



**INTERNATIONAL SUSTAINABILITY  
STANDARDS BOARD (ISSB) FORMED AND  
PROTOTYPE SUSTAINABILITY STANDARDS  
RELEASED**

**INTERNATIONAL SUSTAINABILITY REPORTING BULLETIN**

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## BACKGROUND

On 3 November 2021, Erkki Liikanen, Chair of the IFRS Foundation Trustees, announced three significant developments at the COP26 UN global summit in Glasgow, Scotland:

1. The formation of a new International Sustainability Standards Board (ISSB), which will develop a comprehensive global baseline of high-quality sustainability disclosure standards with an aim to meet investors' information needs;
2. A consolidation of the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF - which houses the current Integrated Reporting Framework and SASB standards) into the ISSB by June 2022; and
3. The publication of two prototype standards: one on climate and the other on general disclosure requirements. These prototype standards were developed by the Technical Readiness Working Group (TRWG) prior to the formation of the ISSB.

### EXECUTIVE SUMMARY

The formation of the International Sustainability Standards Board (ISSB) at the IFRS Foundation has been announced at COP26, along with the release of two prototype sustainability standards.

This publication provides a brief overview of these announcements in question and answer (Q&A) format.

## FORMATION OF THE INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB)

### How will the ISSB interact with the International Accounting Standards Board (IASB)?

The ISSB will sit alongside the IASB under the oversight of the Trustees of the IFRS Foundation and the Monitoring Board. The [IFRS Foundation Constitution](#) has been amended to reflect this. The boards will seek to ensure connectivity and compatibility between IFRS Accounting Standards issued by the IASB and IFRS Sustainability Disclosure Standards issued by the ISSB.

### Why was the ISSB formed?

There is a proven demand for information relating to environmental, social and governance (ESG) issues, as these factors affect enterprise value. However, despite this demand, no consistent, globally accepted framework for disclosing this information has emerged (see BDO's publication on the various [Sustainability Frameworks as at September 2021](#)). Many of these frameworks are voluntary, which has increased fragmentation in reporting.

This has led to calls for the IFRS Foundation to form a global standard setter to increase the consistency in the reporting of this type of information, as has been accomplished by the IASB in terms of financial reporting. The creation of the ISSB follows extensive public consultation and is with the support of various regulatory bodies, including the International Organisation of Securities Commissions (IOSCO).

### What are the objectives of the ISSB?

The ISSB will issue IFRS Sustainability Disclosure Standards, which will set out disclosure requirements that address entities' impacts on sustainability matters that affect enterprise value and how investors make decisions. While the IASB issues standards that assist investors in making decisions related to financial information (e.g. profit, liquidity, etc.), IFRS Sustainability Disclosure Standards will provide investors with information on a broader set of metrics, such as the effect an entity has on climate, fresh water supplies, soil erosion, equitable treatment of employees, gender pay disparity, etc.

### How will the ISSB take account of what has been issued already by other standard setters?

While the ISSB seeks to issue a set of globally accepted standards for sustainability disclosures, the board is also seeking to build upon what has been done already. In order to accomplish this, the ISSB will consolidate and merge with two existing organisations:

- The Climate Disclosure Standards Board (CDSB); and
- The Value Reporting Foundation (VRF - which houses the Integrated Reporting Framework and SASB standards).

The technical standards and frameworks established by these organisations, along with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and the World Economic Forum Stakeholder Capitalism Metrics form the basis for the work to be carried out by the new Board.

### Where will the ISSB be located?

The ISSB will have offices across the world, including:

1. Frankfurt, Germany: the seat of the Board and office of the Chair;
2. Montreal, Canada: additional offices also responsible for key functions supporting the new Board and cooperation with regional stakeholders;
3. San Francisco, United States of America; and
4. London, United Kingdom.

The offices in San Francisco and London will provide additional technical staff and resources for the functioning of the ISSB. The office in San Francisco will follow the consolidation with the VRF by June 2022.

Discussions are ongoing with proposals for offices in Beijing and Tokyo to finalise the ISSB's footprint in the Asia Oceania region.

## PROTOTYPE STANDARDS - IFRS SUSTAINABILITY DISCLOSURE STANDARDS

### What are the prototype standards and what is the ISSB expected to do with them?

The prototype standards released by the ISSB were prepared by the Technical Readiness Working Group (TRWG) to enable the ISSB to have a 'running start' in drafting the most pressing disclosure requirements, which are:

1. General requirements for disclosure of sustainability-related financial information; and
2. Climate-related disclosure.

The prototype standards provide recommendations to the ISSB for consideration in issuing eventual final standards. The prototype standards may be accessed [here](#). While the recommendations build on the established work of the organisations represented on the TRWG, the prototype standards have not been subject to the due process of those organisations or of the IFRS Foundation. After starting its work, the ISSB is expected to consult publicly on proposals that are informed by the TRWG's recommendations. The ISSB's work will be subject to the IFRS Foundation's due process.

### What is the Technical Readiness Working Group (TRWG)?

The TRWG is a group formed by the IFRS Foundation Trustees prior to the formation of the ISSB, charged with undertaking preparatory work for the ISSB. The TRWG comprises representatives from the CDSB, TCFD, IASB, VRF and the World Economic Forum.

### What would the general requirements for disclosure of sustainability-related financial information prototype require?

The general requirements prototype sets out the overall requirements for disclosing sustainability-related financial information relevant to the sustainability-related risks and opportunities of an entity. The prototype includes:

1. A requirement to disclose a complete, neutral and accurate depiction of an entity's significant sustainability risks and opportunities;
2. A definition of materiality, aligned with the *Conceptual Framework for Financial Reporting*, focused on the information that serves the needs of users and drives enterprise value;
3. A consistent approach for the disclosure of information about significant sustainability-related risks and opportunities built on a consideration of an entity's governance, strategy and risk management and supported by metrics and targets; and
4. further requirements and guidance that support the provision of comparable and connected information.

An important consequence is that an entity would be required to make disclosures about all material sustainability-related risks and opportunities, regardless of whether there is a specific IFRS Sustainability Disclosure Standard for that topic or issue. The prototype includes an equivalent to the hierarchy in IFRS Standards, which includes requirements which apply in the absence of a specific IFRS Sustainability Disclosure Standard. These include the disclosure of information that is relevant, faithfully represents the entity's risks and opportunities and is neutral. In developing those disclosures, management of an entity may consider the most recent pronouncements of other standard setting bodies.

### What would the climate-related disclosure prototype require?

The prototype incorporates recommendations from existing standards and frameworks, including the TCFD along with industry disclosure requirements that have been derived from SASB Standard.

The prototype requires an entity to provide information that enables users of general purpose financial reporting to assess an entity's governance, strategy, risk management, metrics and targets related to climate-related risks and opportunities.

The prototype is accompanied by a supplementary technical protocol for disclosure requirements, which sets out extensive disclosure requirements and application guidance to achieve these objectives by industry.

### Why should stakeholders become familiar with the prototype standards?

Despite the fact that the prototype standards are not exposure drafts and have not yet been subject to due process, it is likely that the ISSB will proceed very quickly in issuing exposure drafts, with the effective date of the eventual standards being in the near term. IOSCO has indicated that, subject to its own due process, they will support the standards issued by the ISSB, meaning that regulators and prudential authorities worldwide may move quickly to adopt those standards, and some jurisdictions have already made public statements that they will endorse ISSB standards for inclusion in their own regulatory requirements. Therefore, entities may be required to report in accordance with these requirements very soon. As such, it is appropriate for all entities which may be required (or may choose) to report in accordance with ISSB Sustainability Disclosure Standards to familiarise themselves with the prototype standards, which are expected to form the basis for exposure drafts in the near term (early 2022).

## Next Steps

The Trustees of the IFRS Foundation are in advanced stages of appointing a Chair and Vice-Chair(s) to the ISSB. The Trustees will also shortly commence a search for additional board positions, up to 14 members. The ISSB's work is expected to begin shortly after the Chair and Vice-Chair(s) have been appointed. This work will start with public consultations that will inform the ISSB's work plan. The ISSB will then proceed with the due process steps necessary to proceed with finalising and issuing its first IFRS Sustainability Disclosure Standards. More information may be obtained on the IFRS Foundation's website [here](#).



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