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## ISSB Meeting

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| Date     | <b>July 2024</b>   |
| Project  | <b>Maintenance of the SASB Standards</b>   |
| Topic    | <b>Enhancing the SASB Standards</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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## Objective

1. This paper provides the International Sustainability Standards Board (ISSB) with the staff's proposed overall approach to enhancing the Sustainability Accounting Standards Board (SASB) Standards during the next two years, including recommendations regarding an initial set of priority SASB Standards enhancements, to support the implementation of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.
2. If the ISSB approves the staff's proposed approach, the staff will begin work in preparation for exposure drafts of amendments to an initial set of prioritised SASB Standards.

## Summary of staff recommendations

3. Based on the ISSB's objective of supporting the high-quality implementation of IFRS S1 and IFRS S2 through timely enhancements to the SASB Standards, the ISSB's feedback to the staff during its June meeting and additional analysis, the staff recommends that the ISSB:

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- (a) use a phased approach to enhancing the SASB Standards, with at least two phases of work over the next two years;
  - (b) approve commencement of standard-setting to enhance the following initial set of priority SASB Standards, with all components of the Standards within the project scope:
    - (i) all eight SASB Standards in the Extractives & Minerals Processing sector;
    - (ii) the Electric Utilities & Power Generators SASB Standard in the Infrastructure sector; and
    - (iii) subject to further assessing ISSB and stakeholder capacity, three SASB Standards in the Food & Beverage sector.
  - (c) consider making targeted amendments to other SASB Standards, to keep measurement of common topics across industries consistent, where appropriate; and
  - (d) pursue additional research with the objective of developing staff recommendations regarding:
    - (i) further SASB Standards enhancements that staff believes should be prioritised in a second phase of work during the ISSB's two-year work plan; and
    - (ii) specific enhancements to the Sustainable Industry Classification System<sup>®</sup> (SICS<sup>®</sup>).

## Background

- 4. At its March 2024 meeting, the ISSB decided to focus on enhancing the SASB Standards as part of its two-year work plan beginning June 2024.
- 5. At its May 2024 meeting, the ISSB decided:

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- (a) to continue to group entities into industries based on shared sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects, as represented by SICS, for the ISSB's next two-year work plan; and
  - (b) to consider proposing enhancements to the industry groupings when it proposes enhancements to the SASB Standards.
6. At its June meeting, while not asked to make any decisions, the ISSB provided feedback on the staff's initial views on a project approach and discussed potential ways to prioritise enhancements to the SASB Standards. Specifically:
- (a) ISSB members were supportive of the staff's stated objective of enhancing the SASB Standards, which is to support the high-quality implementation of IFRS S1 and IFRS S2 in a timely manner;
  - (b) many ISSB members encouraged the staff to consider the work of other standard-setters in forming its recommendations for priority SASB Standards enhancements, with some divergence regarding the relative level of emphasis the ISSB should place on that criterion;
  - (c) some ISSB members suggested that, in addition to making recommendations regarding initial priorities, the staff should provide the ISSB with its broader vision and overall strategy for enhancing the SASB Standards; and
  - (d) some ISSB members stated their preference to take a more holistic approach to SASB Standards enhancements, rather than selecting only some industry Standards for enhancements.
7. Staff has considered this feedback in forming its recommendations below.

### **Staff's proposed approach to enhancing the SASB Standards**

8. Staff believes that the ISSB's objective of supporting the high-quality implementation of IFRS S1 and S2 through timely enhancements to the SASB Standards should be

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put in the broader context of what the ISSB wants to achieve in the medium-term regarding its industry-based materials. Staff believes that this objective can be met through:

- (a) pursuing enhancements that improve the quality, international applicability and proportionality of the ISSB’s industry-based materials as a key component of its global baseline;
  - (b) conducting research and engaging with the ISSB’s stakeholders to support and inform any enhancements; and
  - (c) ultimately seeking to enhance content across the full body of the SASB Standards.
9. Staff’s recommendations to support this objective are outlined below in paragraphs 10-24. Staff’s rationale for these recommendations is outlined in paragraphs 25-34.

***Staff recommendation #1: use a phased approach***

10. The content in the SASB Standards is extensive, in that it covers 77 industries across 11 sectors. Staff therefore recommends that the ISSB use a phased approach to ensure timely delivery of enhancements and provide the ISSB and its stakeholders with sufficient time to evaluate proposed enhancements.
11. As detailed below, staff recommends that the ISSB begin a “Phase 1” of SASB enhancements work, comprised of commencing standard-setting on an initial set of priority industry Standards and any related targeted amendments across other SASB Standards, with the goal of issuing exposure drafts of the enhancements in the first half of 2025. During Phase 1, staff also proposes conducting additional research to support other enhancements in the future. Staff further recommends that the ISSB also commence a second phase of enhancements next year. That “Phase 2” of SASB enhancements could focus on a further set of industry Standards, cross-cutting projects, or addressing other key gaps identified during staff’s Phase 1 research.

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12. Therefore, staff's recommended approach to SASB enhancements would result in at least two overlapping phases of enhancements work over the next two years. At the end of that period, the ISSB could decide whether to continue with its phased approach to SASB enhancements or pivot to an alternative approach that would be more beneficial to the ISSB and its stakeholders.
  13. A diagram of this approach, including a possible timeline, is included in Appendix A to this paper.

***Staff recommendation #2: enhance an initial set of SASB Standards***

14. Staff proposes that a first phase of SASB enhancements focus on an initial set of SASB Standards which staff's analysis indicates are a high priority based on our application of the criteria that the ISSB discussed at its June 2024 meeting.
15. Staff recommends that the ISSB prioritise enhancing the following SASB Standards as part of this first phase:
  - (a) all eight industries in the Extractives & Minerals Processing sector:
    - (i) Coal Operations
    - (ii) Construction Materials
    - (iii) Iron & Steel Producers
    - (iv) Metals & Mining
    - (v) Oil & Gas – Exploration & Production
    - (vi) Oil & Gas – Midstream
    - (vii) Oil & Gas – Refining & Marketing; and
    - (viii) Oil & Gas – Services.
  - (b) the Electric Utilities & Power Generators industry in the Infrastructure sector;  
and

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- (c) subject to assessing the capacity of the ISSB and its stakeholders, three industries in the Food & Beverage sector:
- (i) Agricultural Products;
  - (ii) Meat, Poultry & Dairy; and
  - (iii) Processed Foods.
16. Staff's rationale for prioritising these industries can be found in paragraphs 27-29.
17. Staff proposes that industry Standards, once selected by the ISSB for enhancement, be evaluated holistically, from evaluating the industry grouping as defined under SICS down to the detailed technical protocols which support application of specific metrics.
18. The staff recommends that enhancing specific industry Standards include a particular focus on:
- (a) the international applicability of industry groupings, including consideration of value chains in emerging markets and developing economies, and how the groupings might serve to support proportionality of the Standards;
  - (b) the international applicability of disclosure topics in those industry groupings;
  - (c) exploring opportunities to improve interoperability with other standards and frameworks, while ensuring continued focus on the needs of investors and with a particular emphasis on establishing a global baseline from which other standard-setters can build;
  - (d) disclosure topics focused on biodiversity, ecosystems and ecosystem services (BEES) and human capital, in order to maximise efficiencies in executing SASB enhancements in conjunction with the ISSB's research projects on those topics; and
  - (e) opportunities to align the language and concepts in the SASB Standards with IFRS Standards, especially IFRS S1.

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**Staff recommendation #3: consider targeted amendments to other SASB Standards**

19. Staff notes that while it is proposing that the ISSB focus on enhancing a set of priority industry Standards in Phase 1, each of these Standards include disclosure topics and metrics that appear in other industry Standards. For example, the topic of workforce health & safety appears in seven industry Standards in the Extractives & Minerals Processing sector but also in 20 other SASB Standards. Other frequently-occurring topics include water management, waste management and air pollution.
20. Staff proposes that if the ISSB identifies enhancements to metrics associated with topics that are common between the initial priority SASB Standards and other SASB Standards, the ISSB should consider making targeted amendments to related metrics in those other SASB Standards, where appropriate. While this approach would expand the scope of work undertaken, it would keep the measurement approach consistent across the body of SASB Standards. The implication of this approach would be that a greater overall percentage of the SASB Standards would be enhanced than if the ISSB solely focused any proposed amendments on an initial set of industries.
21. To contain the scope of work and ensure timely updates to the SASB Standards, the staff proposes that any related amendments to SASB Standards outside of the initial set of priority SASB Standards be restricted to existing metrics. That is, staff does not recommend using targeted amendments to add or remove disclosure topics or metrics in industries that have not explicitly been prioritised by the ISSB in Phase 1.<sup>1</sup>

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<sup>1</sup> For example, if the ISSB chose to enhance water management metrics in the industries that are part of its initial set of priority SASB Standards, the ISSB would consider making targeted amendments to the other SASB Standards where water metrics currently exist, but would not evaluate whether disclosure topics regarding water management should be added to industries outside the initial set of industries prioritised for Phase 1. Staff believes such work could delay project delivery and is better suited to evaluation when an industry Standard has been prioritised by the ISSB for enhancement.

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**Staff recommendation #4: perform additional research**

22. Staff believes that work to enhance an initial set of industry Standards should be complemented by additional research with concrete objectives intended to be completed in the first half of 2025.
23. Staff proposes that this research focus on developing staff recommendations regarding:
  - (a) further SASB Standards enhancements that staff believes should be prioritised as part of a second phase of enhancements; and
  - (b) specific enhancements to SICS.
24. Phase 2 enhancements could take the form of a further set of industry Standards, cross-cutting projects, or addressing other key gaps identified through research discussed in 23(a).

**Staff rationale for recommendations*****Rationale for recommendation #1: use a phased approach***

25. Staff does not believe that enhancing the entirety of the SASB Standards is feasible within the next two years due to the breadth and depth of the content in the SASB Standards. Staff also believes that introducing the related exposure drafts in phases will:
  - (a) ensure that stakeholders have sufficient time to review and provide comment on proposed changes;
  - (b) result in more timely enhancements, which is consistent with the ISSB's objective for enhancing the SASB Standards; and
  - (c) provide the ISSB technical staff with additional time to build capacity.



26. Staff acknowledges that there are trade-offs associated with taking this phased approach to enhancing individual industry Standards. For example, an alternative approach would be to focus on enhancing the industry groupings and associated disclosure topics across the entirety of the SASB Standards. Such an approach would have the benefit of refreshing the SASB Standards as a comprehensive set of guidance for aiding preparers in identifying industry-specific sustainability-related risks and opportunities as required by IFRS S1. However, staff believes this approach:
- (a) would involve exposing a voluminous set of enhancements across all industries, which could pose challenges for some of the ISSB's stakeholders given the associated commitment of time and resources;
  - (b) could leave some individual SASB Standards incomplete (at least through the end of the ISSB's two-year work plan), as it would not be feasible to simultaneously propose enhancements to the related metrics and technical protocols, meaning the refreshed Standards would not provide preparers with fully enhanced guidance on identifying material information to disclose on a timely basis;
  - (c) does not facilitate improvements to interoperability at the metric-level, which would not be responsive to stakeholder feedback regarding the importance of that work; and
  - (d) is not fully supported by investors, who in initial interactions with staff stated a roughly equal and high preference for the ISSB enhancing disclosure topics and metrics and a lower preference for enhancing industry groupings.

***Rationale for recommendation #2: enhance an initial set of industry Standards***

27. Staff has performed an evaluation of the 77 SASB Standards relative to the criteria for project selection previously discussed by the ISSB and other factors. Specifically, staff considered the following elements in identifying SASB Standards to be prioritised by the ISSB:

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- (a) indicators of an industry's importance to investors, including:
    - (i) industry size, measured by the total number of companies in an industry, market capitalisation and short- and long-term debt;
    - (ii) third-party environmental and social credit risk exposure assessments; and
    - (iii) investor feedback received during recent ISSB consultations and historically over the past several years;
  - (b) the volume of overall stakeholder feedback received regarding specific SASB Standards enhancements, also during recent ISSB consultations and historically over the past several years;
  - (c) whether an industry is also being prioritised by other standard-setting bodies focused on sustainability-related disclosures (specifically, GRI sector standards, EFRAG's ESRS sector standards, the TNFD's sector guidance and the TPT sector guidance);
  - (d) the prevalence of disclosure topics and metrics related to BEES and human capital in each industry;
  - (e) whether the SASB Standards Board had been in the process of performing research and consultation regarding enhancements to an industry prior to the consolidation with the IFRS Foundation;
  - (f) disclosure analysis of entities that are applying the SASB Standards, including whether some metrics are frequently omitted by preparers;
  - (g) industries with a high concentration of frequently-occurring metrics that are similar or identical to metrics identified in multiple SASB Standards; and
  - (h) internal resourcing considerations.
28. Based on this analysis, staff recommends that the ISSB prioritise enhancing the SASB Standards detailed in Paragraph 15. Two visualisations of how these elements informed staff's recommended priority industry Standards are provided in Appendix

- B. A summary of a recent survey conducted during a meeting of the ISSB Investor Advisory Group in June is provided in Appendix C.
29. Staff believes that the ISSB should prioritise enhancing this initial group of SASB Standards for the following reasons:
- (a) the ISSB has received a disproportionate amount of stakeholder feedback regarding these industries, including from investors;
  - (b) there is a wide range of sustainability-related risks and opportunities in these industries given the business activities in scope and according to environmental and social credit risk assessments performed by third parties;
  - (c) overlap with issued GRI sector standards and planned EFRAG sector standards gives the ISSB an opportunity to further strengthen its global baseline of industry-based materials while enhancing interoperability, which could benefit preparers through reduced costs and investors through more comparable information; and
  - (d) there is a significant amount of BEES- and human capital-related content in these industry Standards, providing opportunities for synergies with the ISSB's topical research projects in those areas.
30. Staff recommends that the ISSB evaluate each industry Standard holistically because this approach:
- (a) ensures that all sustainability-related risks and opportunities are considered as part of a refreshed SASB Standard, including those that might be highly industry-specific and therefore unlikely to be prioritised (or even identified) using a cross-cutting approach;
  - (b) pairs well with any enhancements to the industry groupings as defined by SICs, which need to be considered at industry level, and any changes to the scope of an industry grouping would necessitate a full review of the associated disclosure topics and metrics; and

- (c) both the disclosure topics and metrics in the SASB Standards are key content to support implementation of IFRS S1 and IFRS S2, as they support the identification of sustainability-related risks and opportunities and the identification of material information to provide regarding those risks and opportunities, respectively. Both elements provide preparers with a proportionate entry point into disclosing sustainability-related financial information.

***Rationale for recommendation #3: consider targeted amendments to other SASB Standards***

31. Staff believes that targeted amendments could be used to bring greater consistency to the metrics across the body of the SASB Standards and ensure that industry-unique metrics are only present in the Standards when warranted. For example, where they capture information on a sustainability-related risk or opportunity in a manner that is relevant only to some types of business models, such as exposure to specific types of workplace hazards. This would have the key benefits of:
- (a) facilitating better comparability of disclosures across industries for investors; and
  - (b) easing the reporting burden for preparers with diverse or complex business activities that consult more than one SASB Standard and may currently face challenges posed by the presence of similar – but not identical – measurement approaches in different industry Standards.

***Rationale for recommendation #4: pursue additional research***

32. Staff has a high degree of confidence that, based on the application of the criteria discussed at the June ISSB meeting, the industry Standards recommended above should be enhanced by the ISSB as part of an initial set of enhancements. However, staff believes that additional research in the near term is necessary to provide the ISSB with more a detailed understanding about enhancements that the ISSB should

prioritise after this first phase. For example, staff may undertake further engagement with investors to understand their additional needs beyond those covered in the first phase. Additional research in Phase 1 would also coincide with the initial phase of the ISSB's research projects on BEES- and human capital-related risks and opportunities, and will enable staff to assess further synergies with these projects in order to determine prioritisation in Phase 2.

33. Staff also recommends additional research on specific enhancements that could be made to SICS, with a view to producing proposed enhancements to the classification system. At its May meeting, the ISSB decided that enhancements to SICS should be considered as part of enhancements to the SASB Standards in the two-year work plan. Besides the SICS enhancements identified through priority industries, staff proposes undertaking this additional research across the entirety of SICS. This would include stakeholder outreach in jurisdictions less familiar with the SASB Standards to seek feedback on specific changes. However, recommended SICS updates may not immediately result in new or updated Standards for those industries that are affected. Research on SICS would need to be combined with additional research on identifying priority enhancements for the second phase.
34. Staff believes that this research will ensure that the ISSB selects the optimal set of SASB enhancements that best reflects the needs of its stakeholders and facilitates implementation of IFRS S1 and S2 in a timely manner.

## Next Steps

35. If the ISSB agrees with the staff's recommendations, staff will:
  - (a) begin work on the priority industries proposed above with the objectives of preparing for exposure drafts of proposed enhancements to the SASB Standards and identifying targeted amendments to other SASB Standards as appropriate; and

- (b) begin additional research with the objective of identifying further priority enhancements to the SASB Standards and SICS.

## Questions for the ISSB

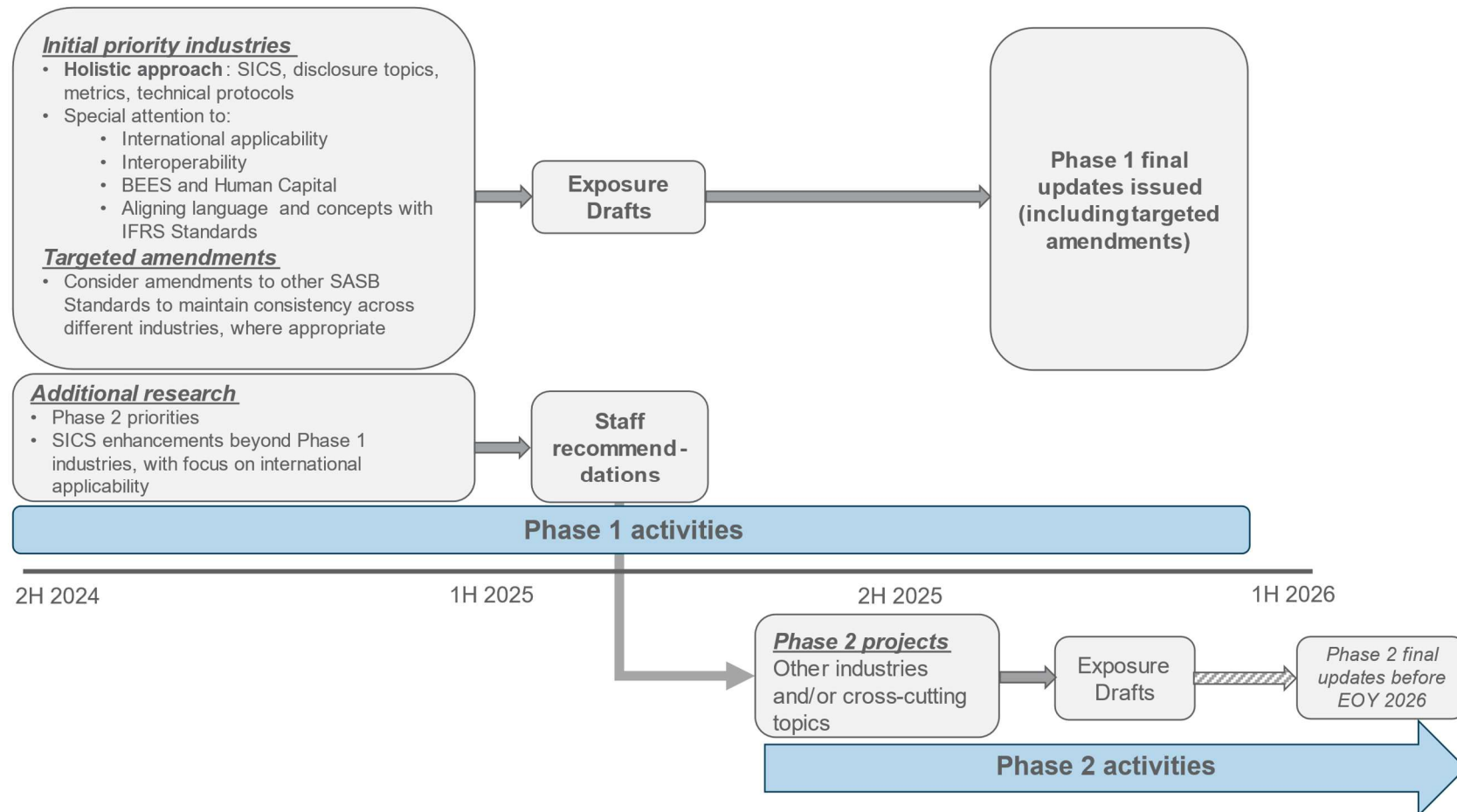
36. The staff presents the following questions for the ISSB.

### Questions for the ISSB

1. Does the ISSB have any comments or clarifying questions on the matters discussed in this paper?
2. Does the ISSB agree that it should take a phased approach to enhancing the SASB Standards as proposed by staff in paragraphs 10-12?
3. Does the ISSB agree that it should enhance the initial set of SASB Standards recommended by staff as set out in paragraph 15, with all components of the Standards within the project scope?
4. Does the ISSB agree that, in undertaking the work on the prioritised industries listed above, targeted amendments to other SASB Standards should be considered as proposed by staff in paragraphs 19-21?
5. Does the ISSB agree that the staff should pursue additional research as set out in paragraphs 22-24 before making more recommendations regarding further enhancements to the SASB Standards and SICS?

## Appendix A: staff’s proposed project approach, including potential timeline

Figure 1—SASB Standards enhancements approach and timeline



## Appendix B: Elements considered for selecting priority industries for enhancements

Table 1—Alignment of priority industries with elements considered for selecting priority industries

| Industry                              | Large number of individual companies | High overall equity or debt value | High sustainability-related credit risk (third-party assessment) | Large volume of stakeholder feedback provided | High alignment with current and planned work of other standard-setters | High alignment of existing metrics with ISSB workplan projects | Completed or incomplete update prior to merger with IFRS Foundation | High number of omitted metrics in past SASB reports | Standard with multiple metrics that occur in other industry Standards |
|---------------------------------------|--------------------------------------|-----------------------------------|--|---|--|--|---|---|---|
| Coal Operations                       |                                      |                                   |  |   |  |  |   |   |   |
| Construction Materials                |                                      |                                   |  |   |  |  |   |   |   |
| Iron & Steel Producers                |                                      |                                   |  |   |  |  |   |   |   |
| Metals & Mining                       |                                      |                                   |  |   |  |  |   |   |   |
| Oil & Gas – Exploration & Production  |                                      |                                   |  |   |  |  |   |   |   |
| Oil & Gas – Midstream                 |                                      |                                   |  |   |  |  |   |   |   |
| Oil & Gas – Refining & Marketing      |                                      |                                   |  |   |  |  |   |   |   |
| Oil & Gas – Services                  |                                      |                                   |  |   |  |  |   |   |   |
| Agricultural Products                 |                                      |                                   |  |   |  |  |   |   |   |
| Meat, Poultry & Dairy                 |                                      |                                   |  |   |  |  |   |   |   |
| Processed Foods                       |                                      |                                   |  |   |  |  |   |   |   |
| Electric Utilities & Power Generators |                                      |                                   |  |   |  |  |   |   |   |

Note to Table 1: A coloured box indicates that the SASB industry aligns with the element to a high degree relative to other SASB industries.



Table 2—Comparison of elements considered with criteria identified for evaluating enhancements projects

| Criterion  | Large number of individual companies | High overall equity or debt value | High sustainability-related credit risk (third-party assessment) | Large volume of stakeholder feedback provided | High alignment with current and planned work of other standard-setters | High alignment of existing metrics with ISSB workplan projects | Completed or incomplete update prior to merger with IFRS Foundation | High number of omitted metrics in past SASB reports | Standard with multiple metrics that occur in other industry Standards |
|--|--------------------------------------|-----------------------------------|--|---|--|--|---|---|---|
| 1. The importance of the matter to investors   |                                      |                                   |  |   |  |  |   |   |   |
| 2. Whether there are any deficiencies in the way companies disclose information on the matter  |                                      |                                   |  |   |  |  |   |   |   |
| 3. The types of companies that the matter is likely to affect, including whether the matter is more prevalent in some industries and jurisdictions than others |                                      |                                   |  |   |  |  |   |   |   |
| 4. How pervasive or acute the matter is likely to be for companies   |                                      |                                   |  |   |  |  |   |   |   |
| 5. The potential project's interaction with other projects in the work plan and its interaction with the work of other relevant standard-setters               |                                      |                                   |  |   |  |  |   |   |   |
| 6. The complexity and feasibility of the potential project and its solutions   |                                      |                                   |  |   |  |  |   |   |   |
| 7. The capacity of the ISSB and its stakeholders to make timely progress on the potential project  |                                      |                                   |  |   |  |  |   |   |   |

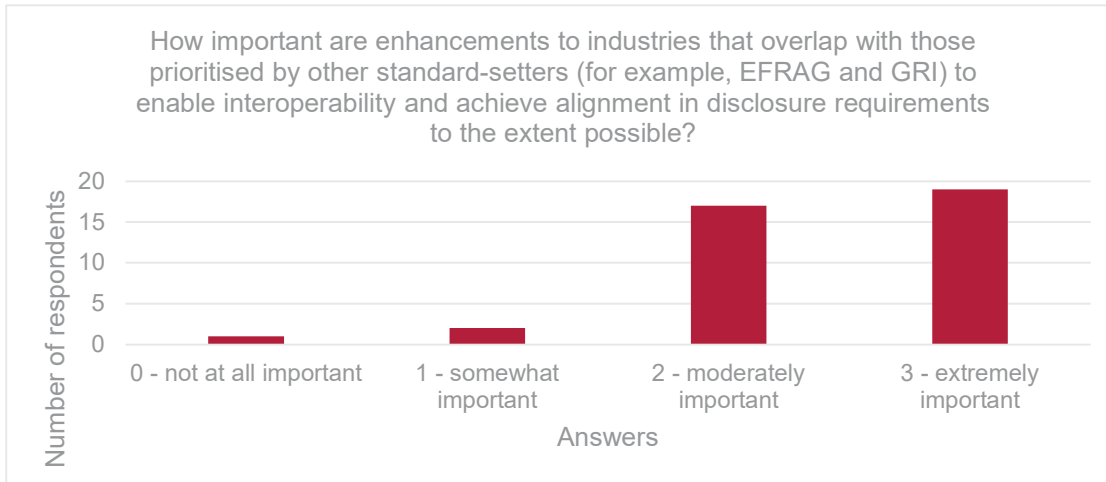
Note to Table 2: The staff previously recommended emphasising criteria 1, 3, 5 and 6.

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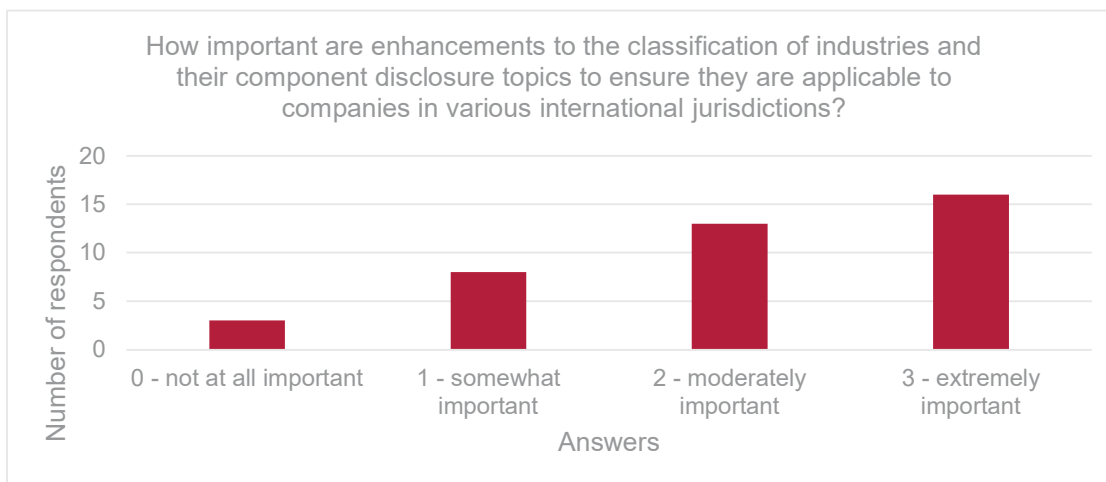
## Appendix C: ISSB Investor Advisory Group (IIAG) Survey

- C1. In June 2024 the staff surveyed the [ISSB Investor Advisory Group](#) (IIAG) at their quarterly meeting. The survey's intention was to provide an initial indication of which factors IIAG members considered as important for staff to consider when contemplating the prioritization of enhancements to the SASB Standards, in line with the discussion at the June ISSB meeting. The staff emphasise that the survey results be interpreted as an initial indication and not as a comprehensive survey of investors. Approximately 40 members responded to the following six questions:
- (a) How important are enhancements to industries that overlap with those prioritised by other standard-setters (for example, EFRAG and GRI) to enable interoperability and achieve alignment in disclosure requirements to the extent possible? (see Figure 2);
  - (b) How important are enhancements to the classification of industries and their component disclosure topics to ensure they are applicable to companies in various international jurisdictions? (see Figure 3);
  - (c) How important are enhancements to industries and sectors that have the greatest value to the global economy (e.g. based on market capitalisation)? (see Figure 4);
  - (d) How important are enhancements to topics and metrics in the Standards that are related to the ISSB's approved research projects on (a) human capital and (b) biodiversity, ecosystems and ecosystem services? (see Figure 5);
  - (e) How important are enhancements to industries, topics, or metrics where the business models, activities and/or related sustainability issues and their measurement have significantly evolved since the publication of the Standards? (see Figure 6); and
  - (f) If the ISSB had to prioritise specific structural elements of the SASB Standards over others for its work over the next two years, in your opinion, how would you rank the following by order of priority? (see Figure 7).

**Figure 2—IIAG survey result on importance of interoperability**



**Figure 3—IIAG survey result on importance of international applicability**



**Figure 4—IIAG survey result on importance of value within the global economy**

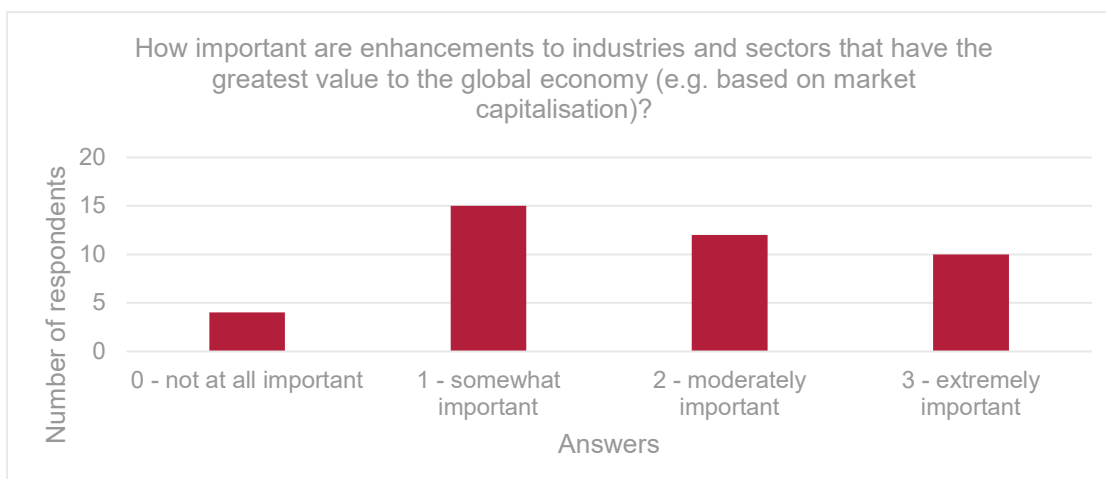


Figure 5—IIAG survey result on importance of relationship to other ISSB projects

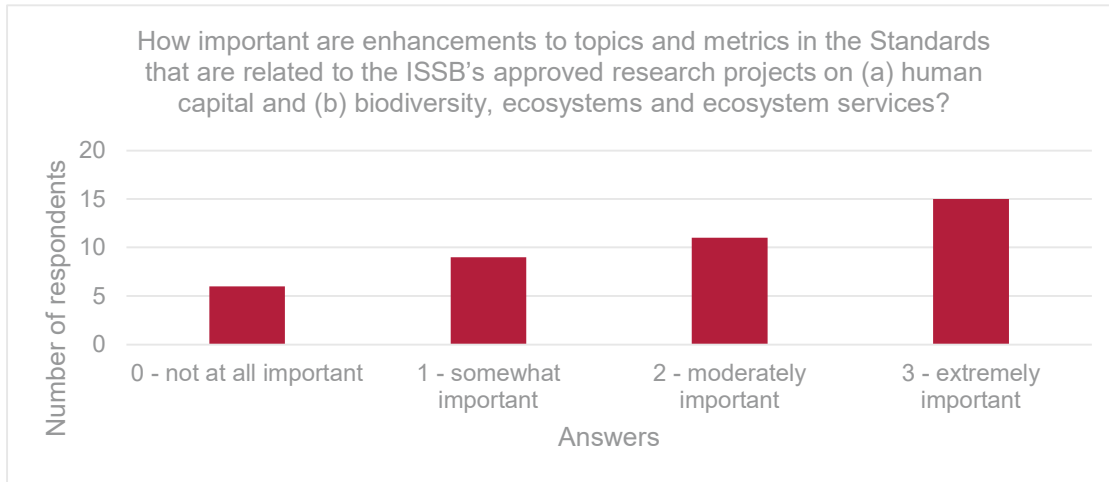
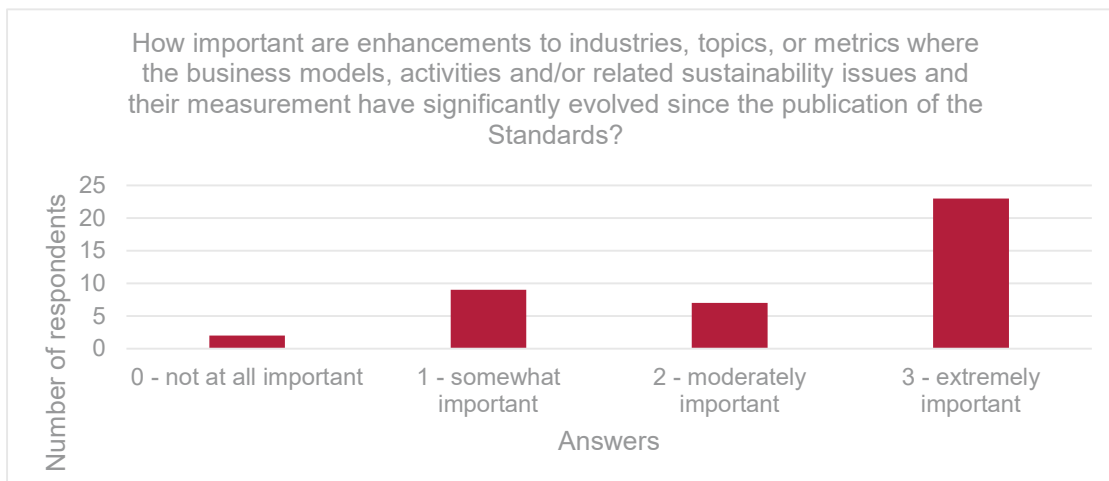


Figure 6—IIAG survey result on importance of more rapidly evolving industries and issues



**Figure 7—IIAG survey result on prioritisation of structural elements of the SASB Standards**

