It would reduce a major perceived benefit of inline XBRL tagging, which is that the 'paper' and 'data' representations are essentially the same.

3. Connections between reports (cross-referencing)

Question 3A ❓	Similar to Q8 in the staff request for feedback

Do you agree with the staff recommendation that requirements related to cross-references in the IFRS Sustainability Disclosure Taxonomy should not be modelled explicitly?

Why or why not? If not, what alternative approach would you suggest and why?

Question 3B ❓	Question tailored to ITCG members

Any specific technical options/ideas?

Any jurisdictions where sustainability-related financial information is likely to be disclosed via multiple documents forming a single set–or is that really a non-issue?

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