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Introduction to the ISSB Exposure Drafts: IFRS S1 and IFRS S2

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Slide 1 – Title Page

Welcome to today's webinar and thanks for tuning in. My name is Lisa French and I'm the Vice-President of Sustainability Standards with Financial Reporting & Assurance Standards Canada. As advertised, I'll provide a quick introduction to the International Sustainability Standards Board, or ISSB, and its two inaugural exposure drafts, which are currently open for public comment.

So, over the course of the next 15 minutes, I'll scratch the surface of these two exposure drafts and explain why this is such a pivotal time in standard setting – and how you can get involved, quickly and easily, in the days and weeks to come.

To get the ball rolling… next slide

Slide 2 – International Sustainability Standards Board

Just a few opening words on the ISSB, which was formed in November 2021 at COP26 (the UN global summit to address climate change). The ISSB builds on the staff and intellectual capital of the Carbon Disclosure Standards Board, as well as the Value Reporting Foundation (with its SASB Standards and Integrated Reporting Framework). The Carbon Disclosures Standards Board has already been legally folded into the IFRS Foundation – and the Value Reporting Foundation will soon follow suit – by end-of-June time frame.

The ISSB's first two exposure drafts, which we'll get to in a moment, build on the work of the Task force on Climate-related Financial Disclosures (or TCFD), the International Accounting Standards Board and the World Economic Forum.

In terms of its physical presence, ISSB staff members are based primarily in San Francisco and London, while centres in Frankfurt and Montreal will host the key functions of the Board itself. Plans are also in the works to establish a formal presence in Asia.

Finally, the intent of the ISSB is to develop baseline standards at the global level for sustainability disclosures to inform investor decisions. The first major step in establishing that global baseline was taken on March 31.

Slide 3 – Exposure Drafts: IFRS S1 and IFRS S2

… when the ISSB issued its first two exposure drafts. The first of those drafts, IFRS S1, covers general requirements for the disclosure of sustainability-related financial information. As its 'General Requirements' title would suggest, it's quite broad in its scope.

The second exposure draft, IFRS S2, is a topic-specific standard focused on climate disclosure. As you'll see on the left-hand side of the screen, the deadline for public comments for both exposure drafts is July 29th. Notably, both standards are based on the core structure of the TCFD recommendations.

Now, as shown on the next slide…

Slide 4 – Exposure Drafts: IFRS S1 and IFRS S2

… The structure of the proposed standards is centred on the four themes of governance, strategy, risk management and metrics and targets. These themes align with the way businesses – at least well-managed businesses – generally operate. Importantly, many companies around the world already provide climate-related financial disclosures in accordance with the TCFD's recommendations – so the ISSB has wisely decided to maintain this approach.

Now, we'll take a quick look at each of these four areas in the context of the proposed ISSB standards – in particular, IFRS S1 and S2.

Slide 5 – Exposure Drafts: IFRS S1 and IFRS S2

… And we'll start with the outer-most governance circle. These disclosures outline the processes, controls and procedures in place to monitor and manage sustainability risks and opportunities – including those related to climate change.

Moving inward to the strategy circle, these disclosures provide insight into the strategic decisions around sustainability risks and opportunities and the implications on financial planning. In the case of IFRS S2, these strategic disclosures would relate specifically to climate change matters.

Next circle is risk management disclosures. These disclosures explain how organizations identify, assess and manage sustainability-related risks – and also how they identify and respond to opportunities.

Finally, metrics and targets show how organizations measure, monitor and manage their sustainability risks and opportunities. These disclosures allow investors to get a sense of how organizations evaluate their own performance, including their progress toward established targets.

Again this overarching approach is common to both exposure drafts. But let's take a moment to explore the two drafts individually, starting with IFRS S1.

Slide 6 – IFRS S1: General Requirements

Again, this proposed standard establishes general parameters for disclosing sustainability-related financial information – and it would be used in combination with topic-specific standards like IFRS S2. In cases where a topic-specific standard doesn't exist – say, on biodiversity or human capital considerations – this standard would provide a solid starting point. It helpfully points to other resources, including the industry-based SASB Standards, for specific disclosure topics and metrics.

Another notable feature of the proposed IFRS S1 is its summary of traits or characteristics of useful information. For those familiar with the IASB's Conceptual Framework for Financial Reporting, this probably isn't new to you. But for the benefit of others, we'll touch on these characteristics here, starting with the two fundamental characteristics of information in the top row: The disclosed information should be relevant, meaning it's capable of influencing the decisions of investors, creditors and others. The disclosed information should also represent that which it purports to represent by being complete, neutral and free from error. This characteristic is captured in the term faithful representation.

Looking to the second row and the four enhancing characteristics of information: Useful information facilitates comparability, either to prior period disclosures or to information provided by other entities. The information should also be verifiable, meaning it can be corroborated by knowledgeable and independent observers. In addition to being timely -- or available to investors in time to inform their decisions – the information should be understandable. And the exposure draft provides tips on how to enhance understandability.

Now, as I hinted earlier…

Slide 7 – IFRS S1: General Requirements

The characteristics of useful information and the other concepts in IFRS S1 are broadly consistent with the IASB's Conceptual Framework for Financial Reporting, as well as IAS 1 and IAS 8. So, the take-home message here is that the IFRS Foundation is ensuring compatibility between IASB and ISSB standards, particularly as sustainability-related financial information is part of general purpose financial reporting. The thought is that reporting done by entities should be connected, rather than siloed.

Switching gears now to IFRS S2…

Slide 8 – IFRS S2: Climate-related Disclosures

… and its focus on climate-related disclosures. You'll see a lot of common ground between this exposure draft and the General Requirements draft – and again, this compatibility across standards is by design.

Climate disclosures became the first topic-specific standard, in part because of the universal relevance of climate change – but also because of the relative maturity of climate reporting in terms of quantitative metrics and methodologies, and the ability to change investment allocation decisions in the near term.

As shown in the second point, this exposure draft includes the industry-based metrics of SASB Standards.

Finally, as noted earlier, this standard builds on the recommendations of the Task force on Climate-related Financial Disclosures, or TCFD. You'll recall those four themes of governance, strategy, risk management and metrics and targets. We'll step through these themes in the context of climate-related information on the NEXT SLIDE…

Slide 9 – IFRS S2: Climate-related Disclosures

So, governance disclosures describe the processes, controls and procedures used to monitor and manage climate-related risks and opportunities.

Slide 10 – IFRS S2: Climate-related Disclosures

Strategy disclosures help investors understand how significant climate-related risks and opportunities are addressed. Paragraphs 7 to 15 of this exposure draft…

Slide 11 – IFRS S2: Climate-related Disclosures

… require the identification of climate-related risks and opportunities that could reasonably affect the organization's business model, strategy and cash flows. This is captured in the first (purple) sub-category, as is the need to indicate whether the risks identified are physical risks or those associated with the transition to a lower-carbon economy. Preparers are also required to communicate the current and expected effects of those risks and opportunities on their business model and value chain.

Looking to the second sub-category, IFRS S2 calls for an explanation of the effects of climate-related risks and opportunities on strategy and decision-making. And this would include plans for transitioning to a lower-carbon economy.

Next, preparers are required to disclose the effects of climate-related risks and opportunities on their financial position, financial performance and cash flows. They're also required to indicate how climate-related risks and opportunities are captured in their financial planning.

Finally, as shown at the bottom of the screen, preparers must indicate the resilience of their strategy and their business model to climate-related developments and uncertainties. They would do this by performing a scenario analysis. If, for whatever reason, they're unable to carry out a scenario analysis, then they must signal their climate resilience through other methods.

Needless to say, this section is quite expansive, and you may want to do a deeper dive into that section as you look at the proposed standard.

Slide 12 – IFRS S2: Climate-related Disclosures

The risk management section of IFRS S2 requires an explanation of the process through which climate-related risks – and importantly, opportunities – are identified, assessed and managed. This section gets into how organizations evaluate the likelihood and relative priority of climate-related risks – and how this process fits into the organization's overall risk management approach. Finally…

Slide 13 – IFRS S2: Climate-related Disclosures

… organizations are required to share, among other things, the metrics used to track progress against their stated targets.

Notably, there's a requirement to disclose Scope 1, 2 and 3 greenhouse gas emissions in both absolute terms (or total) and intensity-based terms (meaning they're normalized or expressed on a 'per unit of output' basis). There are also measurement requirements related to: (1) transition and physical risks, (2) climate-related opportunities, (3) internal carbon pricing and (4) remuneration.

There's a lot to digest when it comes to the specific disclosure details. Suffice it to say, the industry-based disclosure requirements provided in Appendix B of the proposed standard will come in handy as preparers try to navigate their early days of climate-related reporting.

This provides a bird's eye view of the exposure draft. Now let's turn our attention to you, the viewer, and how this relates to you.

Slide 14 – Why participate?

There's a strong investor push for consolidation and standardization as it relates to sustainability. This demand, along with other factors such as policy shifts and more frequent and extreme weather events – have spurred firm action. We're seeing increased regulatory interest in this space too. The most recent proposals of the Canadian Securities Administrators and the US Securities and Exchange Commission, are bolder than ever before.

For their part, Canada's largest issuers are also very engaged – in fact, Canada has one of the highest rates of sustainability reporting in the world. Many of Canada's small and medium enterprises or private entities are wondering what this all to them in terms of the growing expectations of their supply-chain partners.

Whether you've tuned in today as an investor, a regulator, a business of any sort – or a concerned citizen – you have a good reason to be informed and engaged. You've picked the right time to participate. We're at a pivotal moment where the ISSB is setting the foundation for all future sustainability disclosure standards. With strong support from investors, the International Organization of Securities Commissions and G20 leaders, there's considerable pressure for the ISSB to move at a fast pace. In fact, the ISSB plans to finalize its first two standards by the end of this year.

As we approach the ISSB's July 29 deadline for comments, there's a reasonable – but diminishing – window for your views to be heard…

Slide 15 – Be heard

How can you be heard? Well, there are a few ways – the most direct being a response to the ISSB through its online survey or a formal comment letter. In addition to this approach, or perhaps as a bite-sized alternative, you can comment on those issues you care about most or feel best equipped to address through our Connect platform. I will explain in a minute how you can access the platform. Through this channel, your input will feed into our response to the ISSB. So, either way, your voice will be heard.

In the coming days and weeks, we'll probe a few key themes though our Connect platform, including the overall approach of the ISSB exposure drafts and their objectives, treatment of materiality and other areas shown here. You can access our platform through the link shown here, or by navigating from our homepage…

Slide 16 – Stay informed

… as shown here. You can access the ISSB's two exposure drafts, in French or in English, through our website – and you can respond directly to the ISSB by clicking the 'respond' button.

You can also subscribe to our e-newsletter, The Standard, to stay informed on developments in this space.

So with that, thanks for tuning in – and enjoy the rest of your day.