

IFRS Foundation Trustees meeting

Due Process Oversight Committee

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ISSB Chair and Vice-Chair's rationale to publish exposure drafts on General Requirements for Disclosure of Sustainability-Related Financial Information and Climate-Related Disclosures

Purpose

1. This paper provides the DPOC with the ISSB Chair and Vice-Chair's rationale for their decision to publish the exposure drafts on General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements) and Climate-Related Disclosures before the ISSB is quorate. The rationale is explained to aid the DPOC in its oversight of this decision. This paper also outlines the Chair and Vice-Chair's decision regarding the comment period for both exposure drafts.
2. Agenda paper 1A provides further context to this paper.

Summary

3. The Chair and Vice Chair have decided to publish the exposure drafts before the ISSB is quorate because:
 - (a) There is urgent need for the ISSB to deliver its initial standards with pace. This has been repeatedly highlighted in the feedback to the Trustees' consultations on sustainability-related reporting and has been reiterated by IOSCO and other key stakeholders.
 - (b) The thoroughness and quality of the preparatory work that the Technical Readiness Working Group (TRWG) undertook in 2021 provides the ISSB with a unique opportunity to advance its standard-setting with urgency (this was a key factor for the Trustees providing the Chair and the Vice-Chair with the option to publish the exposure drafts before the ISSB became quorate).

Any likely benefits of delaying publication until a quorate ISSB can conduct further work on the exposure drafts are outweighed by the considerable benefits of launching

a consultation now. Consultation at this juncture will significantly clarify the ISSB's role regarding the type of information that its standards will require to be disclosed and facilitate interoperability with developing jurisdictional requirements. Relatedly publication at this time is expected to enable the exposure drafts to be open for comment concurrently with consultations on climate and broader sustainability-related disclosures by some key jurisdictions.

4. The Chair and Vice-Chair have also decided that a period of 120 days is appropriate for the exposure drafts to be open for public comment.
5. The paper is structured as follows:
 - (a) Background and context to the development of the ISSB exposure drafts (paragraphs 6-16)
 - (i) ISSB Exposure Drafts reflecting the TRWG prototype standards;
 - (ii) Main changes to the TRWG prototype standards; and
 - (iii) Facilitating stakeholder engagement with the exposure drafts;
 - (b) Benefits of the ISSB consultation before the ISSB is quorate (paragraphs 17-28);
 - (i) Advancing standard-setting with urgency; and
 - (ii) Clarifying scope and demonstrating interoperability;
 - (c) Comment period (paragraphs 29-36); and
 - (d) Conclusion (paragraph 37).

Background and context to the development of the ISSB exposure drafts

ISSB Exposure Drafts reflecting the TRWG prototype standards

6. As explained at the DPOC 1 March 2022 meeting, the two ISSB exposure drafts, General Requirements and Climate-Related Disclosures, fundamentally reflect the TRWG's prototype standards that were published on the Foundation's website on 3 November 2021.
7. Furthermore, the TRWG's prototype standards themselves built on the work by the TRWG's individual member organisations, the market-informed and market-tested tools and resources that have emerged from that work, and the individual and

collective expertise established through the development and implementation of these resources. More specifically, the General Requirements and the Climate-Related Disclosures Prototypes represent the evolution of the December 2020 paper published by a group of five standard-setters and framework providers¹ focused on corporate sustainability and integrated reporting.

8. As explained at the DPOC 1 March meeting, the TRWG also benefitted from input from the Technical Experts Group established by IOSCO in developing the prototype standards. Targeted market outreach was also conducted with TRWG members' stakeholders in September 2021 and the TRWG endeavoured to address the feedback from this outreach in the prototypes published on 3 November 2021. Any comments received from IOSCO and from the targeted market outreach that were unresolved have further informed the development of the prototype standards into ISSB exposure drafts.
9. Following the 3 November publication, additional work has continued to be undertaken on the prototype documents. This work is being undertaken by individuals who were previously part of the group working on the prototypes for the TRWG—some of whom are now members of the technical staff of the ISSB (including as a result of the consolidation of Climate Disclosure Standards Board (CDSB)), the onboarding of secondees involved in the work of the TRWG and staff from the Value Reporting Foundation. This work has been undertaken under the direction and supervision of the ISSB Chair and Vice-Chair and has also benefitted from the ongoing involvement of IOSCO's Technical Experts Group. The work has been focussed on advancing the prototypes into two exposure drafts consistent with the style of an IASB exposure draft and has entailed:
 - (a) refining the drafting of the proposed standards (including to improve clarity);
 - (b) developing invitation for comment documents which set out questions for stakeholders to respond to (this will also be supported by the option for stakeholders to submit their response via a survey);

¹ CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB).

- (c) developing a basis for conclusions for each exposure draft to provide stakeholders with additional context regarding the proposed standards; and
- (d) developing a staff draft of the accompanying digital Taxonomy to the exposure drafts (which would facilitate digital capture of the disclosures required by the exposure drafts).

Main changes to the TRWG prototype standards

10. Whilst the two exposure drafts fundamentally reflect the TRWG prototype standards, some targeted changes have been made to improve the documents for exposure.
11. The Climate-Related Disclosures exposure draft includes some proposals that were not included in the Climate-Related Disclosures Prototype and which introduce new or revised materials that are not taken directly from the existing materials of TRWG members. As highlighted at the 1 March DPOC meeting, the two additional areas are proposals to modify existing SASB climate-related industry specific requirements. One set of refinements is proposed to internationalise a subset of the SASB industry specific metrics and the second set of changes proposes the addition of disclosure topics and associated metrics relevant to financed emissions. The proposed internationalisation changes have been included to facilitate application of the requirements for international preparers and to seek their feedback. The financed emission proposals have been included to address identified information needs of investors and to seek their feedback.
12. To ensure stakeholders are aware of the most significant updates to the prototype standard, the Climate-Related Disclosures exposure draft has been structured to ensure that the proposals on internationalised metrics and metrics on financed emissions are given sufficient prominence. As these changes are proposed modifications to existing SASB Standards, the exposure draft will include marked-up text to illustrate to stakeholders where amendments to the SASB requirements are proposed.
13. The Climate-Related Disclosures exposure draft has also been changed to provide additional clarity and specificity in some areas relative to the prototype. For example, more detail is proposed about the way in which resilience analysis is required to be undertaken and more specific disclosures are proposed about an entity's plan to use carbon offsets to meet its emissions targets.

14. Changes from the General Requirements prototype have mainly been to clarify wording in areas where the TRWG had highlighted areas for further work. The most substantive change in the General Requirements exposure draft is in relation to the guidance provided to preparers about how to prepare disclosures about sustainability-related risks and opportunities in the absence of specific requirements in IFRS Sustainability Disclosure Standards (for example to report on risks other than climate initially). The prototype proposed that an entity refer to materials of other sustainability-related standard setters with an investor focus. The proposals in the exposure draft are more specific, requiring entities to consider the SASB's Standards and the CDSB requirements to identify the risks about which disclosures should be provided and in order to develop appropriate disclosures.
15. The areas of change from the prototypes are explained in the basis for conclusions in the exposure drafts to ensure that stakeholders are able to identify areas of change.

Facilitating stakeholder engagement with the exposure drafts

16. There is likely to be significant interest in the ISSB's initial exposure drafts. This will likely result in a significant number of responses. Therefore, the Chair and the Vice-Chair are also overseeing the development of surveys that will accompany each of the exposure drafts. The surveys are the same as the questions included in the exposure drafts. The surveys will provide stakeholders with an alternative method to respond to the consultations (the option for stakeholders to respond via a comment letter will also be provided). The Chair and Vice-Chair understand that the use of the survey technology will be beneficial in order to analyse the expected significant number of responses at the end of the consultation period.

Benefits of the ISSB consultation before the ISSB is quorate

17. The Chair and Vice-Chair think there are two key benefits of publishing the exposure drafts prior to the ISSB becoming quorate. Namely to:
- (a) advance standard-setting with urgency; and
 - (b) clarify scope and demonstrate interoperability with jurisdictional requirements.

Advancing standard-setting with urgency

18. There is urgent need for the ISSB to deliver its initial standards with pace. This has been repeatedly highlighted in the feedback to the Trustees' consultations on sustainability-related reporting and has been reiterated by IOSCO and other key

stakeholders. Recognising this urgency was a key reason for the Trustees to establish the TRWG to undertake preparatory work to facilitate a ‘running start’ and subsequently, in the light of its work, deciding it would be appropriate as the ISSB is being established (ie as a transitional measure) to give the ISSB Chair and Vice-Chair the ability to publish exposure drafts on General Requirements and Climate-Related Disclosures.

19. In establishing the TRWG, the Trustees acknowledged that the ISSB as an independent standard-setter would be entitled to choose the extent to which the TRWG’s prototype documents would form the basis for an ISSB exposure draft and the extent to which it would amend those documents. However, the expectation was that the ISSB would choose to use the TRWG’s work as the basis for exposure drafts without fundamental change. In the IASB’s case initial deliberation for standard-setting is based upon initial staff research to determine if a reporting problem exists and if that problem needs to be rectified. This may be followed by a discussion paper to elicit public input on whether there is a need for a standard-setting project to be added to the IASB’s work plan. If it is determined that the matter is significant enough for standard-setting, then the IASB develops an exposure draft to seek stakeholder input on its detailed technical position.
20. The development of the prototype standards by the TRWG represents the thought leadership in the area and the combination of the leading sustainability-related standards and frameworks focussed on the information needs of investors, which is supported by significant investor and preparer support for the standards/frameworks. As noted, those prototype standards have been made publicly available on the Foundation’s website and many stakeholders have been able to engage with the documents in anticipation of the ISSB’s first exposure drafts being based upon them.
21. In the light of the TRWG’s work and subsequent work to develop the prototype standards into ISSB exposure drafts, the Chair and Vice-Chair believe that the draft exposure drafts provide a sound basis for a comprehensive public consultation. Given the context of the TRWG’s work, they also think the exposure drafts reflect a position that at this stage they believe would be a proposal for an ISSB Sustainability Disclosure Standard supportable by the ISSB.

22. Furthermore, delaying publication of the exposure drafts to allow for their deliberation by the ISSB would mean a delay of at least a quarter, given that the ISSB is expected to be quorate early in the third quarter of 2022. In practice the delay may well be significantly longer if the board were to actively debate the proposals prior to publishing an exposure draft. Given the current quality of the exposure drafts, the Chair and Vice-Chair do not believe that the benefits that might arise from deliberation by the ISSB would be substantial enough to justify missing the window of opportunity of a quarter two/three consultation. The high-quality work of the TRWG provides the ISSB with a unique opportunity to advance its work in a timely manner whilst obtaining significant stakeholder input.
23. It is of course important to reduce the risk of re-exposure which could lengthen the overall timetable to finalisation. Re-exposure is necessary when there is a change made in redeliberations that necessitates additional input being sought from stakeholders. To reduce the risk of this occurring, the questions included in the exposure drafts are designed to elicit responses on a broad range of issues to maximise the opportunity to obtain stakeholder feedback to inform the quorate ISSB's redeliberations.
24. Receiving early feedback on the proposed internationalisation of industry specific climate standards (based on SASB Standards) through the exposure draft will also provide a very useful springboard for the necessary overall internationalisation of SASB Standards. The intention is to move the remaining SASB Standards (beyond those that are climate-related) through the IFRS Foundation's due process for them to become part of the ISSB's standards over time. This will be further informed by the ISSB's initial consultation on its future work plan.

Clarifying scope and demonstrating interoperability

25. Exposure at this juncture will assist in clarifying the ISSB's role regarding the type of information that its standards will require to be disclosed. This will be supported by a thorough bases for conclusions that explains the rationale for the proposals. The Chair and Vice-Chair think this clarification will be beneficial to demonstrate the significant overlap that exists between information that is to be provided to the capital markets and information to be required for multiple stakeholders.

26. The goal for ISSB is to create a comprehensive global baseline of sustainability-related financial disclosures that brings further transparency and comparability in the global capital markets. On this comprehensive global baseline jurisdictions can build specific requirements relevant to their jurisdictional circumstances ensuring interoperability with IFRS Sustainability Disclosure Standards (a building-block approach). Current discussions with stakeholders and a select number of jurisdictions have highlighted that timing is critical to provide a draft of the ISSB's intended global baseline, as several jurisdictions intend to expose their own draft jurisdictional specific requirements in the coming months (for example the European Union and the United States).
27. The Chair and the Vice-Chair think that giving stakeholders the opportunity to review the ISSB's exposure drafts alongside jurisdictional consultations will allow stakeholders to bring fully informed and coordinated comments to each, broadly supporting interoperability. This will allow the ISSB to receive extremely valuable feedback to finalise its work.
28. In addition to the above, the Chair and Vice-Chair expect to launch a small working group of jurisdictions (a precursor to fully establishing the Sustainability Standards Advisory Forum) in line with the consultation period on the exposure drafts, providing a platform for engagement with jurisdictions on the exposure drafts. Specifically, regarding the European Union, it will allow the ISSB to synchronise with the EFRAG consultation and work openly with them on the interoperability of the proposed standards.

Comment letter period

29. The Chair and the Vice-Chair have considered the need to advance standard-setting with urgency and providing stakeholders with a sufficient period to develop and provide informed input to the ISSB on the proposals. Paragraph 6.7 of the *Due Process Handbook* sets out a minimum of 120 days for comment on an exposure draft but allows for shorter comment periods if the proposals are narrow in scope and urgent, subject to approval from the DPOC.
30. There is significant urgency for the ISSB to finalise its initial standards as quickly as possible and ideally in 2022. This has been reiterated by IOSCO and other major stakeholders following the Trustees' initial consultation paper on sustainability-

related reporting. This level of urgency suggests that a comment period of less than 120 days would be appropriate. However, setting a comment period of less than 120 days presents a challenge as the proposals made in the General Requirements and Climate-Related Disclosures exposure drafts are not narrow in scope.

31. Some of the proposals potentially represent a significant advancement in the type of information entities may be required to disclose. For example, the General Requirements exposure draft proposes an entity disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. That said, the Chair and Vice-Chair note that the exposure drafts are substantially based on the TRWG prototypes that have been publicly available since 3 November 2021. Therefore many stakeholders have been able engage with the documents and prepare themselves for the likely content of the ISSB's initial exposure drafts.
32. Some stakeholders have expressed concern that a shorter comment period may impact the quality of the feedback the ISSB will receive. For example, some stakeholders have explained that a comment period of less than 120 days may cause difficulties for the proposals to be thoroughly translated and considered in detail in some jurisdictions. The Chair and the Vice-Chair recognise the importance of having the exposure drafts translated across multiple languages and considered in detail across jurisdictions allowing for truly global input into the process.
33. In the last few years, the DPOC has approved comment periods of less than 120 days, although for proposals that were typically narrower in scope. However, in 2009, responding to calls for urgency that are not dissimilar to now, the IASB exposed the new Classification and Measurement requirements of IFRS 9 *Financial Instruments* for 60 days.
34. The Chair and the Vice-Chair intend to publish the exposure drafts at the end of March. A 90-day consultation period would therefore close at the end of June. This would allow ISSB staff to start detailed analysis of the feedback enabling ISSB deliberations to start early in the third quarter of 2022. Thus the analysis should be ready for when there is a quorate board.
35. One way to balance the considerations on the length of the comment period could be to set a comment period of 90 days but to monitor whether the comment period should

be extended and subsequently extend it by 30 days to 120 if necessary. This extension would also be subject to the DPOC's oversight. However, many stakeholders work within networks and need to coordinate responses so having known uncertainty about the duration of the comment period from inception may reduce the usefulness of the potential additional time for stakeholders and making their planning more complicated. Knowing that the comment period may be extended may also create immediate requests for extension from those already requesting a full 120-day comment period.

36. By publishing the exposure drafts using the transitional powers in the *Constitution* the Chair and Vice-Chair can bring forward the publication of the exposure draft by several months. Consequently, on balance the Chair and Vice-Chair have decided that the comment period should be 120 days. In effect that means that by issuing the exposure draft on a timely basis some of the time saved can be used to allow a longer comment period. This means that stakeholders will have more time to engage with the proposals and to provide considered feedback to the ISSB to inform their redeliberations.

Conclusion

37. The Chair and the Vice-Chair recognise the significance of using the constitutional prerogative to publish the exposure drafts on General Requirements and Climate-Related Disclosures for public consultation before the ISSB is quorate, but strongly believe in the benefits of consulting at this time. To manage this balance, rich bases for conclusions are included in the exposure drafts which explain the rationale for the proposals in significant detail. The invitation to comment documents also pose open and high-level questions to facilitate extensive stakeholder feedback and provide a good opportunity to test market dynamics on some fast-evolving items (including financed emissions and scenario analysis). This will enable a quorate ISSB to redeliberate the proposals based on extensive and well-informed feedback.