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## ISSB meeting

Date	<b>July 2024</b>
Project	<b>Biodiversity, ecosystems and ecosystem services and human capital research projects</b>
Topic	<b>Research design and approach</b>
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This paper has been prepared for discussion at a public meeting of the International Sustainability Standards Board (ISSB). This paper does not represent the views of the ISSB or any individual ISSB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Sustainability Disclosure Standards. The ISSB's technical decisions are made in public and are reported in the ISSB *Update*.

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## Purpose

1. The purpose of this paper is to provide the International Sustainability Standards Board (ISSB) with an overview of the design and approach for the new research projects on risks and opportunities associated with:
  - (a) biodiversity, ecosystems and ecosystem services (BEES); and
  - (b) human capital (including own workforce and workers in the value chain).
2. This paper does not seek any decisions from the ISSB.

## Structure of the paper

3. The paper is structured as follows:
  - (a) Background
  - (b) Objective of research projects
  - (c) Anchoring principles
  - (d) Phased approach
  - (e) Research areas in Phase 1

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(f) Next steps

## Background

4. In May 2023, the ISSB published its Request for Information: *Consultation on Agenda Priorities* (Request for Information) with a comment period of 120 days. The comment period closed in September 2023. The ISSB received 433 responses to the Request for Information.
5. Between November 2023 and April 2024, the ISSB considered feedback to the Request for Information and deliberated the strategic direction and balance of its activities as well as new research and standard-setting projects that could be added to its work plan. At its April 2024 meeting, the ISSB decided to add to its work plan:
  - (a) a research project on risks and opportunities associated with BEES; and
  - (b) a research project on risks and opportunities associated with human capital.
6. In addition, the ISSB decided to consider in its initial work for both research projects whether and how the information needs of investors might be effectively addressed by building on relevant components of legacy materials and other standards and frameworks. These legacy materials and other standards and frameworks include the SASB Standards, the Climate Disclosure Standards Board (CDSB) Framework application guidance on water- and biodiversity-related disclosures, recommendations of the Task Force on Nature-related Financial Disclosures (TNFD), the Global Reporting Initiative's (GRI) standards and the reporting requirements in the European Sustainability Reporting Standards (ESRS).<sup>1</sup>
7. In making the decisions at its April 2024 meeting, the ISSB discussed how the research projects are part of a broader work plan consisting of interrelated activities. Specifically, interactions with the following activities will be considered, as appropriate:

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<sup>1</sup> See paragraph 4 of [Agenda Paper 2 Projects to add to the work plan](#) (April 2024).

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- (a) Supporting the implementation of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*—IFRS S1 requires disclosure of material information about all the sustainability-related risks and opportunities that could reasonably be expected to affect an entity’s prospects. Thus, research on BEES and human capital could highlight opportunities to provide guidance to support companies in preparing disclosures in accordance with IFRS S1. Similarly, observations on implementation of IFRS S1 and IFRS S2 could inform the research, for example, by highlighting the uptake and quality of disclosure on sustainability-related risks and opportunities.
- (b) Enhancing the SASB Standards—as the ISSB approaches its work to further enhance the SASB Standards, it is important to note that many of the SASB Standards include BEES and human capital disclosure topics and related metrics. Research will include consideration of when industry-based disclosure is necessary to meet investors’ needs on the topics.
8. Interactions with the work of other relevant standard-setters and framework providers will also be considered. In addition to encouraging the ISSB to use legacy materials, respondents to the Request for Information strongly emphasised the importance for the ISSB to consider the work of other standard-setters and framework providers focused on BEES- and human capital-related reporting.
9. In addition, the ISSB had previously decided (at its March 2024 meeting) that it would embed core activities into all the components of its work plan, with those core activities being:
- (a) ensuring connectivity between the ISSB’s and International Accounting Standards Board’s (IASB’s) respective requirements;
  - (b) pursuing interoperability of the ISSB Standards with other sustainability reporting standards; and
  - (c) engaging with stakeholders.

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## Objective of research projects

10. The IFRS Foundation *Due Process Handbook* establishes that, ‘The purpose of the [ISSB]’s research programme is to analyse possible financial reporting problems by collecting evidence on the nature and extent of the perceived shortcoming and assessing potential ways to improve financial reporting or to remedy a deficiency. This analysis will help the [ISSB] decide whether it should undertake a standard-setting project to develop a proposal for a new [IFRS Sustainability Disclosure Standard] or to amend or replace a Standard.’<sup>2</sup>
11. The staff has designed its approach to the BEES and human capital research projects around this objective—namely, facilitating a decision by the ISSB on undertaking standard-setting. For example, the staff’s approach is oriented around building a foundational understanding of information about sustainability-related risks and opportunities associated with BEES and human capital, including an analysis of the shortcomings of existing reporting practice and opportunities to improve disclosure on risks and opportunities. We expect to position our findings from research and outreach to support this objective of facilitating the ISSB’s consideration of whether to pursue standard-setting.

## Anchoring principles

12. The staff thinks that incorporating ‘anchoring principles’ into the research projects at the outset is essential for maintaining focus and making targeted progress in a timely manner. We believe that the guiding principles outlined below will help anchor research on the ISSB’s objectives and the context in which it operates:
  - (a) **Decision-useful information for investors** – The objective of IFRS S1 is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users<sup>3</sup> of general purpose financial

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<sup>2</sup> In March 2022, the IFRS Trustees decided that the ISSB will also abide by the *Due Process Handbook*.

<sup>3</sup> As in the IFRS Foundation *Conceptual Framework for Financial Reporting*, the terms ‘primary users’ and ‘users’ refer to those

reports in making decisions relating to providing resources to the entity. IFRS S1 requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term (ie an entity's prospects). In accordance with the objective of IFRS S1, the staff thinks it is essential for its research approach to be anchored in meeting the common information needs of investors regarding risks and opportunities that could reasonably be expected to affect an entity's prospects. For example, when researching risks and opportunities associated with BEES and human capital, we plan to improve our understanding of whether, how and to what extent risks and opportunities affect an entity's cash flows over the short, medium or long term as well as implications for access to and cost of capital, and to ensure that the focus remains on the information that is material for investors (as material is defined in IFRS S1).

- (b) **Existing literature and practice** – We view it as essential to explicitly acknowledge in our research approach the literature and practice that exists today in relation to risks and opportunities associated with BEES and human capital. This is consistent with the approach the ISSB took in deliberating IFRS S1 and IFRS S2 (for example, building on the work of Task Force on Climate-Related Financial Disclosures (TCFD) and others). This also reflects the ISSB's decision to consider how it might build upon relevant components of legacy materials and other standards and frameworks in its initial work for both research projects. Leveraging existing literature, including that of relevant standard-setters and framework providers, will enable the ISSB to make timely progress in a manner that takes into account the costs to preparers and the benefits to investors. In assessing existing literature and practice, we will focus on the common information needs of primary users as some

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existing and potential investors, lenders and other creditors who must rely on general purpose financial reports for much of the financial information they need. In this paper the terms 'investors' and 'users' are used interchangeably.

standards or frameworks may address specialised information needs that are unique to particular stakeholders.

- (c) **‘S1 plus’** – In the same way that IFRS S2 enables climate-related disclosure by building on the requirements in IFRS S1, all future ISSB Standards should similarly add to the foundation established by S1. Although we are not setting standards in this research phase, we believe that it is essential to embed this ‘S1 plus’ principle into our research approach as preparation for (potential) future standard-setting. For example, when we are analysing existing literature and practice we expect to focus on those aspects that are additive or incremental to the disclosure requirements in IFRS S1.
- (d) **Core activities and proportionality** – As noted in paragraph 9, we will embed the core activities into the work plan, which includes the research projects. In addition, while considerations of proportionality will become increasingly important as we move closer to possible standard-setting, some of the core activities will facilitate our initial understanding of challenges for preparers in various circumstances. For example, in engaging with stakeholders, we will develop an understanding of the range of capabilities and preparedness of companies around the world to respond to and disclose information about the risks and opportunities to which they are exposed.

## Phased approach

13. The staff has designed a phased approach to the research projects where each phase is intended to build off the prior phase. We expect to ultimately approach the ISSB with a staff recommendation on whether to proceed to standard-setting, and if so, our recommended approach. This recommendation will be informed by discussions with the ISSB as we share research progress and findings.
14. The phased approach is intended to help the ISSB establish a foundation for effective and efficient work in subsequent phases, including being well prepared for any potential standard-setting. Focusing our research and analysis on a clearly defined set of areas would build out staff’s foundational knowledge in a structured manner and

enable the staff to run a series of informational sessions with the ISSB to establish a common understanding of this foundational baseline knowledge across the Board.

15. The staff has designed the following two phases that apply to both research projects (noting that the pace at which we progress through the phases may differ between the projects):

(a) **Phase 1—building the foundation** – in this phase the staff seeks to build a baseline level of knowledge and understanding across a set of clearly defined research areas. The research areas are:

- i. evidence of investor interest;
- ii. evidence of financial implications;
- iii. existing standards and frameworks; and
- iv. current state of disclosure.

These research areas were determined through applying the anchoring principles to the range of research areas that staff could focus on.

(b) **Phase 2—analysing implications** – in this phase, the staff plans to conduct an analysis of the foundational research to draw out relevant insights and implications—for example, using findings to develop a framework of key concepts, including topics, risk drivers and financial implications and/or to assess the information expected to be provided through the application of IFRS S1 relative to the common information needs of users. This phase is expected to entail staff bringing initial views to the ISSB, along with their supporting rationale, while also pursuing further research and consultation as necessary.

16. After completion of the two phases, the staff thinks that we will be prepared to make a recommendation—that is, whether we believe the ISSB should undertake a project (or projects) to develop a proposal for one or more new IFRS Sustainability Disclosure Standards, to amend existing standards and/or guidance, or to develop new guidance and/or educational materials (or a mix of these activities).

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17. The desired outcomes of research include:
- (a) a shared **knowledge** across the staff and ISSB (and in the public); and
  - (b) relevant **information, analysis and insights** that will enable more effective and efficient standard-setting, as appropriate.

## Research areas in Phase 1

18. The staff has centred on four key areas of research that would be conducted for each of BEES and human capital. The four key areas of research correspond to the anchoring principles set out in paragraph 12. The staff notes that while each project is centred on the same four key areas of research, there may be variations between the exact approaches adopted for BEES and human capital, where appropriate or necessary. In addition, the approach and key activities for these areas of research may evolve as the research progresses.

### *Evidence of investor interest*

19. The overarching research question that this area aims to answer is ‘What are the information needs of investors and how is current disclosure practice meeting or failing to meet these needs?’ This research area ensures a focus on the corresponding anchoring principle of decision-useful information for investors, as described in paragraph 12(a).
20. Key activities for this area of research will include:
- (a) engagement with investors to identify:
    - i. why investors are interested in assessing, and how they assess, BEES- and human capital-related risks and opportunities, including consideration of time horizons, industry-specificity and the particular sub-topics within the broad topical areas of BEES and human capital;
    - ii. what information investors are using and how they are using it in their investment decisions, including how that varies across types of



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- investors, asset classes, geographies and industries of entities they analyse;
- iii. information challenges and shortfalls and investors' needs around more or better BEES- and human capital-related information moving forward; and
- (b) a review of existing literature as well as investor comments from various consultations relating to investors' information needs and uses of BEES and human capital information.
21. It is important for the research and investor engagement to cover a diverse set of investors across types, geographies, size, investment approach, asset classes and their place in the investment value chain. It will include the views of investor data-, analytics-, and index providers as part of the investment value chain where such entities often make use of preparer disclosure of material information as inputs to the services they provide to investors. The staff plans to leverage the ISSB's consultative bodies, including the ISSB Investor Advisory Group (IIAG) and the ISSB Sustainability Reference Group (SRG) where possible.

### ***Evidence of financial implications***

22. The overarching research question that this area aims to answer is 'Whether, how and to what extent do BEES- and human capital-related risks and opportunities affect an entity's cash flows over the short, medium or long term and what are the implications for access to and cost of capital?' The corresponding anchoring principle to this area of research is decision-useful information for investors, as described in paragraph 12(a).
23. Key activities for this area of research will include:
- (a) a review of existing research on financial implications of BEES and human-capital related risks and opportunities, to improve understanding of:
- i. the range of potential implications of BEES- and human capital-related risks and opportunities for entities' cash flows and access to and cost

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- of capital and how these implications might materialise over different time horizons;
- ii. how risks and opportunities might vary depending on specific BEES-related sub-topics like water management, land use and pollution, as well as human capital-related sub-topics such as worker wellbeing and diversity;
  - iii. the extent of industry-specificity of financial implications across BEES and human capital sub-topics;
- (b) engagement with investors and preparers in order to identify examples of financial implications that have materialised in the past or that investors and preparers consider in their decision-making across entity types, industries, jurisdictions and BEES and human capital sub-topics;
- (c) exploring the use of artificial intelligence (AI) tools to analyse discussion of financial implications of BEES- and human capital-related risks or opportunities in entities' public reporting; and
- (d) analysis of previous research that the ISSB or its predecessor organisations conducted to build evidence of financial implications, including the work of the SASB Standards Board related to channels through which BEES and human capital sub-topics can affect an entity's prospects depending on the industry in which the entity operates.
24. The research will aim to understand whether BEES- and human capital-related financial implications arise from idiosyncratic versus systemic risks and opportunities and how they relate to investor portfolio versus entity-specific information.
25. The research is not intended to be exhaustive in considering all possible ways in which an entity's prospects might be affected, including all the possible variations across industries and jurisdictions, but will aim to identify key areas of focus for the next phase of work.

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***Existing standards and frameworks***

26. The overarching research question that this area aims to answer is ‘What is the current landscape of standards and frameworks for BEES- and human capital-related reporting and how does it compare to the requirements in IFRS S1 and the SASB Standards?’ This research area enables the staff to maintain focus on the corresponding anchoring principles of building from existing literature and practice and pursuing an ‘S1 plus’ approach, as described in paragraphs 12(b) and 12(c).
27. Key activities for this area of research will include:
- (a) a review and analysis of currently available standards and frameworks relating to BEES or human capital to assess:
    - i. the nature of the standards or frameworks (for example, whether they are mandatory or voluntary, international or jurisdictional, focused on investors or multiple stakeholders);
    - ii. the topics and sub-topics covered (for example, particular impacts, dependencies, risks or opportunities);
    - iii. the type of information required or recommended (for example, qualitative or quantitative, historical or forward-looking, industry-based or cross-cutting);
  - (b) a comparison of the standards and frameworks to assess:
    - i. whether there are common elements or requirements appearing among them;
    - ii. whether there are common elements or requirements with IFRS S1 and/or SASB Standards; and
  - (c) an assessment of the uptake and use of each standard or framework by preparers and users.
28. The research will consider standards and frameworks that are mandatory (including corporate disclosure laws, regulations, and listing requirements) and those that are voluntary, where there are sufficient indicators that investors consider information

reported in accordance with the standards or frameworks in making decisions related to providing resources to an entity. The research will aim to identify any regional or jurisdictional variations in the information required.

29. For human capital, a landscape mapping will be carried out to identify relevant standards and frameworks, but will include, for example, ESRS and GRI standards, as well as voluntary, investor-led initiatives such as the Workforce Disclosure Initiative and Human Capital Management Coalition. For nature-related disclosure frameworks, as agreed by the ISSB in April 2024, the research will initially assess the recommendations of the TNFD and the nature-related requirements and guidelines of GRI, ESRS, CDP and CDSB.

### ***Current state of disclosure***

30. The overarching research question that this area aims to answer is ‘What is the current state of company disclosure about BEES- and human capital-related risks and opportunities?’ This research area enables the staff to maintain focus on the corresponding anchoring principle of building from existing literature and practice as described in paragraph 12(b).
31. Key activities for this area of research will include:
- (a) a review and analysis of recent corporate reporting and relevant academic or market research to assess:
    - i. the location of BEES- and human capital-related disclosure (for example, whether it appears in general purpose financial reports);
    - ii. the topics and sub-topics covered (for example, particular impacts, dependencies, risks or opportunities);
    - iii. the type of information disclosed (for example, qualitative or quantitative, historical or forward-looking, industry-based or cross-cutting);
    - iv. other key characteristics of disclosure, such as those associated with representational faithfulness (for example, level of assurance);

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- (b) a comparison of current disclosure with the requirements in IFRS S1 and the SASB Standards to assess:
- i. the degree of alignment with the core content areas of governance, strategy, risk management, and metrics and targets, including with particular requirements;
  - ii. the prevalence of cross-cutting and industry-based information, including the latter's degree of alignment with the disclosure topics and associated metrics in SASB Standards; and
- (c) an assessment of the uptake and use (or forthcoming uptake and use) of other prominent standards and frameworks by preparers.
32. The research will consider disclosures from a range of source material, including general purpose financial reports, annual reports, sustainability reports and other documents. Given the significant volume of company disclosures available for review and analysis, the staff will use an approach that combines both automated and manual analysis, leveraging a range of data sources, analytical platforms, and AI and natural language processing tools to facilitate efficient and effective delivery. The research will aim to identify any variation in disclosure among preparers in different regions or jurisdictions, in different sectors and industries, and of different sizes, including market capitalisation.

### ***Other research areas***

33. In addition to the four key areas of research, the staff will also address the anchoring principle of core activities and proportionality during Phase 1. Specifically, the staff will consider connectivity between the ISSB's and IASB's respective requirements and pursuing interoperability of ISSB Standards with other sustainability reporting standards. Key activities for these areas of research will include:
- (a) Connectivity—assessing existing IFRS Accounting Standards and current practice of disclosure in financial statements on information on BEES- and human capital-related risks and opportunities.

- (b) Jurisdictional engagement and interoperability—engaging with standard-setters, framework providers and regulators as appropriate to obtain technical input on key research areas.

### Next steps

34. The staff intends to maintain focus in executing Phase 1 and move at pace as a result. We expect to share research findings—whether preliminary or final—as we progress Phase 1 of research over the coming months. The staff expects to transition to Phase 2, as appropriate, in the first half of 2025.

#### Question for the ISSB

1. Does the ISSB have any comments or clarifying questions on this paper?