ISSB issues IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*

INTERNATIONAL SUSTAINABILITY REPORTING BULLETIN

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BACKGROUND

On 26 June 2023 the International Sustainability Standards Board (ISSB) issued its first two standards, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and IFRS S2 *Climate-related Disclosures* (IFRS S2). IFRS S1 sets out general requirements for the disclosure of material information about sustainability-related financial risks and opportunities and other general reporting requirements. IFRS S2 sets out disclosure requirements that are specific to climate-related matters. These standards were developed in response to requests from primary users of general-purpose financial reporting for more consistent, complete, comparable and verifiable sustainability-related financial information to enable them to assess an entity's enterprise value. The standards will require disclosure of information about an entity's impacts and dependencies on people, the planet and the economy to meet the needs of primary users of general-purpose financial information.

This publication provides a summary of the key requirements of IFRS S1 and IFRS S2. This summary does not include all requirements of IFRS S1 and IFRS S2.

EXECUTIVE SUMMARY

On 26 June 2023 the ISSB issued its first IFRS Sustainability Disclosure Standards with an effective date of annual periods beginning on or after 1 January 2024.

IFRS S1 sets out general requirements for the disclosure of material information about all material sustainability-related financial risks and opportunities and other general reporting requirements. IFRS S2 sets out disclosures that are specific to climate-related matters.

EFFECTIVE DATE AND TRANSITION

The first two IFRS Sustainability Disclosure Standards will be effective for annual periods beginning on or after 1 January 2024. However, jurisdictions must first endorse the standards or otherwise bring them into law in order for them to become effective, and they may choose a later effective date. Considering sustainability disclosures are new for many companies globally, the ISSB has stated that they will provide guidance and introduce programmes that support those applying its standards as market infrastructure and capacity is built.

The ISSB will complement its package of transitional reliefs to support companies applying IFRS S1 and IFRS S2 by permitting entities that apply the standards to only make disclosures about climate-related risks and opportunities in the first year of adoption, with disclosure of all material sustainability-related risks and opportunities beginning in the second year of adoption. This transition relief has no effect on the application of the requirements in IFRS S2. Consequently, comparative information for climate-related financial information would be required in the second year of application. If an entity applies the transitional relief available in the ISSB Standards it is required to disclose that fact.

This relief will enable companies to focus initial efforts on ensuring that they meet investor information needs around climate change, prioritising to provide high-quality, decision-useful information about climate-related risks and opportunities in the first year of application of the IFRS Sustainability Disclosure Standards.

IFRS S1 *GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION*

Topic	Requirements
Fundamental concepts	- Purpose is for general purpose financial reporting. - Definition of materiality the same as IFRS Accounting Standards.
Use of four pillar framework and global baseline concept	- The use of the following four pillars as described by the Financial Stability Board's Task Force on Climate-related Financial Disclosures: (a) Governance—the governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities; (b) strategy—the approach the entity uses to manage sustainability-related risks and opportunities; (c) risk management—the processes the entity used to identify, assess, prioritise and monitor sustainability-related risks and opportunities; and (d) metrics and targets—the entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation. - The meaning of the 'global baseline' would require an entity to make disclosures that are designed to meet the information needs of existing and

Topic	Requirements
	potential investors, lenders and other creditors; that the information to be provided in such disclosures is subject to an assessment of materiality; and that the information can be presented with information disclosed to meet other requirements, such as specific jurisdictional regulatory requirements, but cannot be obscured by that additional information.
Comparative information	- Only require an entity to revise comparative information to reflect updated assumptions if the information reported in previous reporting periods related to that previous period and not require such updates for forward-looking estimates disclosed in previous periods.
Timing of reporting	- Require entities to report sustainability-related financial disclosures at the same time as related financial statements. - Introduce short-term transitional relief that would permit an entity to report its sustainability-related financial disclosures after its financial statements. - Short-term transitional relief would require entities to publish sustainability-related financial disclosures: • at the same time as its next second-quarter or half-year interim report, if the entity is required to provide such an interim report; • at the same time as its next second-quarter or half-year interim report, but within nine months of the end of its annual reporting period, if the entity voluntarily provides such an interim report; or • within nine months of the end of its annual reporting period, if the entity is not required to and does not voluntarily provide an interim report.
Current and anticipated effects on financial performance, position and cash flows and connected information	- When sustainability-related risks and opportunities affect/are expected to affect information presented in the financial statements, require explanation of the connection. - Require disclosure of quantitative information about current and anticipated effects, unless it is impracticable to do so. - Require disclosure of qualitative, and if applicable, quantitative assessment of resilience of an entity's strategy and business model in relation to its sustainability-related risks, including information about how the assessment was carried out and its time horizon.
Disclosure of judgements and estimates	- Disclosure requirement about judgements made in preparing disclosures (similar to IAS 1 requirements in IFRS Accounting Standards). - Estimation disclosures also apply to current and anticipated financial effects. - Consistent assumptions between sustainability disclosures and the accounting framework are to be made to the extent permitted by the accounting framework. - Explain differences between assumptions in sustainability disclosures and the financial statements if consistent assumptions are not permitted. - Require an entity to identify the sources of guidance it has used in preparing its sustainability-related financial disclosures, in the absence of an IFRS Sustainability Disclosure Standard, including the industry source of guidance used. - Provide guidance on disclosure of judgements, assumptions and estimates made in applying Sustainability Disclosure Standards, such as illustrative guidance and educational materials.
Metrics and targets objective	- Objective is to require an entity to disclose information about both the metrics the entity uses to measure and monitor sustainability-related risks and opportunities and the metrics required by IFRS Sustainability Disclosure Standards (even if the entity does not use these metrics).

Topic	Requirements
Concept of reasonable and supportable information available at the reporting date without undue cost or effort	- Apply the concept when: • Identifying sustainability related risks and opportunities; and • Determining anticipated effects on entity's financial performance, financial position and cash flows.
Commercially sensitive information about opportunities	- In limited circumstances, permit an entity to exclude information from its disclosure of its sustainability-related opportunities when that information is commercially sensitive. The exemption would only apply when: • The entity has a reason for non-disclosure, such that keeping the information from being publicly available would translate into a competitive disadvantage; • Disclosure of the information could be expected to prejudice seriously the economic benefit the entity is able to realise in pursuing the opportunity; and • The entity determines it is not possible to disclose the information in a manner or at a level of aggregation that would resolve the entity's concerns about commercial sensitivity. - The exemption would not be applicable to information that is already publicly available and would not permit an entity to not disclose information about risks.
Current and anticipated financial effects and connected information	- If any information in an entity's financial statements has been affected by sustainability related risks and opportunities, the entity will be required to disclose quantitative and qualitative information explaining the connections between those risks and opportunities and their current and anticipated financial effects. - The entity would apply judgement in applying these requirements on current and anticipated financial effects.

Sources of guidance to identify sustainability-related risks and opportunities and disclosures	- Sources of guidance in the absence of a relevant IFRS Sustainability Disclosure Standard.
	- Requirement to consider the Sustainability Accounting Standards Board (SASB) Standards.
	- Permit, but not require preparers to consider 'the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general-purpose financial reports' in identifying sustainability-related risks and opportunities and in identifying disclosures.
	- Permit, but not require an entity to consider the most recent pronouncements of other standard-setting bodies in identifying disclosures about sustainability related risks and opportunities.
	- If permitted sources of guidance are used, preparers are required to ensure that:
	  - Immaterial information disclosed in accordance with those sources does not obscure material information,
	  - Disclosures prepared in accordance with those sources are not repurposed without considering the requirements in IFRS S1, and
	  - All disclosures meet the information needs of users and are subject to materiality.

IFRS S2 *CLIMATE-RELATED DISCLOSURES*

Topic	Requirements

Strategy and decision-making targets	In relation to emissions targets:
	
	- Entity's net emissions target(s) and intended use of carbon credits to be shown separately from gross emissions reduction target(s).
	- Types of targets include:
	  - A climate-related target to address climate related risks and opportunities; and
	  - Emissions-related target in transitioning to a low-carbon economy.
	
	In relation to climate-related targets:
	
	- Disclose assumptions an entity makes and dependencies in transition plans.
	- Not required to disclose implications for transition plans if assumptions not met.
	- Additional disclosures about climate-related targets.

Financial position, financial performance and cash flows	In relation to proposed requirements about current effects: - Disclosures about effects of climate-related risks and opportunities on the entity's financial statements. - Separate disclosures not required for physical risks, transition risks and climate related opportunities except in certain cases. - Require separate disclosure of assets subject to physical risks, transition risks and climate related opportunities.
Climate resilience	In relation to climate resilience: - Disclose results of the entity's analysis of climate resilience and how it is conducted. - Disclose how and when a climate-related scenario analysis used by the entity is used to inform climate-related risks and opportunities. - An entity is to assess its climate resilience using a method of climate-related scenario analysis according to the circumstances. - Definition of 'climate resilience', includes its strategic and operational resilience. - Annual disclosure necessary for information on climate resilience.
GHG emissions	In relation to GHG emissions: - Require use of the GHG Protocol: A Corporate Accounting and Reporting Standard (2004) unless required by a jurisdictional authority or an exchange on which the entity is listed to use a different method for measuring its greenhouse gas emissions. - Require disclosure of the chosen approach and information about the measurement approach, inputs and assumptions used to measure GHG emissions. In relation to Scope 1 and Scope 2 GHG emissions: - Disclose absolute gross GHG emissions generated during the period. - Separate disaggregated disclosure for consolidated group and other investees. In relation to Scope 3 GHG emissions: - Disclose information about the categories included in the entity's measurement of Scope 3 GHG emissions, in accordance with the *Scope 3 categories* described

Topic	Requirements
	in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011). - Disclose additional information about the Category 15 GHG emissions included in the entity's measurement of Scope 3 emissions or those associated with its investments (financed emissions), if the entity's activities include asset management, commercial banking or insurance.
Industry-based requirements	In relation to the industry-based requirements: - Require entities to provide industry-specific disclosures - Shall refer to and consider applicability of industry-based topics defined in the *Industry-based Guidance on Implementing IFRS S2*.
Concept of reasonable and supportable information available at the reporting date without undue cost or effort	- Apply this concept when identifying sustainability related risks and opportunities. Also apply this concept when determining anticipated effects on entity's financial performance, financial position and cash flows and applying climate-related scenario analysis. This may also be relevant in calculating the amount and percentage of assets or business activities.
GHG emissions targets	- Specify whether the target is a gross or a net target. - If a net GHG emissions target disclose a gross GHG emissions target. Net GHG emissions target cannot obscure information about its gross GHG emissions target.
Using scenario analysis to assess climate resilience	- Require entities to disclose information about resilience to climate-related changes or uncertainties and to prepare these disclosures using an approach to climate-related scenario analysis that is commensurate with the entity's circumstances.

ADOPTION AND TRANSITIONAL RELIEF

Similar to IFRS Accounting Standards, while the IFRS Foundation does not have the ability to require any entities to apply IFRS Sustainability Accounting Standards, it is clear that many jurisdictions will require their use or will develop their own requirements that build upon their requirements, which is consistent with the 'global base line' concept

In the initial year that an entity applies the ISSB Standards, entities need not:

- Provide disclosures about sustainability-related risks and opportunities beyond climate-related information;
- Provide annual sustainability-related disclosures at the same time as the related financial statements;
- Provide comparative information;
- Disclose Scope 3 greenhouse gas emissions which includes, if the entity participates in asset management, commercial banking or insurance activities, the additional information about its financed emissions; and
- If, in the annual reporting period immediately preceding the date of initial application of IFRS S2, the entity used a method for measuring GHG emissions other than the GHG protocol: A Corporate Accounting and Reporting Standard (2004), the entity is permitted to continue using that other method.

SUSTAINABILITY REPORTING RESOURCES

For further information and guidance on sustainability, please refer to BDO's Global IFRS Micro-site.
Please refer to BDO's Sustainability Country Contacts for local resources.