Applying IFRS

IFRS sustainability disclosure standards

Introduction to IFRS S1 and IFRS S2

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EY

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Overview

Current landscape

Sustainability reporting has attracted increasing interest from various stakeholders in recent years. The demand for a holistic approach to corporate reporting, with key components that include sustainability reporting, financial reporting, and assurance, has emerged. In response to both the demand for information from the investment community and broader public expectations of the role of businesses in society, a plethora of frameworks, methodologies and metrics for sustainability reporting have been developed.

Currently, there are various sustainability-related reporting frameworks, standards and metrics. Some focus on non-financial information and sustainability-related matters, while others focus specifically on climate-related disclosures. The target audience for those frameworks, standards and metrics varies, e.g., investors and wider society. Although the information may overlap in certain respects, the differences in subject matter and audience lead to diverging approaches to materiality with either an emphasis on the impact of sustainability matters on an entity, or an entity's impact on the external environment or both. The diversity in objectives and approaches indicated the urgent need for a global framework to provide greater comparability and reduce the complexity in sustainability reporting.

Background

The IFRS Foundation was encouraged by stakeholders to be involved in the work towards a coherent and comprehensive corporate-reporting system and the development of a converged, global framework on sustainability-related reporting. Therefore, the Trustees of the IFRS Foundation, through a consultation process, assessed the demand for sustainability reporting at a global level and explored the IFRS Foundation's role in the development of global sustainability standards.[1] The feedback received by the IFRS Foundation from multiple stakeholder consultations on both the need to play a role in sustainability standard setting and on the changes to its constitution gave a clear message – there is a growing demand to improve the global consistency and comparability of sustainability reporting and an urgent need for action.

The IFRS Foundation, which had been responsible for setting global accounting standards for several years, started to deliberate and plan for the establishment of the International Sustainability Standards Board (or the ISSB). In April 2021, in response to demands from global capital markets for the development of standards to provide a comprehensive global baseline of sustainability disclosures, the Trustees of the IFRS Foundation published a proposal to amend the IFRS Foundation's Constitution to accommodate the formation and operation of the ISSB. The establishment of the ISSB was announced by the Trustees of the IFRS Foundation on 3 November 2021, during the Finance Day of the COP26 climate change conference.

To lay the groundwork for the new board, prior to the establishment of the ISSB, the IFRS Foundation set up a Technical Readiness Working Group (TRWG) with the objectives to accelerate convergence in global sustainability reporting standards and to undertake technical preparation for the ISSB under the governance of the IFRS Foundation. The TRWG was comprised of representatives from the Taskforce for Climate-related Financial Disclosures (TCFD), the Value Reporting Framework (VRF), the Climate Disclosure Standards Board (CDSB)[2], the World Economic Forum (WEF) and the

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[1] Consultation Paper on Sustainability Reporting

[2] The VRF (which houses the Integrated Reporting Framework and the SASB Standards) and the CDSB have now been consolidated into the ISSB.

International Accounting Standards Board (IASB), supported by the International Organization of Securities Commissions (IOSCO) and its Technical Expert Group of securities regulators. The TRWG's work on general requirements for the disclosure of sustainability-related financial information and the climate-related disclosure resulted in prototype standards titled *General Requirements for Disclosure of Sustainability-related Financial Information Prototype* and *Climate-related Disclosures Prototype* respectively, published on the IFRS Foundation's website in November 2021. The prototype standards were not subject to the IFRS Foundation's formal due process or that of any TRWG member.

Calls from users of general purpose financial reports for more consistent, complete, comparable and verifiable sustainability-related financial information, led the ISSB, in March 2022, to publish its first two Exposure Drafts on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* for public comment that ended in July 2022. The Exposure Drafts were built on the TRWG's prototype standards, as well as the work of standard-setters and framework-providers, which had been subject to extensive public consultation and redeliberation. The Exposure Drafts attracted significant interest in the market and the ISSB received over 700 comment letters and survey responses as feedback on each of the Exposure Drafts, with respondents representing a range of stakeholder groups and geographies.

Issuance of IFRS S1 and IFRS S2

On 26 June 2023, after a year of deliberations on the feedback received on the two Exposure Drafts, the ISSB issued its first two IFRS sustainability disclosure standards (the ISSB standards). The standards are aimed to enable users of general purpose financial reports to assess an entity's exposure to and management of sustainability-related risks and opportunities over the short, medium and long term, and inform their decisions relating to providing resources to an entity. Moreover, the sustainability-related financial information supplements and complements the information in the entity's general purpose financial statements. Under the governance of the IFRS Foundation, the ISSB works closely with the International Accounting Standards Board (the IASB), to ensure connectivity and compatibility between the IFRS accounting standards and the ISSB standards.

IFRS S1 and IFRS S2 are comprised of their main text, as well as five and three appendices respectively. The appendices are integral parts of IFRS S1 and IFRS S2 and have the same authority as their main text. IFRS S1 and IFRS S2 are accompanied by *Illustrative Guidance*, *Illustrative Examples* and *Basis for Conclusions* (BC), but these are not part of IFRS S1 and IFRS S2 nor are they intended to provide interpretative guidance. In addition, IFRS S2 is accompanied by *Industry-based Guidance on Implementing IFRS S2*, which is not intended to create additional requirements. The *Implementation Guidance* and *Illustrative Examples* of IFRS S1 and IFRS S2 as well as the *Industry-based Guidance on Implementing IFRS S2*, accompany those standards and illustrate aspects of them, while the BC summarises the considerations of the ISSB in developing those standards.

Interoperability

The ISSB standards can be used on a standalone basis or integrated into jurisdictional requirements to serve broader stakeholder or other public policy needs. The ISSB, with fourteen board members from various parts of the world, is committed to formal engagement with jurisdictions that develop their own sustainability reporting requirements. Within the context of interoperability with other jurisdictions, several initiatives have been taken so far, including:

- Forming the Jurisdictional Working Group (JWG) to discuss important strategic matters relating to IFRS S1 and IFRS S2 and jurisdictional initiatives on sustainability reporting
- Establishing the Sustainability Standards Advisory Forum (SSAF) as a formal technical advisory body to the ISSB which is represented by jurisdictional and regional bodies that contribute their technical input and expertise to inform the ISSB's standard-setting work
- Collaborating with Global Reporting Initiative standards (GRI standards)
- Working closely with the European Commission and the European Financial Reporting Advisory Group (EFRAG) to facilitate interoperability
- Developing guidance for jurisdictions on how to adopt the ISSB standards into the various jurisdictions

In addition to the ongoing actions of the ISSB to achieve interoperability of the ISSB standards with other jurisdictional requirements, IFRS S1 already includes requirements to support this goal. For example, sustainability-related financial information in accordance with the ISSB standards is:

- Aimed at meeting the information needs of primary users, i.e., current and potential investors, creditors and other lenders
- Based on a materiality assessment consistent with that used in the application of the IFRS accounting standards
- Presented with information disclosed to meet other requirements, such as specific jurisdictional requirements, but must not be obscured by such additional information
- Aligned with TCFD Recommendations on governance, strategy, risk management, and metrics and targets
- Required for short, medium and long-term time horizons without defining those horizons as this would be an entity- or industry-specific determination

The role of IFRS S1 in the ISSB standards

IFRS S1 sets out the general requirements for a complete set of sustainability-related financial disclosures and requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. The effect on the entity's prospects refers to the effect on the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.

The information required by IFRS S1 relates to general aspects of how an entity operates, in particular, its governance, strategy, risk management, and metrics and targets associated with sustainability-related risks and opportunities. IFRS S1 refers to these four aspects as the 'core content', meaning the respective information is essential to users' understanding of how an entity identifies, assesses, prioritises, monitors and manages sustainability-related risks and opportunities. This focus on core content builds on the widely accepted recommendations of the TCFD. IFRS S1 also deals with some general matters such as the requirement for fair presentation of those sustainability-related risks and opportunities and the requirement to provide comparative information.

An entity is required to apply IFRS S1 in conjunction with all the other ISSB standards before it can assert compliance with the ISSB standards. The other ISSB standards are intended to set out specific requirements for the sustainability-related topics with which they deal. The purpose of IFRS S1 is to establish the basis of application of all topic-based ISSB standards that will be developed by the ISSB in the future, in addition to IFRS S2 which is the first topic-based standard and covers disclosure requirements that are specific to climate. This purpose, in the context of sustainability-related financial disclosures is similar, in some respects, to that of the IASB's Conceptual Framework, IAS 1 *Presentation of Financial Statements* and

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which are applicable to general purpose financial statements prepared in accordance with the IFRS accounting standards.

Relationship between IFRS S1 and IFRS S2

IFRS S2 is the first topic-based standard issued by the ISSB and is to be applied in conjunction with IFRS S1. Although the ISSB standards, in this first phase of their development, include IFRS S2 as the ISSB's only topic-based standard, IFRS S1 requires entities to disclose material sustainability-related financial information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. This requirement effectively covers sustainability-related topics beyond climate (subject to the 'climate first' transition relief which allows an entity to provide only climate-related disclosures in its first year of applying IFRS S1 and IFRS S2). IFRS S1 also provides a list of other sources of guidance to help entities identify the relevant sustainability-related risks and opportunities and the material information about them, which includes references to pronouncements of other standard-setting bodies.

This publication deals with the requirements of IFRS S1 in Part A – *Introduction to IFRS S1* and the requirements of IFRS S2 in Part B – *Introduction to IFRS S2*.

Effective date of IFRS S1 and IFRS S2

Both IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after 1 January 2024. However, the mandatory application of the ISSB standards depends on each jurisdiction's endorsement or regulatory processes and it is not linked to the application of the IFRS accounting standards. Therefore, an entity applying the IFRS accounting standards for financial reporting purposes is not required to also apply the ISSB standards, and vice versa.

What you need to know

- The Trustees of the IFRS Foundation established the ISSB in November 2021.
- The ISSB issued its first two standards, namely IFRS S1 and IFRS S2 in June 2023.
- The ISSB standards can be used on a standalone basis or integrated into jurisdictional requirements.
- In applying the ISSB standards, IFRS S1 must be applied in conjunction with the other ISSB standards that provide requirements for specific sustainability-related topics (e.g., IFRS S2 for climate-related matters).
- IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after 1 January 2024, but mandatory application of the ISSB standards will depend on each jurisdiction's endorsement or regulatory processes.
- The application of IFRS S1 and IFRS S2 is not linked to the application of the IFRS accounting standards. Therefore, entities that apply the IFRS accounting standards for financial reporting purposes are not required to also apply the ISSB standards.
- This publication deals with the requirements of IFRS S1 (Part A) and IFRS S2 (Part B)

Part A - Introduction to IFRS S1

1 Introduction to IFRS S1

1.1 The objective of IFRS S1

IFRS S1 sets out the general requirements for the content and presentation of information that an entity needs to provide about sustainability-related risks and opportunities. *[IFRS S1.4]*. The objective of providing such information is to support users of general purpose financial reports in their decision-making process that relates to providing resources to the entity which prepares the general purpose financial report. *[IFRS S1.1]*. That is, this information is intended to enable those users to assess the entity's exposure to sustainability-related risks and opportunities over the short, medium and long term, as well as to assess how the entity manages those risks and opportunities in order to inform their decisions in providing resources to that entity.

General purpose financial reports are defined by IFRS S1 as those that provide financial information about an entity that is useful for the users of those reports in making decisions related to providing resources to the entity, and include, but are not restricted to, an entity's general purpose financial statements (or financial statements) and sustainability-related financial disclosures. *[IFRS S1 Appendix A]*. Information about an entity's sustainability-related risks and opportunities is incorporated in disclosures, referred to as sustainability-related financial disclosures, that constitute a particular form of general purpose financial report and which supplements and complements the information provided in the entity's financial statements.

To further clarify the objective of IFRS S1, there are certain components embedded in the standard as further discussed in the next sections:

- Who does IFRS S1 consider to be the users of general purpose financial statements (see section 1.1.1 below)
- How does IFRS S1 describe the sustainability-related risks and opportunities addressed by the ISSB standards (see section 1.1.2 below)

The ISSB standards focus on the information needs of primary users in making their decisions relating to providing resources to an entity, rather than on a broader group of stakeholders.

1.1.1 Primary users

IFRS S1 defines primary users of general purpose financial reports (primary users) as the "existing and potential investors, lenders and other creditors".[3] *[IFRS S1 Appendix A]*. This definition was built on what is stated in paragraph 1.7 of the Conceptual Framework: "General purpose financial reports are not designed to show the value of a reporting entity; but instead, they provide information to help existing and potential investors, lenders and other creditors estimate the value of the reporting entity".

According to this definition, the ISSB standards focus on the information needs of primary users in making their decisions about providing resources to an entity, rather than of a broader group of stakeholders. The BC to IFRS S1 states that "Disclosures made in accordance with IFRS Sustainability Disclosure Standards are conceptually and practically complementary to – but not a replacement for – reporting on an entity's significant impacts on people, the environment and the economy". This clearly distinguishes sustainability-related financial information provided in accordance with the ISSB standards from the broader, multi-stakeholder perspective adopted by other sustainability-related frameworks that focus on how an entity contributes to sustainable development. *[IFRS S1.BC49]*. For further discussion

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[3] The terms users of general purpose financial reports, or primary users, or users are used within the IFRS sustainability disclosure standards to describe the same population. *[IFRS S1 Appendix A]*.

on the perspective adopted by other sustainability frameworks, see section 3.2.6 below.

Although focusing on the information needs of primary users is widely accepted by the market, identifying and assessing the information that would be useful to primary users may not always be straightforward. Primary users need sufficient and relevant information to make their decisions about where and when to provide resources to the entity that prepares the general purpose financial reports, as well as what type of resources to provide. Also, primary users are a diverse group with potentially differing objectives and types of risk exposure and the range of their interests on sustainability matters is rather wide and varies across industries, locations as well as business models and business activities. For further discussion on the identification of information that is useful to primary users, see section 3.2.2 below.

1.1.2 Description of sustainability-related risks and opportunities

1.1.2.A Broad term of sustainability

The term sustainability is a broad term and applies widely across environmental, social and governance matters and encompasses a wide range of notions. Sustainability is frequently linked to 'sustainable development', defined by the United Nations in 1987 as: "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".[4] IFRS S1 focuses on requiring disclosures about sustainability-related financial information related to an entity's governance, strategy, risk management and metrics, and targets in relation to those risks and opportunities. Therefore, the relationship of sustainability-related risks and opportunities with the established notions of sustainability and sustainable development, is fundamental to an understanding of the scope of IFRS S1 and the ISSB standards in general. *[IFRS S1.BC42, IFRS S1.BC43].*

1.1.2.B The concept of value

In line with its commitment to leverage from the existing material available from other frameworks and standard-setters, the ISSB based the description of sustainability-related risks and opportunities on the concepts of the Integrated Reporting Framework.[5] One of the fundamental concepts in the Integrated Reporting Framework is that an entity's ability to create, preserve and erode value for itself over time (and thus to generate returns for the entity's investors, lenders and other creditors) is inextricably linked to value that the entity creates, preserves or erodes for others. *[IFRS S1.BC46].* In particular, the Integrated Reporting Framework contains the following key points:

Extract from the Integrated Reporting Framework

2.2 An integrated report explains how an organization creates, preserves or erodes value over time. Value is not created, preserved or eroded by or within an organization alone. It is:

- Influenced by the external environment
- Created through relationships with stakeholders
- Dependent on various resources.

[4] Sustainability | United Nations

[5] Integrated Reporting Framework | Integrated Reporting

…

2.6 The ability of an organization to create value for itself is linked to the value it creates for others.

This concept is also broadly consistent with the IASB's Exposure Draft on Management Commentary[6]. *[IFRS S1.BC47]*.

The broader concept of value reflects that primary users are interested not just in the value the entity creates for itself, but also in the value that the entity creates for others since that value may ultimately affect, for example, the cash flows generated by the entity, its cost of capital, or the availability of funding. The value concept also clarifies how important longer time horizons are. This is because, although the sources of value may not affect the entity's financial performance in the near term, they may impact its performance, and ultimately its value, as assessed by primary users over time.

1.1.2.C The concept of value in the description of sustainability in IFRS S1

IFRS S1 explains how an entity's ability to create, preserve or erode value is influenced by its interactions within the interdependent system in which it operates. In particular, an entity interacts, directly or indirectly, with its stakeholders, society, the economy and the natural environment throughout its value chain. Such interactions result from an entity's own actions in operating its business model to achieve its strategic purposes, as well as from the influences it receives from the external environment in which it operates. In the context of IFRS S1, these interactions take place within an interdependent system and have a dual meaning. That is, an entity both: a) depends on resources and relationships throughout its value chain to generate cash flows; and b) affects those resources and relationships through its activities and outputs by contributing to the preservation, regeneration and development of those resources and relationships or to their degradation and depletion. *[IFRS S1.2, IFRS S1.B2]*.

IFRS S1 provides the following example of the close relationship between the value the entity creates, preserves or erodes for others and the entity's own ability to succeed and achieve its goals: *[IFRS S1.B3]*.

Extract from IFRS S1

B3 For example, if an entity's business model depends on a natural resource—such as water—the entity could both affect and be affected by the quality, availability and affordability of that resource. Specifically, degradation or depletion of that resource—including resulting from the entity's own activities and from other factors—could create a risk of disruption to the entity's operations and affect the entity's business model or strategy and could ultimately negatively affect the entity's financial performance and financial position. In contrast, regeneration and preservation of that resource—including resulting from the entity's own activities and from other factors—could positively affect the entity. Similarly, if an entity operates in a highly competitive market and requires a highly specialised workforce to achieve its strategic purposes, the entity's future success will likely depend on the entity's ability to attract and retain that resource. At the same time, that ability will depend, in part, on the entity's employment practices—such as whether the entity invests in employee training and wellbeing—and the levels of employee

[6] Exposure Draft: Management Commentary (ifrs.org)

satisfaction, engagement and retention. These examples illustrate the close relationship between the value the entity creates, preserves or erodes for others and the entity's own ability to succeed and achieve its goals.

Sustainability-related risks and opportunities about which an entity is expected to provide information are limited to those that could reasonably be expected to affect the entity's prospects.

1.1.2.D Requirement to identify sustainability-related risks and opportunities based on the description of sustainability in IFRS S1

IFRS S1 requires an entity to provide information about its sustainability-related risks and opportunities arising from the interactions described in section 1.1.2.C above. That is, the impacts and dependencies on resources and relationships that an entity both relies on and affects by its activities and outputs may give rise to sustainability-related risks and opportunities.

However, the sustainability-related risks and opportunities about which an entity is expected to provide information are limited to those 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". For the purposes of IFRS S1, these sustainability-related risks and opportunities are referred to as "sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects". *[IFRS S1.3].* The enhanced description of concepts that underlie sustainability-related risks and opportunities in IFRS S1 is intended to assist entities in identifying them.

How we see it

IFRS S1 provides a description of the concepts underlying sustainability-related risks and opportunities, rather than a definition for sustainability. This broad description does not set exact boundaries for the universe of topics covered by sustainability-related financial disclosures so as to reflect the evolving nature of these topics. It follows that the identification of sustainability-related risks and opportunities by an entity may change over time and reassessment of that identification may become necessary (see relevant discussion on reassessing the scope of sustainability-related risks and opportunities in section 1.2.3 below).

1.2 Identifying sustainability-related risks and opportunities

1.2.1 The identification process

To meet the objective of IFRS S1, an entity is required to identify the sustainability-related risks and opportunities that could reasonably be expected to affect its prospects and make a materiality assessment to identify and disclose the material information about the identified risks and opportunities. For the purposes of identifying sustainability-related risks and opportunities, materiality is not an attribute of a risk or opportunity, rather it is an attribute of information about that risk and/or opportunity. This distinction is similar to the IASB's Conceptual Framework.[7] Also, the IASB's Exposure Draft on Management on Commentary has proposed requirements

[7] Paragraph 2.21 of the IASB's Conceptual Framework states: "The most efficient and effective process for applying the fundamental qualitative characteristics would usually be…First, identify an economic phenomenon, information about which is capable of being useful to users of the reporting entity's financial information. Second, identify the type of information about that phenomenon that would be most relevant. Third, determine whether that information is available and whether it can provide a faithful representation of the economic phenomenon."

for an entity to focus on key matters and to provide material information about those key matters.

IFRS S1 does not explicitly require the two steps of: a) identifying the sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects; and b) identifying material information about those risks and opportunities, to be performed sequentially. In practice, the assessment performed under these two steps is likely to be iterative.

An entity needs to disclose information about the judgements it has made to prepare its sustainability-related financial disclosures that most significantly affect those disclosures. An example where judgement is expected to occur that can significantly affect the information reported by an entity is when identifying sustainability-related risks and opportunities that could be reasonably expected to affect the entity's prospects (see further discussion on judgements in section 6.1 below). *[IFRS S1.74].*

Moreover, IFRS S1 provides additional guidance in the section on 'sources of guidance' to help entities identify sustainability-related risks and opportunities, including those across a range of sustainability-related issues and those that are specific to industries. For further information please see section 5.1.1 below.

In identifying sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects, only supportable and reasonable information that is available to the entity at the reporting date needs to be used. An entity should not carry out an exhaustive search for this information that would represent 'undue cost or effort'.

1.2.2 Use of reasonable and supportable information

1.2.2.A The concept of reasonable and supportable information

Many stakeholders, during the consultation process for the Exposure Draft of IFRS S1, shared their concerns with the ISSB about the range of capabilities and preparedness of entities around the world to apply the requirements of the ISSB standards. The cost of investing in and operating the systems and processes necessary to prepare the disclosures required by the ISSB standards can be relatively high for some entities. Also, the availability of high-quality external data can be limited in some markets, industries and parts of the value chain, and some entities can struggle to access the skills or expertise needed to prepare the disclosures. *[IFRS S1.BC8].* For example, despite the guidance provided in IFRS S1 to assist in the identification of sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects (discussed in section 1.2.1 above), entities may still find it challenging to make such an assessment and understand how far they should go within their value chain.

These concerns led the ISSB to make decisions about proportionality in the application of the ISSB standards to ease the burden of disclosure and assist entities in this application process. One of these decisions was to introduce in IFRS S1 the concept of "all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort". This concept is not unique to sustainability-related financial disclosures. There are amounts recognised and measured according to the IFRS accounting standards by also referring to this concept, but its use is limited to specific circumstances to guide an entity in applying requirements that involve a high level of measurement uncertainty, rather than being used as a broad principle. *[IFRS S1.BC9, IFRS S1.BC10, IFRS S1.BC11].*

Similarly, this concept only applies to specific requirements of IFRS S1 where judgement is involved. The ISSB believes that the use of this concept is beneficial where entities apply requirements that involve a high level of judgement or uncertainty because it establishes parameters for the type of information to consider, and for the effort required to obtain such information. *[IFRS S1.BC15].*

1.2.2.B Application of the concept of reasonable and supportable information in IFRS S1

IFRS S1 requires this concept to be applied in the identification process of sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects, as well as in the determination of the scope of an entity's value chain (including its breadth and composition) in relation to each of those sustainability-related risks and opportunities. *[IFRS S1.B6, IFRS S1.B7]*. For further discussion about the determination of the scope of the value chain, see section 3.3.3 below. The ISSB's intention is to avoid situations where entities overstate or understate their reported sustainability-related risks and/or opportunities. *[IFRS S1.BC51]*. IFRS S1 also requires this concept to be used with respect to the preparation of disclosures about the anticipated financial effects of a sustainability-related risk or opportunity (see discussion in section 4.3.4 below).

IFRS S1 goes on to determine what qualifies as reasonable and supportable information as follows: *[IFRS S1.B8, IFRS S1.B9, IFRS S1.B10]*.

Extract from IFRS S1

Reasonable and supportable information

B8 Reasonable and supportable information used by an entity in preparing its sustainability-related financial disclosures shall cover factors that are specific to the entity as well as general conditions in the external environment. In some cases—such as in identifying sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects — reasonable and supportable information includes information about past events, current conditions and forecasts of future conditions. Other IFRS Sustainability Disclosure Standards may specify what is reasonable and supportable information in specific cases.

B9 An entity may use various sources of data that may be both internal and external. Possible data sources include the entity's risk management processes; industry and peer group experience; and external ratings, reports and statistics. Information that is used by the entity in preparing its financial statements, operating its business model, setting its strategy and managing its risks and opportunities is considered to be available to the entity without undue cost or effort.

B10 An entity need not undertake an exhaustive search for information to identify sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. The assessment of what constitutes undue cost or effort depends on the entity's specific circumstances and requires a balanced consideration of the costs and efforts for the entity and the benefits of the resulting information for primary users. That assessment can change over time as circumstances change.

This concept, in itself, does not introduce additional disclosure requirements, nor does it intend to exempt an entity from providing a disclosure. Rather, it is intended to emphasise that relevant and appropriate information is required. Also, it is intended to assist those entities that find it challenging to apply the requirements in the ISSB standards and would otherwise be unable to comply fully with them. Entities need to provide only information that is supportable and reasonable and use all information that is available to them at the reporting date, without carrying out an exhaustive search that would represent 'undue cost or effort'. This is determined based on an entity's

circumstances (e.g., a less exhaustive search for information is permitted if the cost of obtaining particular information is proportionately higher for the entity than for other entities with more resources). This does not mean that no effort is necessary, especially given the fact that such information relates to a risk or opportunity that could reasonably be expected to affect the entity's prospects. *[IFRS S1.BC16, IFRS S1.BC17]*.

How we see it

In identifying sustainability-related risks and opportunities, an entity needs to consider its specific circumstances when searching for reasonable and supportable information without undue cost or effort. However, we expect that searching for such information will only infrequently involve undue cost or effort. Although an entity is not required to carry out exhaustive search for information, the effort an entity takes in this identification process needs to be commensurate with the processes set up for identifying its sustainability-related risks and opportunities, as discussed in section 1.2.1 above.

1.2.3 Reassessing the scope of sustainability-related risks and opportunities

An entity's sustainability-related risks and opportunities, along with their effects and expectations of those effects on an entity, change over time and in relation to the interdependent system in which an entity operates. The ISSB initially considered requiring entities to reassess the scope of each sustainability-related risk and opportunity throughout their value chain at each reporting date. However, the ISSB decided that primary users would typically benefit from a reassessment only if a significant event or a significant change in circumstances occurs and that doing so at each reporting date was not necessary. However, an entity may choose to reassess the scope of any sustainability-related risk or opportunity throughout its value chain more frequently (e.g., annually). *[IFRS S1.B12, IFRS S1.BC45, IFRS S1.BC59, IFRS S1.BC60, IFRS S1.BC61, IFRS S1.B62]*.

According to IFRS S1 "a significant event or significant change in circumstances can occur without the entity being involved in that event or change in circumstances, or as a result of a change in what the entity assesses to be important to users of general purpose financial reports". *[IFRS S1.B11]*. Generally, assessing whether an event or change in circumstances is significant and, therefore, reassessment of the scope of all affected sustainability-related risks and opportunities is required throughout the entity's value chain, is a matter of judgement. *[IFRS S1.75(d)]*. For further discussion on judgements, see section 6.1 below.

IFRS S1 provides examples of the types of events or changes in circumstances that would be considered significant. They also illustrate that a significant event or significant change in circumstances can occur without the entity being involved in that event or change in circumstances, or as a result of a change in what the entity assesses to be important to primary users. *[IFRS S1.B11]*.

Extract from IFRS S1	
B11	On the occurrence of a significant event or significant change in circumstances, an entity shall reassess the scope of all affected sustainability-related risks and opportunities throughout its value chain. A significant event or significant change in circumstances can occur without the entity being involved in that event or change in circumstances or as a result of a change in what the entity assesses to be important to users of general purpose

financial reports. For example, such significant events or significant changes in circumstances might include:

(a) a significant change in the entity's value chain (for example, a supplier in the entity's value chain makes a change that significantly alters the supplier's greenhouse gas emissions);

(b) a significant change in the entity's business model, activities or corporate structure (for example, a merger or acquisition that expands the entity's value chain); and

(c) a significant change in an entity's exposure to sustainability-related risks and opportunities (for example, a supplier in the entity's value chain is affected by the introduction of a new regulation that the entity had not anticipated).

While an entity is required to reassess the scope of all affected sustainability-related risks and opportunities arising throughout its value chain when such a significant event or significant change in circumstances occurs, not all sustainability-related risks and opportunities will necessarily be affected. This is further explained by the example provided in the BC to IFRS S1. *[IFRS S1.BC61]*.

Illustration 1-1: Reassessing the scope of sustainability-related risks and opportunities

A regulation is introduced for greenhouse gas emissions associated with employee travel that an entity had not anticipated. Because of this regulation, the entity may be required to reassess which categories to include in the measurement of its Scope 3 greenhouse gas emissions. However, this regulation does not affect the entity's other sustainability-related risks and opportunities in its value chain (e.g., the entity's identified risk of water scarcity). Therefore, the entity is not required to reassess the scope of those other sustainability-related risks and opportunities.

It is not necessary to have a change in the entity's value chain to conclude that a significant event or significant change in circumstances has occurred. That is, the scope of a sustainability-related risk or opportunity may change even though the entity's value chain has not changed. *[IFRS S1.BC61]*.

2 Scope

2.1 The scope of IFRS S1

The sustainability-related financial disclosures in accordance with the ISSB standards are provided regardless of which generally accepted accounting principles or practices (GAAP) the entity uses in preparing the related financial statements.

Entities apply IFRS S1 when preparing and reporting sustainability-related financial disclosures in accordance with the ISSB standards. The scope of IFRS S1 covers sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects (as discussed in section 1.1.2 above). Therefore, any sustainability-related risks and opportunities that could not reasonably be expected to affect an entity's prospects are outside the scope of IFRS S1. *[IFRS S1.5, IFRS S1.6]*.

IFRS S1 sets out the general requirements for providing primary users with a complete set of sustainability-related financial disclosures (as discussed in section 1.1 above). This means that IFRS S1 focuses on the overall sustainability-related financial disclosures, while other ISSB standards specify information an entity is required to disclose about specific sustainability-related risks and opportunities (e.g., IFRS S2). *[IFRS S1.7]*. In order to comply with the specific requirements set out by other ISSB standards for sustainability-related risks and opportunities related to specific topics that

could reasonably be expected to affect an entity's prospects, it is also necessary to take into account the relevant requirements of IFRS S1.

The sustainability-related financial disclosures provided in accordance with the requirements of the ISSB standards are part of an entity's general purpose financial reports (as discussed in section 1.1 above). Such disclosures can be applied regardless of which generally accepted accounting principles or practices (GAAP) the entity uses in preparing the related financial statements. *[IFRS S1.8]*. IFRS S1 uses definitions and requirements that are consistent, if applicable, with the IASB's Conceptual Framework, IAS 1 and IAS 8. However, its rationale is to introduce a base for decision-useful and comparable reporting of sustainability-related financial information by requiring the application of some established practices from financial reporting, rather than mandating the use of the IFRS accounting standards used for the preparation of financial statements. *[IFRS S1.BC5]*.

2.2 Application by public sector or entities other than profit-oriented entities

The terminology used in the ISSB standards is suitable for profit-oriented entities, including public-sector business entities. However, the ISSB identified interest in the ISSB standards from, among others, the public sector, entities other than profit-oriented entities, as well as regulators and other organisations that oversee financial market stability. Considering this interest, the ISSB decided not to preclude not-for-profit activities in the private sector or public sector from applying the ISSB standards, but if they do so, IFRS S1 specifies that they may need to amend the descriptions used for particular items of information. *[IFRS S1.9, IFRS S1.BC4]*.

3 Conceptual foundations

3.1 Fair presentation of sustainability-related risks and opportunities

Fair presentation of sustainability-related risks and opportunities is achieved when the information provided to primary users meets the fundamental qualitative characteristics set out in IFRS S1. The usefulness of sustainability-related financial information is enhanced by the additional qualitative characteristics also set out in IFRS S1.

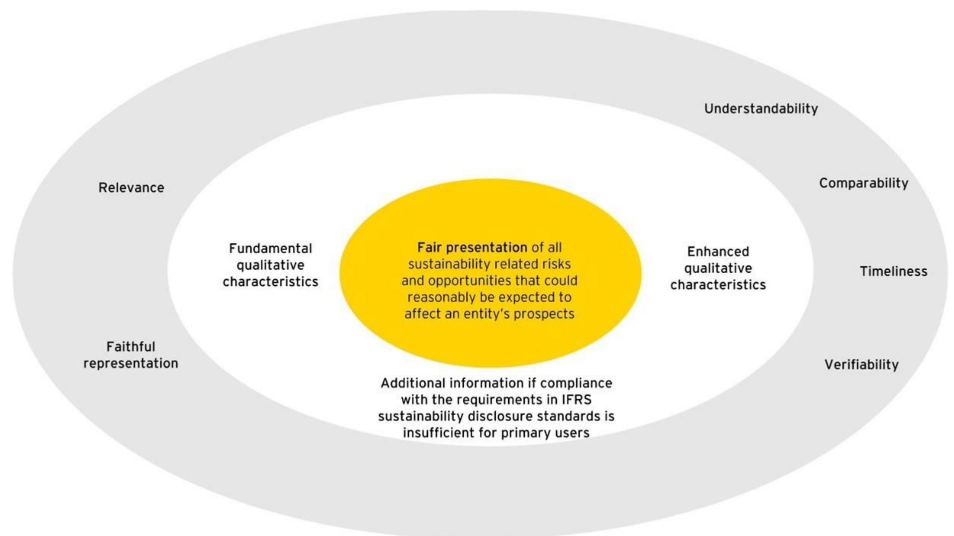
The concept of fair presentation is well-understood in the IFRS accounting standards (as described in the IASB's Conceptual Framework and IAS 1) and in other GAAP. IFRS S1 adapted this concept in the context of sustainability-related financial disclosures.

IFRS S1 requires an entity to provide a complete set of sustainability-related financial disclosures that presents fairly all sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects. *[IFRS S1.11]*. Moreover, to meet the objective of IFRS S1, sustainability-related financial disclosures need to include information that is useful to primary users to enable their decision-making relating to providing resources to the entity (see section 1.1 above).

To achieve fair presentation of sustainability-related risks and opportunities and ensure that the information about them is useful, sustainability-related financial information needs to meet the fundamental qualitative characteristics of being relevant and faithfully representing what it purports to represent in accordance with the principles set out in IFRS S1. Along with the fundamental qualitative characteristics, IFRS S1 includes a list of additional qualitative characteristics that enhance the usefulness of sustainability-related financial information. These enhancing qualitative characteristics are: comparability; verifiability; timeliness; and understandability of the sustainability-related financial information. *[IFRS S1.10, IFRS S1.13]*. The qualitive characteristics are further discussed in section 3.1.1 below.

In addition to meeting the qualitative characteristics mentioned above, to achieve fair presentation, IFRS S1 also requires an entity to disclose additional information if compliance with the specifically applicable requirements in the ISSB standards is insufficient to enable primary users to understand the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term. *[IFRS S1.15, IFRS S1.BC63].* For further discussion on the additional information, see section 3.2.3.A below.

Figure 3–1: Fair presentation



3.1.1 Qualitative characteristics of sustainability-related financial information

While the nature of some of the information required to meet the objective of IFRS S1 differs in some respects from the information provided in financial statements (see further discussion in section 3.2.1 below), the qualitative characteristics have been adapted from the IASB's Conceptual Framework. The IASB's Conceptual Framework describes the objective of, and the concepts that apply to, general purpose financial reports and one of its purposes is to assist the IASB to develop the IFRS accounting standards for preparing financial statements based on consistent concepts. Since the sustainability-related financial information is part of the general purpose financial reports, the qualitative characteristics of the IASB's Conceptual Framework also apply to sustainability-related financial disclosures. *[IFRS S1.D1, IFRS S1.D2].*

Given that there is no separate conceptual framework directly applicable to the ISSB standards, IFRS S1 includes guidance on the qualitative characteristics (both the fundamental and the enhancing ones) of sustainability-related financial information. These qualitative characteristics are intended to assist entities in preparing their sustainability-related financial disclosures by explaining their applicability to sustainability-related financial information (e.g., the fact that information in the form of explanations or forward-looking statements is still verifiable). It is also intended to ensure that information in general purpose financial reports (both in sustainability-related financial disclosures and in financial statements) is useful to users of those reports. *[IFRS S1.BC64, IFRS S1.BC65].*

A description for each qualitative characteristic of sustainability-related financial information is included in Figure 3-2 below which is based on Appendix D of IFRS S1. *[IFRS S1 Appendix D].*

Figure 3-2: Qualitative characteristic of sustainability-related financial information

Qualitative characteristic of sustainability-related financial information	
Fundamental qualitative characteristics	
Relevance	Faithful representation
Relevant sustainability-related financial information is capable of making a difference in the decisions made by primary users. This occurs when it has predictive value, confirmatory value or both. In particular: ‣ Sustainability-related financial information with predictive value exists if the information can be used as an input to processes employed by primary users to predict future outcomes. This information does not need to be a prediction or forecast, rather it is employed by primary users in making their own predictions. For example, information about water quality, which can include information about the water being polluted, could inform the expectations of primary users about the ability of an entity to meet local water-quality requirements. ‣ Sustainability-related financial information has confirmatory value if it provides feedback (confirms or changes) about previous evaluations. These values (predictive and confirmatory) are interrelated; information that has predictive value often also has confirmatory value. For example, information for the current year about greenhouse gas emissions, which can be used as the basis for predicting greenhouse gas emissions in future years, can also be compared with predictions about greenhouse gas emissions for the current year that were made in past years. The results of those comparisons can help a primary user to correct and improve their processes to make those previous predictions. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Moreover, materiality is an entity-specific aspect of relevance. The materiality of information is assessed in the context of an entity's sustainability-related financial disclosures and is based on the nature or magnitude of the item to which the information relates, or both. For further information about materiality, see section 3.2 below.	Sustainability-related financial information represents phenomena in words and numbers. To be useful, other than representing relevant phenomena, the information must also faithfully represent the substance of the phenomena that it purports to represent. Such faithful representation is achieved when the depiction of a sustainability-related risk or opportunity is complete, neutral and accurate. The objective of general purpose financial reports is to maximise those qualities to the extent possible. In particular: ‣ A complete depiction of a sustainability-related risk or opportunity includes all material information necessary for primary users to understand that risk or opportunity. ‣ A neutral depiction is one without bias in the selection or disclosure of information. The information is neutral if it is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to make it more likely that primary users will receive that information favourably or unfavourably. Neutral information is relevant (which, by definition, is capable of making a difference in primary users' decisions), rather than without purpose or without influence on behaviour. Some sustainability-related financial information (e.g., targets or plans) is aspirational. A neutral discussion of such matters covers both aspirations and the factors that could prevent an entity from achieving these aspirations. Neutrality is supported by the exercise of prudence, which is the exercise of caution when making judgements under conditions of uncertainty (i.e., that opportunities are not overstated and risks are not understated and vice versa). ‣ Information can be accurate without being perfectly precise in all respects. The required,

[IFRS S1.D4, IFRS S1.D5, IFRS S1.D6, IFRS S1.D7, IFRS S1.D8].	attainable precision, and the factors that make information accurate, depend on the nature of the information and the nature of the matters to which it relates. For example, accuracy requires that: ‣ Factual information is free from material error ‣ Descriptions are precise ‣ Estimates, approximations and forecasts are clearly identified as such ‣ No material errors are made in selecting and applying an appropriate process for developing an estimate, approximation or forecast ‣ Assertions and inputs used in developing estimates are reasonable and based on information of sufficient quality and quantity ‣ Information on judgements about the future faithfully reflects both those judgements and the information on which they are based. *[IFRS S1.D9, IFRS S1.D10, IFRS S1.11, IFRS S1.D12, IFRS S1.D13, IFRS S1.D14, IFRS S1.15].* The ISSB noted that, according to the IASB's Conceptual Framework, to be a perfectly faithful representation, a depiction would have three characteristics: it would be complete, neutral and free from error. However, considering that entities may not be familiar with the term 'free from error' in the context of sustainability-related financial disclosures, the ISSB decided to use the term 'accurate', instead of 'free from error', to describe a 'complete depiction' of an entity's sustainability-related financial information. *[IFRS S1.BC66].*

Enhancing qualitative characteristics			
Comparability	Verifiability	Timeliness	Understandability
The decisions made by the primary users involve choosing between alternatives (e.g., selling or holding an investment, or investing in one reporting entity or another).	Verifiability helps to give primary users confidence that information is complete, neutral and accurate (see also description for faithful representation above). Information is verifiable if it is	Timeliness means having information available to decision-makers in time to be capable of influencing their	Information is understandable when it is clear and concise. In particular: ‣ The level of clarity in disclosures depends on the nature of the information. In

Comparability is the characteristic that enables primary users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item as it requires at least two items. Information is more useful if it can also be compared with information provided by the entity in previous periods, as well as by other entities, in particular, those with similar activities or operating within the same industry. Comparability is not uniformity. For information to be comparable, like things need to look alike and different things need to look different. Comparability is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different. Appendix D of IFRS S1 differentiates consistency from comparability by stating that, although they are related, the former refers to the use of the same approaches or methods for providing disclosures about the same sustainability-related risks and opportunities, from period to period, both by a	possible to corroborate either the information itself or the inputs used to derive it. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable, rather a range of possible amounts and the related probabilities could also be verified. Verifiable information is more useful to primary users than information that is not verifiable and can be enhanced by, for example: ‣ Including information that can be corroborated by comparing it with other information available to primary users about an entity's business, about other businesses or about the external environment in which the entity operates; ‣ Providing information about inputs and methods of calculation used to produce estimates or approximations; and ‣ Providing information reviewed and agreed by the	decisions. Although older information may be less useful, some may continue to be timely long after the end of a reporting period (e.g., when primary users need to identify and assess trends). *[IFRS S1.D25].*	some cases, in addition to narrative text, an entity may need to add tables, graphs or diagrams (or even additional text or tables for those additions to avoid obscuring material detail). Clarity can be enhanced by distinguishing information about developments in the reporting period from 'standing' information that remains unchanged, or changes little, from one period to the next (e.g., by separately describing features of an entity's sustainability-related governance and risk management processes that have changed since the previous reporting period). In some cases, information about sustainability-related risks and opportunities may be inherently complex and difficult to present in a manner that is easy to understand. Such information needs to be presented as clearly as possible, rather than excluding

reporting entity and other entities. That is, consistency helps in achieving comparability, which is the goal. *[IFRS S1.D17, IFRS S1.D18, IFRS S1.D19, IFRS S1.D20].*	entity's board, board committees or equivalent bodies. Some sustainability-related financial information will be presented as explanations or forward-looking information. That information can be supportable, for example by faithfully representing fact-based strategies, plans and risk analyses. To help primary users decide whether to use such information, a description of the underlying assumptions and methods of producing the information, as well as other factors that provide evidence that the information reflects the actual plans or decisions made by the entity would be necessary. *[IFRS S1.D21, IFRS S1.D22, IFRS S1.D23, IFRS S1.D24].*		it. Excluding such information would render those reports incomplete and potentially misleading. ‣ Disclosures are concise if they include only material information. Any immaterial information included needs to be provided in a way that avoids obscuring material information (see also section 3.2.3.B below). Having clear and concise information can be achieved when an entity: ‣ Avoids generic (i.e., 'boilerplate') information, that is not specific to the entity; ‣ Avoids duplication of information in its general purpose financial reports, including unnecessary duplication of information also provided in the related financial statements; and ‣ Uses clear language and clearly structured sentences and paragraphs The completeness, clarity and comparability of sustainability-related financial information all rely

			on information being presented as a coherent whole. Coherence is also important in meeting the requirements of IFRS S1 about connected information (see relevant discussion in section 3.4 below). For the information to be coherent, an entity needs to: ▸ Present it in a way that explains the context and the connections between the related items of information. That is, if sustainability-related risks and opportunities located in one part of an entity's general purpose financial reports have implications for information disclosed in other parts, the entity needs to include the information necessary for primary users to assess those implications. ▸ Provide it in a way that allows primary users to relate information about its sustainability-related risks and opportunities to information in the entity's financial statements. *[IFRS S1.D26-33]*.

3.2 Materiality

3.2.1 Definition of materiality

In meeting the objective of IFRS S1, an entity is required to disclose information about its sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects (see section 1.2 above). *[IFRS S1.17, IFRS S1.B13]*. IFRS S1 also states that this information needs to be useful to primary users so that they make their decisions relating to providing resources to the entity (see section 1.1 above), and this occurs when the information disclosed is material.

IFRS S1 defines materiality as follows: *[IFRS S1.18]*.

Extract from IFRS S1	
18	In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity.

The definition of materiality was developed based on the definitions of 'material information' and 'material' in the IASB's Conceptual Framework and IAS 1, respectively. This definition is used in IAS 1 with a specific reference to the financial statements. The materiality assessment in the IASB's Conceptual Framework is not constrained to what is financially material in the financial statements but focuses on the identification of information that is useful to primary users. These primary users are consistent with those of the sustainability-related financial disclosures prepared in accordance with the ISSB standards (see section 1.1.1 above). Such a consistency emphasises that the purpose of the materiality assessment is to ensure that the primary users have the information that is relevant to their decision-making and that users do not make their decisions on the basis of just one form of general purpose financial reports published by the entity. *[IFRS S1.BC68]*.

The alignment in the concept and definition of materiality, applicable to both sustainability-related financial information and information in the financial statements, facilitates the connectivity between them (for further discussion on connected information, see section 3.4 below) and it supports the application of the ISSB standards, given the broad use of the IFRS accounting standards. However, the materiality judgements for sustainability-related financial disclosures will inevitably differ from those for financial statements since they serve their specific objectives and provide different types of information about an entity. In fact, information about sustainability-related risks and opportunities is intended to capture a broader set of information that is not constrained by the definitions of assets, liabilities, equity, income and expenses under the IFRS accounting standards, nor the criteria for recognising them. Compared with information included in financial statements, sustainability-related financial information may have different measurement bases and considers financial implications over longer time periods, including interactions throughout an entity's value chain. It follows that the material information about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects, aim to complement the information provided in the financial statements about the entity's assets, liabilities, equity, income and expenses. *[IFRS S1.BC1, IFRS S1.BC69]*.

Including a specific definition of materiality in IFRS S1 (applicable to all ISSB standards) was a deliberate decision by the ISSB given that the ISSB

standards are not designed to be applied only with the IFRS accounting standards, but any GAAP (see section 2.1 above) that may not share the same definition of materiality. Also, given the variation in how the concept of materiality is interpreted, applied and enforced in various jurisdictions in the context of sustainability-related financial information, a definition of materiality in IFRS S1 was a key decision to make it clear to entities how the materiality concept needs to be applied and assessed under the ISSB standards. *[IFRS S1.BC71, IFRS S1.BC72].*

How we see it

Applying the materiality concept in the context of sustainability-related financial disclosures is relatively new and this is expected to evolve over time. Although this application can be informed by the assessment of materiality in financial statements, more judgement may be needed by an entity given the more qualitative nature of sustainability-related financial disclosures. Therefore, an entity needs to establish the appropriate processes to make materiality judgements based on its specific circumstances.

3.2.2 Identifying material information

As mentioned in section 3.2.1 above, an entity needs to disclose material information about its sustainability-related risks and opportunities such that the information is useful to primary users in making their decisions about providing resources to the entity. However, the identification of such material information requires judgement. IFRS S1 requires an entity to disclose information about the judgements it has made to prepare its sustainability-related financial disclosures that have the most significant effect on those disclosures. An example of making such a judgement is when an entity identifies material information to be included in the sustainability-related financial disclosures. For further discussion on judgements, see section 6.1 below. *[IFRS S1.74].*

Therefore, similar to the process of identifying the sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects (discussed in section 1.2 above), the ISSB indicated in IFRS S1, various ways to assist in the identification of material information about those risks and opportunities. In particular, apart from the definition of materiality discussed in section 3.2.1 above, the following sections include:

- Guidance relating to identifying and meeting primary users' information needs (see section 3.2.2.A below)
- Requirements to be applied while identifying material information by considering:
  - The sources of guidance an entity uses in this identification process (see section 3.2.2.B below)
  - Possible future events with uncertain outcomes (see section 3.2.2.C below)
  - Other characteristics of material information (i.e., additional information disclosed by an entity, aggregation and disaggregation of information, interaction with law or regulation, commercially sensitive information) (see section 3.2.3 and 3.2.4 below)

3.2.2.A Information needs of primary users

In identifying the material information to be disclosed, apart from understanding the definition of materiality underpinned in the application of standards (see section 3.2.1 above), an entity needs to understand the types of decisions made by primary users and what it can do to meet those

Understanding the information needs of primary users, based on the types of decisions they make and the expectations on which their decisions depend, contributes to the identification of material sustainability-related financial information.

information needs. IFRS S1 gives an overview of what is involved in the primary users' decisions that relate to providing resources to the entity being decisions about: *[IFRS S1.B14].*

- Buying, selling or holding equity and debt instruments
- Providing or selling loans and other forms of credit
- Exercising rights to vote on, or otherwise influence, the actions of the entity's management that affect the use of the entity's economic resources

These types of decisions depend on primary users' expectations of their returns (e.g., dividends, principal and interest payments or market price increases). Such expectations depend on primary users' assessment of the amount, timing and uncertainty of future net cash inflows to the entity. Also, those expectations depend on the primary users' assessment of the stewardship that the entity's management and its governing body(s) or individual(s) exercises on the entity's economic resources. *[IFRS S1.B15].*

Having considered the types of decisions that primary users make and the expectations on which their decisions depend, an entity needs to consider the characteristics of primary users and its own circumstances to determine what could reasonably be expected to influence their decisions made for a specific entity. IFRS S1 describes primary users as those "who have reasonable knowledge of business and economic activities and who review and analyse information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand sustainability-related financial information". *[IFRS S1.B16, IFRS S1.B17].*

The information needs and desires of the primary users may differ among them, may be conflicting and could evolve over time. However, it is acknowledged that sustainability-related financial disclosures do not, and cannot, provide all the information that primary users need, such as specialised information needs that are unique to particular users. Instead, sustainability-related financial disclosures aim to meet the common information needs of an entity's primary users. *[IFRS S1.B18].*

The *Implementation Guidance* to IFRS S1 goes on to explain the approach an entity follows to meet the common information needs of its primary users. In particular, an entity identifies the information needs of one of the three types of primary users e.g., investors (existing and potential), and then those of the two remaining types i.e., lenders and other creditors (existing and potential). The combination of those information needs forms the set of common information needs that the entity aims to meet. There may be information needs shared by all types of primary users or specific to only one or two types. However, using this approach, an entity identifies the common information needs of primary users, without having to identify the information needs that are shared by all types of primary users (i.e., the information needs that the primary users have in common), as this would exclude potential information that meets the needs of only one type of primary users. *[IFRS S1.IG5, IFRS S1.IG6].*

Apart from the general purpose financial reports, primary users also consider other sources to meet their information needs (e.g., the industry in which an entity operates, the entity's competitors and the state of the economy, the entity's press releases as well as other documents the entity has published). However, the fact that information needed by primary users is publicly available does not relieve an entity from disclosing material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects to comply with the ISSB standards. *[IFRS S1.IG7].*

How we see it

In some cases, significant judgement may be required in determining what meets the primary users' information needs, especially because such needs may evolve over time.

3.2.2.B Sources applied in assessing materiality

Materiality judgements are specific to an entity, therefore, IFRS S1 does not specify any thresholds for materiality or predetermine what would be material in a particular situation. The starting point for an entity in identifying material information about a sustainability-related risk or opportunity is to apply the requirements of the ISSB standard that specifically applies to that sustainability-related risk or opportunity (e.g., the requirements in IFRS S2 for climate-related disclosures as discussed in Part B – *Introduction to IFRS S2* below). However, in the absence of such an ISSB standard, the entity applies the requirements specified in the section of IFRS S1 related to the sources of guidance, which is further discussed in section 5.1.2 below. In identifying such information (either by applying the requirements of a specific ISSB standard or other sources of guidance), an entity needs to assess whether this information, individually or in combination with other information, is material in the context of the entity's sustainability-related financial disclosures taken as a whole. This assessment requires the consideration of both quantitative and qualitative factors (e.g., the magnitude and the nature of the effect of a sustainability-related risk or opportunity on the entity). *[IFRS S1.B19, IFRS S1.B20, IFRS S1.B21]*.

3.2.2.C Possible future events with uncertain outcomes

A materiality assessment is also required for information about possible future events with uncertain outcomes and IFRS S1 includes specific considerations for this assessment. In particular, IFRS S1 states: *[IFRS S1.B22]*.

Extract from IFRS S1

B22 In some cases, IFRS Sustainability Disclosure Standards require the disclosure of information about possible future events with uncertain outcomes. In judging whether information about such possible future events is material, an entity shall consider:

(a) the potential effects of the events on the amount, timing and uncertainty of the entity's future cash flows over the short, medium and long term (referred to as 'the possible outcome'); and

(b) the range of possible outcomes and the likelihood of the possible outcomes within that range.

If the potential effects of a possible future event are significant and the event is likely to occur, the information about that event is more likely to

be material. However, information about low-probability and high-impact outcomes still needs to be considered as these may be material either individually or in combination with information about other low-probability and high-impact outcomes. For example, an entity is exposed to several sustainability-related risks that could individually cause the same type of disruption to the entity (e.g., disruption to its supply chain). Information about an individual source of risk is not material because disruption caused from that source is highly unlikely to occur. However, information about the aggregate risk (i.e., the risk of supply chain disruption from all sources) may be material. *[IFRS S1.B23].*

Moreover, if a possible future event is expected to affect an entity's cash flows, but only many years in the future, information about that event is usually less likely to be considered material than information about a possible future event with similar effects that are expected to occur sooner. However, in some circumstances, primary users' decisions could reasonably be expected to be influenced by information, regardless of the magnitude of the potential effects of the future event or the timing of that event (e.g., if information about a particular sustainability-related risk or opportunity is highly scrutinised by primary users of an entity's general purpose financial reports). *[IFRS S1.B24].*

3.2.3 Additional information disclosed by an entity

3.2.3.A Additional information provided when the requirements of the ISSB standards are not sufficient

Under certain circumstances, an entity may need to provide information that is additional to the information provided to comply with the specifically applicable requirements in an ISSB standard. In particular, when compliance with the requirements of an ISSB standard that specifically applies to an entity's circumstances is not sufficient for primary users to understand the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term, the entity needs to disclose additional information. *[IFRS S1.B26].*

How we see it

Sometimes compliance with the specific requirements of the ISSB standards is not sufficient and, therefore, additional information would be needed to support primary users in making their decisions about providing resources to an entity. Such additional information would constitute material information and be required by IFRS S1 (see discussion about the definition of materiality in section 3.2.1 above).

3.2.3.B Requirements for not obscuring material information

Generally, if information is not material, there is no need to disclose such information that is otherwise required by an ISSB standard, even if the specific ISSB standard contains a list of specific requirements or describes them as minimum requirements. *[IFRS S1.B25].* Moreover, sustainability-related financial information required by the ISSB standards needs to be clearly identified and distinguished from other information provided by the entity that is additional to what is required by the ISSB standards (see also relevant discussion about location of information in section 5.2 below). However, when such information is included, an entity needs to ensure that material information is not obscured.

Because IFRS S1 uses a definition of material information that is consistent with IAS 1, the ISSB also decided to include guidance in IFRS S1 with respect to the concept of obscuring material information building on similar

requirements in IAS 1. That is, information may be obscured when it is communicated in a way that would have a similar effect for primary users to omitting or misstating that information. *[IFRS S1.B27, IFRS S1.BC73]*.

IFRS S1 provides examples of circumstances that may result in material information being obscured: *[IFRS S1.B27]*.

Extract from IFRS S1	
B27	An entity shall identify its sustainability-related financial disclosures clearly and distinguish them from other information provided by the entity (see paragraph 62). An entity shall not obscure material information. Information is obscured if it is communicated in a way that would have a similar effect for primary users to omitting or misstating that information. Examples of circumstances that might result in material information being obscured include: (a) material information is not clearly distinguished from additional information that is not material; (b) material information is disclosed in the sustainability-related financial disclosures, but the language used is vague or unclear; (c) material information about a sustainability-related risk or opportunity is scattered throughout the sustainability-related financial disclosures; (d) items of information that are dissimilar are inappropriately aggregated; (e) items of information that are similar are inappropriately disaggregated; and (f) the understandability of the sustainability-related financial disclosures is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Material information required by the ISSB standards must be presented prominently and be distinguishable from immaterial information (e.g., provided to comply with law, regulation or other requirements), to avoid being obscuring. Potential ways for achieving this distinction could be,

for example, when the information required by the ISSB standards is: *[IFRS S1.BC74]*.

- Extracted by primary users by using digital tagging
- Presented together with immaterial information in a single report but is distinguished from it by using appropriate formatting (e.g., using boxes or shading to emphasise or make the distinction clear)
- Presented separately so that it is clearly distinguished from immaterial information (e.g., splitting the report into parts)
- Provided in two sets of information (one that includes the entire package of information without distinction, i.e., both the information required by the ISSB standards and immaterial information, and an accompanying report that only provides the information required by the ISSB standards).

3.2.3.C Interaction with law or regulation

Frequently, entities may need to comply with law or regulation enforced in the jurisdictions they operate that specifies disclosure requirements on sustainability-related information. In such circumstances, the entity is permitted to include in its sustainability-related financial disclosures, information to meet legal or regulatory requirements, even if that information is not considered material under the ISSB standards. However, the entity needs to ensure that such information does not obscure material information, as discussed in section 3.2.3.B above. *[IFRS S1.B31]*.

Material sustainability-related financial information is disclosed, even if law or regulation permits the entity not to disclose such information. However, an entity need not disclose information otherwise required by an ISSB standard if law or regulation prohibits the entity from disclosing that information. However, if such material information is omitted for that reason, an entity needs to identify the type of information not disclosed and explain the source of the restriction. *[IFRS S1.B32, IFRS S1.B33]*.

3.2.4 Other characteristics of material information

3.2.4.A Aggregation and disaggregation

Building on the principles of aggregation and disaggregation in IAS 1, IFRS S1 requires an entity to consider all facts and circumstances to determine how to aggregate and disaggregate information in its sustainability-related financial disclosures. *[IFRS S1.B29]*. The ISSB considered that the concepts of aggregation and disaggregation embedded in IAS 1 in relation to the information provided in the financial statements are equally important for sustainability-related financial disclosures. This is to ensure that primary users are provided with information at appropriately aggregated and disaggregated levels.

To avoid reducing the understandability of sustainability-related financial disclosures, an entity needs to ensure that material information is not obscured by immaterial information or material items of information that are dissimilar to each other are not aggregated. *[IFRS S1.B29]*. In general, information cannot be aggregated if doing so would obscure information that is material. Items of information that are eligible for being aggregated have shared characteristics, rather than those that do not have shared characteristics. For example, disaggregating information by geographical location or in consideration of the geopolitical environment may be necessary to ensure that material information is not obscured when reporting about the use of water drawn from abundant sources and water drawn from water-stressed areas. *[IFRS S1.B30]*.

The exemption of omitting commercially sensitive information from sustainability-related financial disclosures is intentionally narrow and is not intended to permit broad non-disclosure of information.

3.2.4.B Commercially sensitive information

While IFRS S1 was being developed, stakeholders were concerned about disclosing information that could be considered commercially sensitive. The concerns related to the potential impact on an entity's competitive advantage by revealing details about its strategy and planned actions through the disclosures required by the ISSB standards. The concerns were mainly focused on disclosing commercially sensitive information about opportunities, rather than risks, as these could affect an entity's competitiveness in the market or otherwise be commercially harmful. *[IFRS S1.BC76, IFRS S1.BC77]*.

Considering these concerns, the ISSB introduced in IFRS S1 a targeted exemption by permitting an entity, in limited circumstances, to omit from its sustainability-related financial disclosures information about a sustainability-related opportunity. Such an omission is permitted even if information is otherwise required by an ISSB standard, and the information is material. *[IFRS S1.B34]*.

The exemption is intentionally narrow and applies only to the disclosure of information about opportunities, and it is not permitted to be applied for non-disclosure of information about risks. Also, the exemption is not intended to permit broad non-disclosure of information about opportunities. *[IFRS S1.BC79, IFRS S1.B37]*. Rather, an entity qualifies for the exemption if, and only if: *[IFRS S1.B35, IFRS S1.BC80, IFRS S1.BC81, IFRS S1.BC83]*.

a) Information about the sustainability-related opportunity is not already publicly available. That is, the exemption does not apply to information that is already publicly available (e.g., continuous disclosure notices, investor presentations, briefings to analysts, or other publicly available documents) as it is unlikely that such disclosure will harm an entity's advantage in pursuing the opportunity.

b) Disclosure of the information could reasonably be expected to prejudice seriously the economic benefits the entity would otherwise be able to realise in pursuing the opportunity.

c) The entity has determined that it is impossible to disclose that information in a manner that would enable the entity to meet the objectives of the disclosure requirements without seriously prejudicing the economic benefits the entity would otherwise be able to realise in pursuing the opportunity. For example, an entity needs to first consider whether it is possible to disclose the information about the opportunity at a sufficiently aggregated level to resolve its concerns about commercial sensitivity, before applying the exemption. However, if it does so, an entity needs to ensure that aggregation does not obscure material information (as discussed in section 3.2.4.A above).

IFRS S1 requires additional disclosures when this exemption is applied. In particular, if an entity elects to use the exemption for each item of information omitted, the entity needs to: *[IFRS S1.B36]*.

a) Disclose the fact that it has used the exemption to make users aware that information has been excluded for reasons of commercial sensitivity; and

b) Reassess, at each reporting date, whether the information qualifies for the exemption and, if the entity is no longer eligible for the exemption, disclose that information at that reporting date.

3.2.5 Reassessment of material information

The individual circumstances of an entity and/or the external environment may change and, therefore, the sustainability-related risks and opportunities that users reflect to make their decisions can also change over time. Accordingly, the material sustainability-related financial information disclosed by an entity may change from one reporting period to another

due to changes in circumstances and assumptions to reflect the evolving information needs of primary users (see section 3.2.2.A above). This means that some types of information included in an entity's sustainability-related financial disclosures for prior periods may no longer be material. Conversely, some types of information not previously disclosed may become material. *[IFRS S1.B28]*. This dynamic nature of materiality led the ISSB to the decision of requiring entities to reassess their materiality judgements at each reporting date to take account of changes in circumstances and assumptions.

3.2.6 Interoperability considerations

Overall, the ISSB's intention is to establish a comprehensive global baseline of sustainability-related financial disclosures that meet the information needs of primary users in relation to sustainability-related risks and opportunities. This global baseline is intended to serve as a comprehensive foundation of disclosure requirements, for which jurisdictions will be able to add any necessary incremental disclosure requirements to this common baseline. To achieve this, interoperability with jurisdictional requirements is imperative. The more compatible the ISSB standards are with the law or regulation in the jurisdictions in which entities operate (including law or regulation that specifies the documents, formats and structures for disclosing information), the more likely it is to achieve comparable, cost-effective and decision-useful sustainability-related financial disclosures that are designed to meet the needs of primary users. *[IFRS S1.BC27, IFRS S1.BC28]*.

However, not all sustainability-related frameworks share the same definition of materiality that is used in the ISSB standards (discussed in section 3.2.1 above). There are similarities in the language used when referring to assessing material information in the context of the short, medium and long-term effects of sustainability issues. However, in practice, determining what is 'material' depends on the issue, the context, the time frame and the stakeholder. For example, the key difference between the GRI standards, the European Sustainability Reporting Standards (ESRS) and the ISSB standards is the audience (i.e., ISSB standards focus on primary users, whereas GRI and ESRS have a broader set of 'users' of the information).

Lack of interoperability could be costly for entities and risks undermining the provision of clear and consistent information to primary users. Also, primary users need to be able to clearly identify both information relevant to them and information relevant to a broader set of stakeholders, so that material information for primary users is not obscured. *[IFRS S1.BC31]*. In supporting the interoperability among the ISSB standards and the other frameworks, the ISSB included in IFRS S1 clarifications on concepts and terminologies (e.g., an extensive description of sustainability and its connection with the value of an entity as discussed in section 1.1.2 above), as well as specific definitions (e.g., materiality as discussed in section 3.2.1 above), to explain their use by the ISSB standards compared with other jurisdictional initiatives and sustainability reporting frameworks. Also, including a list of sources of guidance as part of the identification process of sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects and the identification of material information about those risks and opportunities (as discussed in section 3.2.2 above) contributes to the interoperability with other sustainability-related frameworks and the reduction of the burden for entities already using or are mandated to comply with those other frameworks. The ISSB also permits entities to include information disclosed to meet other requirements (e.g., specific jurisdictional requirements) as long as it does not obscure the material information provided in complying with the ISSB standards (as discussed in section 3.2.3.B above).

3.3 Reporting entity

3.3.1 Definition of a reporting entity

IFRS S1 defines reporting entity as an entity that is required, or chooses, to prepare general purpose financial statements. *[IFRS S1 Appendix A]*. The entity that is required to disclose sustainability-related financial information is the same as the one that prepares the related financial statements. *[IFRS S1.20]*. For example, when the entity applies the IFRS accounting standards, the consolidated financial statements provide information about the parent and its subsidiaries as a single reporting entity. The reporting entity's sustainability-related financial disclosures focus on the sustainability-related risks and opportunities that enable primary users to assess the effects of those risks and opportunities on the entity's prospects (i.e., the effects on the prospects of the parent and its subsidiaries, in the case of information presented in consolidated financial statements). *[IFRS S1.B38]*.

Requiring the same reporting entity for both financial statements and sustainability-related financial disclosures is one of the decisions the ISSB made for the purposes of enabling information disclosed in the financial statements to be connected with sustainability-related financial information (as discussed in section 3.4 below). *[IFRS S1.BC85]*.

3.3.2 Breadth of reporting

The reporting entity is required to disclose information about sustainability-related risks and opportunities throughout its value chain (see section 1.2 above). This means that the reporting entity is required to identify the sustainability-related risks and opportunities that could reasonably be expected to affect its prospects and determine the scope of its value chain, including its breadth and composition, in relation to each of those sustainability-related risks and opportunities.

Although the reporting entity that prepares sustainability-related financial disclosures and the related financial statements is the same, the sustainability-related financial disclosures are not constrained to what is recognised in the financial statements.

The value chain is also mentioned in the section of IFRS S1 on the 'core content' of information under the strategy pillar; an entity is required to disclose the current and anticipated effects of sustainability-related risks and opportunities that could reasonably be expected to affect its prospects throughout its business model and value chain and describe where these risks and opportunities are concentrated (see section 4.3.4 below).

IFRS S1 defines the value chain as follows: *[IFRS S1 Appendix A]*.

Extract from IFRS S1

Appendix A

Defined terms

value chain	The full range of interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates. A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity's operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.

Resources and relationships can vary for a number of reasons. For example, they may take various forms (e.g., natural, manufactured, intellectual, human, social, financial), they can be internal (e.g., workforce, know-how, organisational processes) or external (e.g., accessing materials and services or relationships with suppliers, distributors and customers), they can be recognised as assets in the entity's financial statements or not.

Moreover, resources and relationships can be direct or extend throughout the entity's value chain (e.g., the entity's supply and distribution channels, the effects of the consumption and disposal of the entity's products, the entity's sources of finance and its investments, including investments in associates and joint ventures). That is, if the entity's business partners throughout its value chain face sustainability-related risks and opportunities, the entity could be exposed to related consequences of its own. *[IFRS S1.B4, IFRS S1.B5].*

Therefore, even though the reporting entity that prepares sustainability-related financial disclosures is the same as the one that prepares the related financial statements, the breadth of reporting is not the same. That is, the sustainability-related financial disclosures are not constrained to what is recognised in the financial statements, but goes beyond that to capture information about the value chain.

3.3.3 Determining the scope of value chain

Determining the scope of an entity's value chain could be challenging due to the possible scope of the value chain, as well as potential complexities in obtaining information to prepare the required disclosures. This is because obtaining information about the value chain may require a reporting entity to collect information from parties that the entity does not control or in which it has no ownership interest. For example, the ultimate consumers of an entity's products may be the most important contributors to the entity's Scope 3 greenhouse gas emissions. Also, the employment practices of a supplier in an entity's supply chain could have a reputational effect on the entity, even if the supplier has no direct relationship with the reporting entity. *[IFRS S1.BC56, IFRS S1.BC57].* Joint ventures, associates and investments are not considered to be part of the reporting entity that is presenting consolidated financial statements. However, the reporting entity recognises these items in its financial statements and reports aspects of their performance. Likewise, sustainability-related financial information related to those investments is relevant to primary users in assessing the effects of sustainability-related risks and opportunities on the entity's prospects. *[IFRS S1.BC54].*

Although assessing the scope of the value chain may be challenging, it is not new or unique to the field of sustainability reporting. As part of their general purpose financial reports, entities frequently produce management commentary that provides insights into factors that have affected the entity's financial performance and financial position and factors that could affect its ability to create value and generate cash flows in the future. These factors also capture aspects of the value chain including the activities of diverse investments and dependencies. Therefore, since entities also assess activities within their value chain for general planning and risk management purposes, the requirements in IFRS S1 are effectively following this approach in the analysis of risk management or strategic business model.

The ISSB noted that determining the value chain and clarifying the breadth of reporting is a process that is unique for each entity and is difficult to specifically prescribe through principles or standards, as it is unlikely to apply in the same way to all types of entities. The ISSB also referred to the existing market guidance and practice around reporting on a broad range of activities in the value chain and across subsidiaries (e.g., the SASB standards contain disclosure topics and metrics that demonstrate how an entity could report

on value chain activities, and which of those activities may be relevant for a given industry).

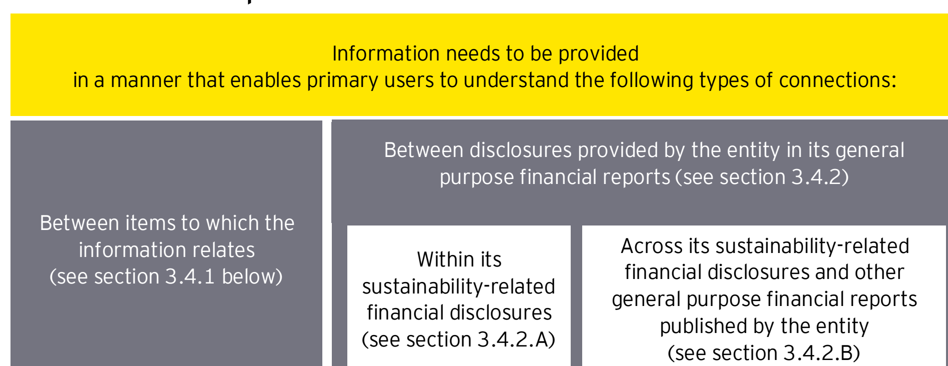
In determining the scope of its value chain, an entity is required to use "all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort", in relation to each sustainability-related risk and opportunity identified that could reasonably be expected to affect the entity's prospects. This concept assists entities by establishing parameters for the type of information they consider when preparing disclosures regarding the value chain, and the effort required to obtain such information. For further information about this concept, see section 1.2.2 above.

3.4 Connected information

Entities are required to provide information in a manner that enables primary users to understand connections between various disclosures in an entity's general purpose financial reports, as well as insight into the connections between the items to which the information relates. *[IFRS S1.B39].*

The following Figure 3-3 illustrates the types of connections for which information needs to be provided according to IFRS S1: *[IFRS S1.21].*

Figure 3-3: Types of connections for which information is required



3.4.1 Connections between items to which the information relates

IFRS S1 provides examples relating to information about connections between items to which the information relates: *[IFRS S1.B40].*

- An entity pursued a particular sustainability-related opportunity that resulted in revenue increase. The connected information will depict the relationship between the entity's strategy and its financial performance.
- An entity identified a trade-off between two sustainability-related risks it is exposed to and took action on the basis of its assessment of that trade-off. The connected information will depict the relationship between those risks and the entity's strategy.
- An entity committed to a particular sustainability-related target, but that commitment has not yet affected the entity's financial position or financial performance because the applicable recognition criteria have not been met. The connected information will depict that relationship.

3.4.2 Connections between disclosures provided in general purpose financial reports

With respect to the connections between various disclosures in an entity's general purpose financial reports, IFRS S1 distinguishes two categories: a) connections between disclosures provided by an entity within its

sustainability-related financial disclosures; and b) connections between disclosures provided across an entity's sustainability-related financial disclosures and other general purpose financial reports published by the entity.

3.4.2.A Connections between disclosures provided within an entity's sustainability-related financial disclosures

IFRS S1 explains the nature of information about connections between disclosures provided by an entity within its sustainability-related financial disclosures, as follows: *[IFRS S1.B41].*

- Information about a particular sustainability-related risk or opportunity explaining the connections between disclosures on governance, strategy and risk management (i.e., relating to the four content pillars as further discussed in section 4 below).
- Information between disclosures about various sustainability-related risks and opportunities provided within an entity's sustainability-related financial disclosures. For example, when an entity integrates its oversight of sustainability-related risks and opportunities and, therefore, needs to integrate the disclosures on governance instead of providing separate disclosures on governance for each sustainability-related risk and opportunity.

3.4.2.B Connections between disclosures provided across sustainability-related financial disclosures and other general purpose financial reports published by the entity

Connected information also needs to be provided to explain the connections between disclosures provided across an entity's sustainability-related financial disclosures and other general purpose financial reports published by the entity. For example, an entity needs to explain how information provided in its sustainability-related financial disclosures is connected with the information provided in its related financial statements. However, this type of connections is not restricted to connections with the related financial statements, but it also relates to all other reports that constitute the general purpose financial report (e.g., the management commentary).

IFRS S1 requires information about the current and anticipated effects of sustainability-related risks and opportunities on an entity's financial position, financial performance and cash flows (see relevant discussion on the core content information about the strategy pilar in section 4.3.4 below). This requirement represents a specific application of connected information between sustainability-related financial disclosures and the related financial statements of an entity.

To promote this connectivity, IFRS S1 requires an entity to: *[IFRS S1.22, IFRS S1.23, IFRS S1.24].*

- Identify the financial statements to which the sustainability-related financial disclosures relate
- Use consistent data and assumptions in preparing the sustainability-related financial disclosures with the related financial statements (to the extent possible considering the requirements of the IFRS accounting standards or other applicable GAAP)
- Use the presentation currency of its related financial statements, when currency is specified as the unit of measure in the sustainability-related financial disclosures

An entity is required to align data and assumptions to the extent possible by taking into consideration the requirements in the IFRS accounting standards (or other GAAP) instead of mandating full alignment. This is because there could be legitimate reasons for data and assumptions to vary between

an entity's sustainability-related financial disclosures and its financial statements (e.g., financial statements may reflect specific recognition criteria included in the IFRS accounting standards or other GAAP, which are not possible to reflect in the sustainability-related financial disclosures).

The following examples are based on the BC to IFRS S1: *[IFRS S1.BC88]*.

Illustration 3-1: Examples of the types of connections
Entity W, a pharmaceutical company, has been exposed to claims of unethical testing. Therefore, it may need to explain how its strategic response has, or has not, led to the recognition of provisions and associated operating costs in its financial statements. Entity X, an electronics manufacturer, has publicly announced a target of net zero for its corporate greenhouse gas emissions, which are primarily created during its manufacturing process. Entity X adopts a new strategy that involves shifting its procurement of energy to renewable sources and investing in more energy-efficient machinery. Therefore, Entity X may need to explain how this strategy to achieve the target led to an increase in capital expenditure and possibly an impairment review of non-energy-efficient machinery, as well as lower (and less volatile) energy prices, increased revenue due to a related increased demand from its customers, and an increase in margins on sales. Entity Y, a supplier, finds that demand for its goods has risen due to its treatment of workers and its record on respecting workers' rights, especially because its approach in this area was better than many of its peers. Entity Y may need to explain how its strategy and performance in relation to the treatment of its workers has positioned it favourably and has led to increases in revenue. Entity Z has a net zero greenhouse gas emissions plan that relies on replacing its fleet of diesel-powered vehicles with electric vehicles. Shifting to electric vehicles will require much more capital investment than was necessary for diesel vehicles. The transition plan is that each vehicle will be replaced when it reaches the end of its useful economic life. Entity Z concludes that the vehicles are not impaired and no changes to depreciation rates or useful life estimates are required to be reflected in the financial statements. Entity Z may need to explain that the transition plan will have consequences for its future cash flows and that its accounting, as reflected in the financial statements, is consistent with its transition plan.

3.4.3 Characteristics of connections

In identifying and explaining the connections both between the items to which the information relates and between disclosures provided by the entity in its general purpose financial reports, an entity needs to avoid unnecessary duplication.

Drawing connections between disclosures involves, but is not limited to, disclosing necessary explanations and cross-references and using consistent data, assumptions, and units of measure. In doing so, IFRS S1 requires: *[IFRS S1.B42]*.

- Explanation of the connections between disclosures in a clear and concise manner
- Avoiding unnecessary duplication if an ISSB standard requires the disclosure of common items of information (see also discussion on the enhancing qualitative characteristic of understandability of information in section 3.1.1 above)
- Disclosing information about significant differences between the data and assumptions used in preparing the entity's sustainability-related financial disclosures and the data and assumptions used in preparing the related financial statements, as explained in section 3.4.2.B above.

When disclosing sustainability-related financial information, there is a possibility that this information could result in duplication of information within the general purpose financial report. This is because other frameworks (such as the IFRS accounting standards or other GAAP) may require similar information. Therefore, in identifying and explaining the connections both

between the items to which the information relates and between disclosures provided by the entity in its general purpose financial reports (discussed in sections 3.4.1 and 3.4.2 above), an entity needs to avoid unnecessary duplication. To achieve this, one approach an entity may consider is to use cross references from sustainability-related financial disclosures to the other general purpose financial reports published by the entity, subject to the specified requirements being met. The requirements about information included in sustainability-related financial disclosures by cross-reference are further discussed in section 5.2.2 below.

The following examples are included in IFRS S1 to describe the nature of disclosures that could explain the various types of connections. For example, in providing connected information, an entity may: *[IFRS S1.B43, IFRS S1.B44]*.

- Explain the effect or likely effect of its strategy on its financial statements and financial planning, or explain how that strategy relates to the metrics the entity uses to measure progress against targets
- Explain how its use of natural resources or changes within its supply chain could amplify or, alternatively, reduce its sustainability-related risks and opportunities. The information about the use of natural resources or changes within its supply chain may need to be linked to information about current or anticipated financial effects on the entity's production costs, its strategic response to mitigate those risks and its related investment in new assets. Also, the narrative information about the related metrics and targets may need to be linked to information in the related financial statements.
- Explain the combined effects of its sustainability-related risks and opportunities and its strategy on its financial position, financial performance and cash flows over the short, medium and long term. For example, when the entity faces decreasing demand for its products because of consumer preferences for lower-carbon alternatives, it may need to explain how its strategic response (e.g., closing a major factory) could affect its workforce and local communities, and the effect of that response on the related financial statements (e.g., the effect of closing a major factory on the useful lives of its assets and on impairment assessments).
- Describe the alternatives it considered in setting its strategy in response to its sustainability-related risks and opportunities, including a description of the trade-offs between those risks and opportunities. For example, an entity may need to explain the potential effects of its decision to restructure its operations (e.g., developing new products) in response to a sustainability-related risk (e.g., how environmental risks affect its reputation or ability to operate) on the future size and composition of the entity's workforce, or financial performance reported in the entity's financial statements.

4 Core content

4.1 Overview of TCFD

IFRS S1 requires an entity to disclose information about its governance, strategy, risk management and metrics and targets in relation to its sustainability-related risks and opportunities. These disclosure requirements represent the 'core content' that provides information about the way the entity manages those risks and opportunities. Information disclosed in relation to this 'core content' is necessary for primary users to assess the effects of sustainability-related risks and opportunities on an entity's cash flows, its access to finance and cost of capital over the short, medium and long term.

The core content disclosure requirements are derived from, and build on, the four pillars of the TCFD Recommendations, as summarised in Figure 4-1 below.

Figure 4-1: Core content builds on the four TCFD pillars

An entity may have overarching processes, controls and procedures that are used to monitor and manage various sustainability-related risks and opportunities in an integrated manner. IFRS S1 does not require an entity to repeat disclosures relating to the core content for each type of sustainability-related risk and opportunity. Instead, an entity discloses that its approach to monitoring and managing a specific sustainability-related risk and opportunity is integrated into its overall process, controls and procedures and, if material, explain any adaptations made to those processes to address any unique characteristics of that specific risk and opportunity. *[IFRS S1.B41(b), IFRS S1.B42(b), IFRS S1.BC94].*

How we see it

The purpose of the core content disclosure requirements in IFRS S1 is to require an entity to explain its actual sustainability-related activities, instead of prescribing how it should govern, manage risks and opportunities, and set strategy in managing its business. If, for example, an entity has limited governance arrangements or strategies in place to monitor and manage its sustainability-related risks and opportunities, the entity is required to disclose that fact if that would be material information to primary users. Entities need to consider whether to introduce process improvements to strengthen their arrangements and processes for managing and monitoring sustainability-related risks and opportunities.

The objective of the governance disclosures in IFRS S1 is to enable primary users to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee sustainability-related risks and opportunities.

4.2 Governance

In defining 'governance', the TCFD includes a reference to the *G20/OECD Principles of Corporate Governance*, which states "Governance involves a set of relationships between an organization's management, its board, its shareholders, and other stakeholders. Governance provides the structure and processes through which the objectives of the organization are set, progress against performance is monitored, and results are evaluated."[8]

The objective of the governance disclosures in IFRS S1 is to enable primary users to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee sustainability-related risks and opportunities. *[IFRS S1.26].*

To help primary users evaluate whether and how much attention is given to sustainability-related risks and opportunities, IFRS S1 requires disclosure of: *[IFRS S1.27].*

[8] TCFD, Appendix 5: Glossary and Abbreviations, page 62

- The governance body(s) or individual(s) with oversight of an entity's sustainability-related risks and opportunities (see section 4.2.1 below); and
- Management's role in the governance processes, controls and procedures used to monitor, manage and oversee sustainability-related risks and opportunities (see section 4.2.2 below).

4.2.1 Information about the oversight role

'Governance body(s)' that may have oversight of sustainability-related risks and opportunities include boards, committees or equivalent bodies charged with governance. IFRS S1 acknowledges that, for some entities, the responsibility for the oversight of sustainability-related risks and opportunities may be held by an individual(s) rather than a governance body(s). An individual may be charged with the overall oversight of sustainability-related risks and opportunities because of their specific expertise and experience. *[IFRS S1.BC96]*.

IFRS S1 requires an entity to disclose information about oversight arrangements, as set out in Figure 4-2 below: *[IFRS S1.27(a)]*.

Figure 4-2: Disclosures about oversight role

Theme	Disclosure required
Responsibility	Identify the governance body(s) or individual(s) responsible for oversight of sustainability-related risks and opportunities. This requirement includes information about how responsibilities for sustainability-related risks and opportunities is reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s). *[IFRS S1.27(a)(i)]*.
Competency	Describe how the governance body(s) or individual(s) determines whether they have, or will need to develop, the appropriate skills and competencies to oversee strategies that respond to sustainability-related risks and opportunities. *[IFRS S1.27(a)(ii)]*.
Inform	Explain how, and how often, they are informed about sustainability-related risks and opportunities. *[IFRS S1.27(a)(iii)]*.
Address	Explain how they take sustainability-related risks and opportunities into account when overseeing strategy and risk management and assessing transactions. As part of this disclosure, explain whether the governance body(s) or individual(s) has considered trade-offs associated with those risks and opportunities. *[IFRS S1.27(a)(iv)]*.
Monitor	Describe their oversight of the setting of targets and tracking progress against those targets. As part of this disclosure, explain whether and how related performance metrics are included in remuneration policies. *[IFRS S1.27(a)(v)]*.

4.2.2 Information about management's role

The governance disclosure requirements distinguish between oversight by a governance body or individual and the responsibilities of management-level positions or committees to enable primary users to understand how responsibilities are delegated within the entity in relation to sustainability-

related matters. To illustrate this, the board of directors of an entity may provide oversight on broader sustainability-related matters, whereas executives within management may make operational decisions about how specific sustainability-related risks and opportunities are assessed and managed.

IFRS S1 requires an entity to make disclosures about management's role in the governance processes, controls and procedures used to monitor, manage and oversee sustainability-related risks and opportunities. These disclosures are summarised in Figure 4-3 below: *[IFRS S1.27(b)].*

Figure 4-3: Disclosures about management's role

Theme	Disclosure required
Delegation	Information about whether the role is delegated to a specific management-level position or committee and how oversight over that position or committee is exercised. *[IFRS S1.27(b)(i)].*
Processes	Information about whether management uses controls and procedures to support the oversight of sustainability-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions. *[IFRS S1.27(b)(ii)].*

Given the nature of the disclosure requirements about the role of the governance body and the role of management, it is likely that entities will use narrative disclosures to meet those requirements. IFRS S1 notes that the usefulness of sustainability-related financial information is enhanced if, among other things, that information is understandable (see section 3.1.1 above).

Depending on the nature of the information, clarity of the disclosure may be enhanced through the use of tables, graphs or diagrams in addition to narrative text. The Practical example 4-1 below shows how Flutter Entertainment plc, in applying the TCFD Recommendations, has identified and described the role and mandate of the governance bodies that have oversight of its sustainability-related risks and opportunities and management's delegated roles in the governance. This Practical example provides a visual representation of the role of each body which is explained further in the accompanying narrative disclosure included in Flutter Entertainment plc's annual report for 2022, which also details the processes, controls and procedures used to monitor, manage and oversee its sustainability-related risks and opportunities.

Practical example 4-1:	Flutter Entertainment plc (2022)	Ireland

Annual Report & Accounts 2022 [extract]

Strategic report [extract]

Sustainability [extract]

Environment [extract]

Governance of environment and climate strategy [extract]

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4.3 Strategy

The objective of the strategy disclosures in IFRS S1 is to enable users of general purpose financial reports to understand an entity's strategy for managing sustainability-related risks and opportunities.

The TCFD defines 'strategy' as referring to "an organization's desired future state. An organization's strategy establishes a foundation against which it can monitor and measure its progress in reaching that desired state. Strategy formulation generally involves establishing the purpose and scope of the organization's activities and the nature of its businesses, taking into account the risks and opportunities it faces and the environment in which it operates".[9]

The objective of the strategy disclosures in IFRS S1 is to enable primary users to understand an entity's strategy for managing sustainability-related risks and opportunities. *[IFRS S1.28].* These disclosures can be used to inform primary users' expectations about the future performance of an entity.

The foundation of the strategy disclosures is information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects (see section 4.3.1 below). The other strategy disclosures build on that initial disclosure by providing information about: *[IFRS S1.29].*

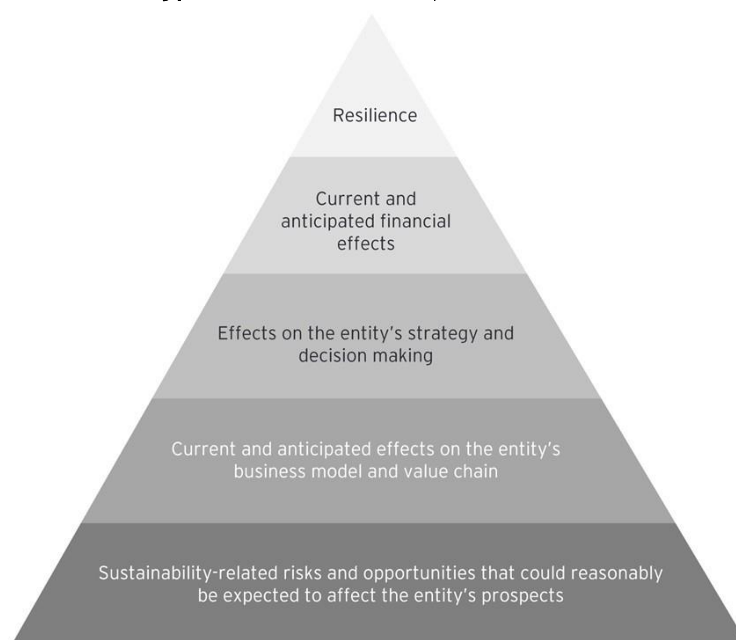
- The current and anticipated effects of those sustainability-related risks and opportunities on the entity's business model and value chain (see section 4.3.2 below)
- The effects of those risks and opportunities on the entity's strategy and decision-making (see section 4.3.3 below)
- The current and anticipated effects of those risks and opportunities on the entity's financial position, financial performance and cash flows (see section 4.3.4 below)

[9] TCFD, Appendix 5: Glossary and Abbreviations, pages 63-64

- The resilience of the entity's strategy and its business model to those sustainability-related risks. (see section 4.3.5 below)

These strategy disclosure sub-topics are summarised in Figure 4-4 below.

Figure 4-4: Strategy disclosure sub-topics



4.3.1 Disclosures about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects

As discussed in section 1.2 above, an entity is required to identify the sustainability-related risks and opportunities that could reasonably be expected to affect its prospects. IFRS S1 requires an entity to disclose a description of each of those sustainability-related risks and opportunities. *[IFRS S1.30]*.

To provide primary users with further context in relation to each of those sustainability-related risks and opportunities, IFRS S1 requires an entity to specify the time horizons over which the effects of each of those sustainability-related risks and opportunities could reasonably be expected to occur. IFRS S1 identifies the time horizons as being the short, medium or long term. *[IFRS S1.30(b)]*.

The ISSB decided to not prescribe specific time frames that represent 'short term', 'medium term' and 'long term' because the ISSB considered that relevant information about an entity's sustainability-related risks and opportunities is best understood in the context of entity-specific assessments of short, medium and long term. For that reason, IFRS S1 requires an entity to also disclose an explanation of how the entity defines the 'short term', 'medium term' and 'long term' time horizons and how those definitions are linked to the planning horizons used by the entity for strategic decision-making. *[IFRS S1.23(c), IFRS S1.BC102]*.

In defining these time horizons, an entity needs to take into account a number of factors that can vary between entities and the industries in which they operate. Also, time horizons often become management processes, e.g., rolling forecast horizons, budget periods and strategic planning cycles. IFRS S1 includes the following examples as entity-specific or industry-specific factors: *[IFRS S1.31, IFRS S1.BC102]*.

- Cash flow, investment and business cycles
- Planning horizons typically used in an entity's industry for strategic decision-making and capital allocation plans
- The time horizons over which primary users conduct their assessments of entities in that industry.

4.3.2 Disclosures about the effects of sustainability-related risks and opportunities on the entity's business model and value chain

IFRS S1 requires an entity to describe the current and anticipated effects of sustainability-related risks and opportunities on the entity's business model and value chain and where in that business model and value chain those sustainability-related risks and opportunities are concentrated. For example, the sustainability-related risks and opportunities may be concentrated across geographical areas, facilities or types of assets. *[IFRS S1.32].*

The examples below are based on the BC to IFRS S1 and illustrate the type of information an entity may provide to disclose where in its business model and value chain sustainability-related risks and opportunities are concentrated: *[IFRS S1.BC52].*

Illustration 4-1: Examples showing where in the entity's business model and value chain sustainability-related risks and opportunities are concentrated

Entity A operates in the beverage industry and has identified that it needs to disclose risks associated with water use, especially in areas where water is scarce. Entity A may describe how its use of water affects the supply available to meet its operational needs. It may explain how its water consumption affects communities close to the entity's operations that rely on the same source of water. It may also explain how over-consumption of water in those locations could lead to risks of reputational damage and loss of customers, or to the imposition of taxes or limits on the use of the resource. It may also describe how these risks have been assessed throughout its supply chain.

Entity B is a clothing brand and has identified that it needs to describe the opportunity associated with changing to use less resource-intensive materials in its products and packaging. The potential effects may be driven by Entity B's commitments to sustainable business practices, or consumer preferences for more sustainable or recycled alternatives. Entity B may also disclose the areas of its value chain and operations that are potentially most affected by this opportunity, and the processes in place to assess and monitor the opportunity.

Entity C is an electronics manufacturer and has identified that it needs to describe the risks of human rights issues in its supply chain, including reputational damage and supply chain disruptions. In doing so, Entity C may describe the effects on its policies, actions it has taken to assess and monitor the risks, and how it manages any identified abuses.

4.3.3 Disclosures about the effects of sustainability-related risks and opportunities on the entity's strategy and decision-making

To enable primary users to understand the effects of sustainability-related risks and opportunities on an entity's strategy and decision-making, IFRS S1 requires an entity to disclose information about: *[IFRS S1.33].*

- How the entity has responded to, and plans to respond to, sustainability-related risks and opportunities in its strategy and decision-making
- The entity's progress in respect of plans it has disclosed in previous reporting periods, including quantitative and qualitative information

- Trade-offs between sustainability-related risks and opportunities that the entity considered.

The example below illustrates disclosures about trade-off between sustainability-related risks and opportunities:

Illustration 4-2:	**Example on trade-offs between sustainability-related risks and opportunities**

During the reporting period, Entity A decided where to locate its new manufacturing facility that would replace the existing facility that was approaching the end of its useful life. Entity A had considered two alternative sites for its new manufacturing facility:

Site X is located in the same region as the existing facility. However, the site is prone to flash flooding during heavy rains due to the poor drainage systems at the site and its surrounding area.

Site Y is located in a different region, which is not prone to flood risk. A consequence of relocating to Site Y is that Entity A is currently the main employer in the community that surrounds Site X. A decision by Entity A to relocate to Site Y is that it would have an adverse effect on its local workforce and indirectly on the economic prospects for the entire community.

Entity A performed impact assessments to investigate the extent of flood risk of Site X and the social risk of moving to Site Y and identified options for mitigating those risks. Entity A decided, on cost/benefit grounds, to build its new manufacturing facility at Site X and as part of the development works, install new drainage systems that can divert flood waters away from the site and the community. In reaching this decision, Entity A also considered the benefit of continued access to the locally trained and engaged workforce to operate the facility.

4.3.4 Disclosures about current and anticipated financial effects of sustainability-related risks and opportunities

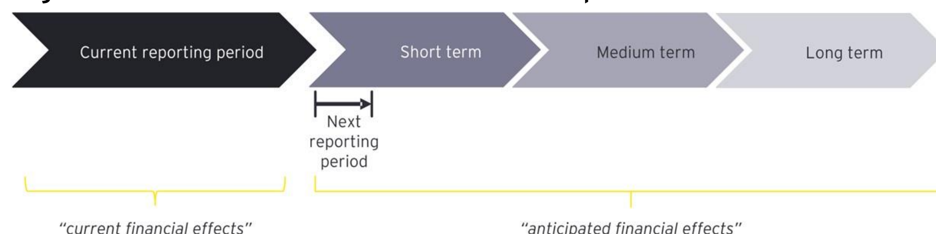
Disclosures about current and anticipated financial effects are intended to supplement or expand upon information provided in the related financial statements.

IFRS S1 requires an entity to disclose quantitative and qualitative information about: *[IFRS S1.34]*.

- The effects of the entity's sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, which is referred to as 'current financial effects'; and
- The anticipated effects of those sustainability-related risks and opportunities on its financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how the entity includes those sustainability-related risks and opportunities in its financial planning. These are referred to as 'anticipated financial effects'.

The timescales contemplated by the meaning of 'current financial effects' and 'anticipated financial effects' are illustrated in Figure 4-5 below.

Figure 4-5: Timeline for current and anticipated financial effects



Disclosures of current and anticipated financial effects are intended to supplement or expand upon information provided in the related financial

statements. This includes identifying and explaining the connections between sustainability-related risks and opportunities and the information reported in the financial statements (see discussion on connected information in section 3.4.2.B above). Connections between items of information may be able to be explained without duplicating information by using cross-references. For example, a cross reference to information disclosed in the notes to the financial statements may satisfy the requirement in IFRS S1 to disclose how sustainability-related risks and opportunities have affected an entity's current and anticipated financial position, financial performance and cash flows. The use of cross references is subject to the requirements in IFRS S1 (see further discussion in section 5.2.2 below).

4.3.4.A Disclosures about current financial effects

IFRS S1 requires an entity to disclose quantitative and qualitative information about how sustainability-related risks and opportunities have affected its financial position, financial performance and cash flows for the reporting period. *[IFRS S1.35(a)].*

An entity may also be required to disclose these current financial effects in the notes to its financial statements when applying the IFRS accounting standards or other GAAP. As discussed in section 4.3.4 above, an entity should consider whether it can include a cross reference to this information to avoid unnecessary duplication of disclosures.

4.3.4.B Disclosures about anticipated financial effects – next annual reporting period

Anticipated financial effects refer to those financial effects anticipated in the next annual reporting period and to those financial effects anticipated over the short, medium and long term.

IFRS S1 requires disclosure of information that connects the current financial effects with the anticipated financial effects in the next annual reporting period. In accordance with this disclosure requirement in IFRS S1, an entity is required to disclose quantitative and qualitative information about those sustainability-related risks and opportunities that have both of the following characteristics: *[IFRS S1.35(b)].*

- The sustainability-related risks or opportunities were identified as having current financial effects (see also section 4.3.4.A above)
- Within the next annual reporting period, there is a significant risk of a material adjustment to the carrying amounts of assets and liabilities reported in the related financial statements.

Similar to the disclosure of current financial effects, the information required by this disclosure may also be disclosed in the notes to the entity's financial statements due to requirements in IAS 1 for the disclosure of sources of estimation uncertainty. Therefore, an entity may need to consider whether to include a cross reference to this information to avoid unnecessary duplication of disclosures.

4.3.4.C Disclosures about anticipated financial effects – Short, medium and long term

IFRS S1 requires an entity to disclose quantitative and qualitative information about how the entity expects its financial position to change over the short, medium and long term, given its strategy to manage sustainability-related risks and opportunities, taking into consideration the entity's: *[IFRS S1.35(c)].*

- Investment and disposal plans, including plans for which the entity is not contractually committed
- Planned sources of funding to implement its strategy

An entity's investment and disposal plans may include plans for capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas, and asset retirements.

Similarly, IFRS S1 also requires an entity to disclose quantitative and qualitative information about how the entity expects its financial performance and cash flows to change over the short, medium and long term, given its strategy to manage sustainability-related risks and opportunities. *[IFRS S1.35(d)].*

4.3.4.D Measurement of current and anticipated financial effects

IFRS S1 does not provide guidance on how to measure current and anticipated financial effects other than to indicate that quantitative information may be disclosed as a single amount or a range. The ISSB acknowledged that, in some cases, ranges of possible outcomes could be more useful than single estimates. *[IFRS S1.36, IFRS S1.BC89].*

How we see it

Given the variety of factors that may need to be considered in quantifying the anticipated financial effects of a sustainability-related risk or opportunity, an entity may need to use judgement to determine how to measure those effects. Such judgement relates to selecting the method that an entity expects that it will best reflect the effect on its financial position, financial performance and cash flows. In exercising judgement to select a relevant measurement method to quantify the anticipated financial effects, an entity may consider the suitability of measurement methods used in the IFRS accounting standards or other GAAP.

4.3.4.E Preparing disclosures about anticipated financial effects

Stakeholders raised concerns about the difficulties that some entities may face in disclosing information about anticipated financial effects. To address these concerns, specifically for the preparation of disclosures about the anticipated financial effects of a sustainability-related risk or opportunity, IFRS S1 allows an entity to: *[IFRS S1.37, IFRS S1.BC106, IFRS S1.BC107].*

- Use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort (for further information see discussion in section 1.2.2 above). The ISSB further clarified this requirement in the context of anticipated effects as summarised in Figure 4-7 below.
- Use an approach that is commensurate with the skills, capabilities and resources that are available to the entity for preparing those disclosures. However, the ISSB clarified that an entity cannot avoid providing quantitative information for anticipated financial effects because it does not have the skills or capabilities to do so if it has the resources available to obtain or develop those skills or capabilities.

Figure 4-7: The concept of reasonable and supportable information in the context of disclosures for anticipated effects

Phrase	Meaning
"use all reasonable and supportable information"	An entity is prohibited from overstating or understating the anticipated financial effects of opportunities or risks premised on information that is unsupportable or unreasonable.
"use… information that is available to the entity at the reporting date"	An entity is: ▸ permitted to use only the information that is available to the entity at the reporting date (including information about past events, current conditions and forecasts of future conditions) ▸ not required to use information that only becomes available after that date
"use… information that is available to the entity… without undue cost or effort"	An entity is not required to carry out an exhaustive search for information to determine or measure the anticipated financial effects of risks and opportunities. Instead, an entity is permitted to carry out an information search that is proportional to the cost and effort involved in obtaining that information

4.3.4.F Criteria and disclosures when quantitative information about current and anticipated financial effects is not required

The ISSB has established criteria for when an entity is not required to disclose quantitative information about the financial effects of a sustainability-related risk or opportunity. In particular: *[IFRS S1.38, IFRS S1.39, IFRS S1.BC109]*.

- For either current or anticipated financial effects of a sustainability-related risk or opportunity, IFRS S1 states that an entity is not required to provide quantitative information if:
  - Those current or anticipated financial effects are not separately identifiable. That is, the financial effects may arise from many risks or opportunities and affect many items in the financial statements. As such, it may be difficult to attribute financial effects to an individual sustainability-related risk or opportunity.

  Or

  - The level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful. See section 6.2 below for a further discussion on measurement uncertainty.
- Specifically for anticipated financial effects of a sustainability-related risk or opportunity, IFRS S1 does not require an entity to provide quantitative information on those anticipated financial effects if the entity lacks the skills, capabilities or resources to do so.

For current or anticipated financial effects of a particular sustainability-related risk or opportunity, the ISSB clarified that, even if an entity is not in a position to disclose quantitative information, it is still required to provide other quantitative and qualitative information that would be useful to primary users. For that reason, if an entity concludes that it is unable to provide quantitative information, IFRS S1 requires the entity to: *[IFRS S1.40]*.

- Explain why it has not provided quantitative information
- Provide qualitative information about those financial effects—this is to include identifying line items, totals and subtotals within the related financial statements that are likely to be affected, or have been affected, by that sustainability-related risk or opportunity
- Provide quantitative information about the combined financial effects of that sustainability-related risk or opportunity with other sustainability-related risks or opportunities and other factors. However, disclosing quantitative information about the combined financial effects is not required if the entity determines that this information would not be useful.

4.3.5 Disclosures about the resilience of the entity's strategy and business model to sustainability-related risks

IFRS S1 requires a resilience assessment of an entity's strategy and business model. The purpose of the resilience assessment is to inform primary users about the entity's ability to cope with and withstand the effects of sustainability-related risks and related uncertainties in different scenarios.

In particular, IFRS S1 requires an entity to disclose an assessment of the resilience of the 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. The assessment is to be a qualitative and, if applicable, quantitative assessment. When providing quantitative information, IFRS S1 permits an entity to disclose a single amount or a range. *[IFRS S1.41]*.

IFRS S1 acknowledges that other ISSB standards may specify the type of information an entity is required to disclose about its resilience to specific sustainability-related risks and how to prepare those disclosures, including whether a scenario analysis is required. *[IFRS S1.42]*. For example, IFRS S2 includes specific requirements for resilience assessments for an entity's climate-related risks (see further discussion in section 4.3 of Part B – *Introduction to IFRS S2*).

The requirements to disclose information about the resilience of an entity's strategy and business models and to disclose information about the current and anticipated financial effects of an entity's sustainability-related risks and opportunities are designed to meet different information needs. The requirements for a resilience assessment relate to an entity's capacity to adjust to the uncertainties arising from sustainability-related risks, whereas the requirements on the current and anticipated financial effects of sustainability-related risks and opportunities relate to the effects of risks and opportunities on an entity's financial performance, financial position and cash flows. Therefore, these requirements can be applied independently. However, while an entity is not required to carry out a resilience assessment to determine the anticipated financial effects of sustainability-related risks and opportunities, the ISSB also acknowledged that an entity may find the resilience assessment useful and relevant in determining the anticipated financial effects of sustainability-related risks and opportunities. *[IFRS S1.BC113]*.

Risk management processes refer to processes an entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities.

4.4 Risk management

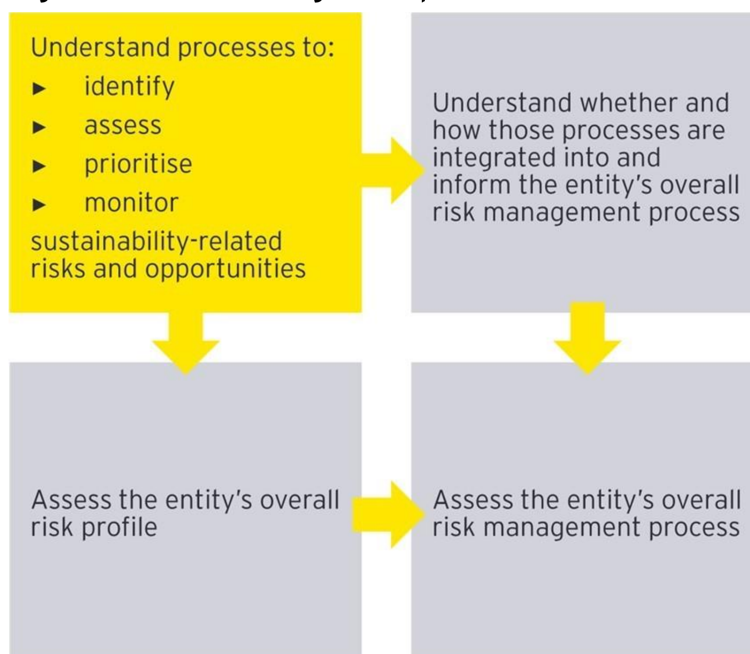
The TCFD defines 'risk management' as referring to "a set of processes that are carried out by an organization's board and management to support the achievement of the organization's objectives by addressing its risks and managing the combined potential impact of those risks".[10]

The objective of risk management disclosures in IFRS S1 is to enable primary users to: *[IFRS S1.43]*.

- Understand an entity's processes to identify, assess, prioritise and monitor sustainability-related risks and opportunities
- Understand whether and how those processes are integrated into and inform the entity's overall risk management process
- Assess the entity's overall risk profile
- Assess the entity's overall risk management process

This objective is summarised in Figure 4-8 below:

Figure 4-8: Risk management processes



The TCFD noted that in assessing an entity's financial and operating results, many investors want insight into the governance and risk management context in which such results are achieved.[11] This focus helps to draw a distinction between the purpose of the risk management disclosures and the strategy disclosures. The ISSB explained that disclosures about risk management processes relate to the risk management framework that the entity has put in place. In contrast, disclosures about strategy are focused on providing information about an entity's strategy for managing sustainability-related risks and opportunities. *[IFRS S1.BC116]*.

4.4.1 Processes for sustainability-related risks

Consistent with this disclosure objective, IFRS S1 requires an entity to disclose information about the processes and related policies that it uses to identify, assess, prioritise and monitor sustainability-related risks. The information to be disclosed includes information about: *[IFRS S1.44(a)]*.

[10] TCFD, Appendix 5: Glossary and Abbreviations, page 63

[11] Final Report *Recommendations of the Task Force on Climate-related Financial Disclosures*, June 2017, page 17

- The inputs and parameters used by the entity in the processes and policies that identify, assess, prioritise and monitor sustainability-related risks (e.g., information about data sources and the scope of operations covered in those processes)
- Whether and how scenario analysis is used to inform the entity's identification of sustainability-related risks
- How the nature, likelihood and magnitude of the effects of those risks is assessed by the entity (e.g., whether qualitative factors, quantitative thresholds or other criteria are considered)
- Whether and how sustainability-related risks are prioritised by the entity relative to other types of risk
- How sustainability-related risks are monitored by the entity
- Whether and how the entity has changed the processes it uses compared with the previous reporting period.

4.4.2 Processes for sustainability-related opportunities

IFRS S1 also requires an entity to disclose information about the processes that it uses to identify, assess, prioritise and monitor sustainability-related opportunities. *[IFRS S1.44(b)]*.

Unlike the disclosures for risk management processes for sustainability-related risks, IFRS S1 does not detail specific information that needs to be disclosed about the entity's risk management processes that apply to its opportunities. The ISSB explained that the disclosure requirements for sustainability-related risks are more detailed than those for opportunities, because of the relative maturity of risk management processes and to meet the primary users' needs for information about an entity's processes for identifying, assessing, prioritising and monitoring risks. *[IFRS S1.BC119]*.

How we see it

Disclosures relating to risk management may also enable primary users to understand an entity's processes for managing its sustainability-related opportunities. Therefore, some of those disclosures could also inform the disclosures relating to sustainability-related opportunities.

4.4.3 Integrating disclosures

IFRS S1 requires an entity to also disclose the extent to which, and how, an entity's processes for identifying, assessing, prioritising and monitoring sustainability-related risks and opportunities are integrated into and inform the entity's overall risk management process. *[IFRS S1.44(c)]*. This information assists primary users in evaluating the entity's overall risk profile and risk management activities.

When an entity uses the same risk management process to identify, assess, prioritise or monitor different sustainability-related risks and opportunities, the entity needs to integrate those disclosures instead of providing separate risk management disclosures for each sustainability-related risk and opportunity. To illustrate this, the ISSB provided an example of an entity disclosing that climate-related risks and opportunities are integrated into the entity's overall process for managing risks and opportunities, such as general strategic or operational risks and opportunities. However, the identification, assessment, prioritisation and monitoring of other sustainability-related risks and opportunities occur separately because those specific risk management processes are not part of the entity's overall risk management process. *[IFRS S1.BC118]*.

Metrics disclosed by an entity need to include those associated with particular business models, activities or other common features that characterise participation in an industry.

4.5 Metrics and targets

The objective of disclosures on metrics and targets is to enable primary users to understand an entity's performance in relation to its sustainability-related risks and opportunities. *[IFRS S1.45].*

For each sustainability-related risk and opportunity that could reasonably be expected to affect the entity's prospects, IFRS S1 requires an entity to disclose: *[IFRS S1.46].*

- The metrics required by the ISSB standards (even if the entity does not use these metrics); and
- The metrics the entity uses to measure and monitor:
  - that sustainability-related risk and opportunity (even if those metrics are not required by the ISSB standards); and
  - the entity's performance in relation to that risk and opportunity, including the entity's progress towards any targets it has set and any targets it is required to meet by law or regulation.

The metrics disclosed by an entity need to include those associated with particular business models, activities or other common features that characterise participation in an industry. *[IFRS S1.48].*

4.5.1 Metrics required by an ISSB standard

For metrics that apply to climate-related risks and opportunities, IFRS S1 requires an entity to apply the requirements of IFRS S2 (see further discussion in section 4.5 of Part B – *Introduction to IFRS S2*). However, for metrics and targets that apply to sustainability-related risks and opportunities other than climate, the ISSB is yet to issue other topic-based ISSB standards that may otherwise specifically apply to that sustainability-related risk or opportunity. Accordingly, in the absence of an ISSB standard that specifically applies to a sustainability-related risk or opportunity, IFRS S1 requires an entity to apply the sources of guidance requirements to identify applicable metrics. An entity is also required to identify the source and the metric when the metric is taken from a source other than an ISSB standard. *[IFRS S1.47, IFRS S1.49].* For further discussion on sources of guidance, see section 5.1.2 below.

4.5.2 Metrics developed by the entity

For metrics developed by an entity, IFRS S1 requires an entity to disclose the following information: *[IFRS S1.50].*

Figure 4-9: Disclosures for metrics developed by an entity

Theme	Disclosure required
Definition	How the metric is defined, including: ▸ Whether the metric is derived by adjusting a metric taken from a source other than the ISSB standards ▸ If so, which source and how the metric disclosed by the entity differs from the metric specified in that source
Nature	Whether the metric is an absolute measure, a measure expressed in relation to another metric or a qualitative measure. The ISSB gives an example of a qualitative measure as indicating status by using the red, amber, green 'traffic light' colours
Validation	Whether the metric is validated by a third party and, if so, which party

Calculation	The method used to calculate the metric and the inputs to the calculation, including: ▸ the limitations of the method used ▸ the significant assumptions made

4.5.3 Targets

An entity's targets will include any targets it has set to monitor progress towards achieving its strategic goals as well as any targets it is required to meet by law or regulation. *[IFRS S1.51].*

For each target, IFRS S1 requires an entity to disclose: *[IFRS S1.51].*

- The metric used to set the target and to monitor progress towards reaching the target
- The specific quantitative or qualitative target the entity has set or is required to meet
- The period over which the target applies
- The base period from which progress is measured
- Any milestones and interim targets
- Performance against each target and an analysis of trends or changes in the entity's performance
- Any revisions to the target and an explanation for those revisions

An entity is required to consistently define and calculate metrics for each reporting period, including those metrics used to set the entity's targets and monitor progress towards reaching them. In the event a metric is redefined or replaced in a reporting period, an entity is required to: *[IFRS S1.52, IFRS S1.B52].*

- Disclose a revised comparative amount, unless it is impracticable to do so
- Explain the changes to the metric
- Explain the reasons for those changes, including why the metric that has been redefined or replaced provides more useful information

The metrics and targets disclosed by entity have to be labelled and defined using names and descriptions that are meaningful, clear and precise. *[IFRS S1.53].*

5 General requirements

5.1 Sources of guidance

The use of other sources of guidance is expected during the period of development of the full range of the ISSB standards, but will continue to be relevant in circumstances where a particular event, transaction or other condition is not specifically addressed by any ISSB standard.

As discussed in sections 1.2 and 3.2.2 above, IFRS S1 requires an entity to identify sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects, as well as material information that apply to those risks and opportunities. Both identification processes are informed by the sources of guidance included in IFRS S1.

In these identification processes, an entity is required to first apply the ISSB standards that specifically apply to that sustainability-related risk or opportunity. *[IFRS S1.54, IFRS S1.56].* IFRS S1 also includes other sources of guidance which are intended to give direction to entities, especially in situations where there are no directly applicable requirements in the ISSB standards. Such guidance effectively provides entities with a roadmap for the appropriate use of other standards and frameworks to produce decision-useful disclosures for primary users about sustainability-related risks and opportunities. The sources of guidance included in IFRS S1 are those that, if selected, would likely result in the provision of information that would enable

entities to meet the objective of IFRS S1. The ISSB believes that this can contribute to reducing diversity in practice and improving comparability between information provided by peer entities. *[IFRS S1.BC128]*.

Up to the date of issuance of this publication, the ISSB has so far issued specific requirements for disclosing information about sustainability-related risks and opportunities in relation to climate (i.e., IFRS S2). The use of other sources of guidance is particularly useful in these early days of the ISSB's standard setting activities, until more ISSB standards, beyond climate, are developed and issued. The ISSB believes that, as additional ISSB standards will be developed, the reliance of entities on those other sources of guidance will gradually decrease. This is because the range of the future ISSB standards will assist in identifying sustainability-related risks and opportunities, as well as in setting out disclosures designed to meet the needs of primary users and, therefore, there will be fewer gaps to fill. *[IFRS S1.BC128]*.

Despite the importance of other sources of guidance during the period of development of the full range of the ISSB standards as described above, the ISSB expects that these other sources will continue to be useful to entities to meet the objective of IFRS S1 even after that period. *[IFRS S1.BC128]*.The rationale behind the requirements of IFRS S1 in respect of other sources of guidance is similar to that of IAS 8 applied under the IFRS accounting standards. That is, there will be circumstances where a particular event, transaction or other condition is not specifically addressed by any ISSB standard. Also, the range of sustainability topics and the information needs of primary users are continuously evolving and it is likely that the ISSB standards may not provide specific guidance for all possible circumstances. Moreover, the ISSB considered that this guidance can be particularly useful for entities that have not previously reported sustainability-related financial disclosures that focus on meeting the needs of primary users.

The ISSB decided to limit the list the sources of guidance that an entity is required to, or may refer to and consider the applicability of, instead of including a long list of sources (both in identifying sustainability-related risks and opportunities and in identifying material information to provide about those risks and opportunities) to make the requirements less burdensome to apply. The ISSB decided to distinguish the sources of guidance between those that an entity is required to refer to and consider their applicability and sources that it is permitted, but not required, to refer to and consider their applicability. The ISSB clarified that the use of "refer to and consider the applicability of" a source of guidance is intended to require or permit an entity to refer to that source of guidance and consider whether it is applicable. If it is, then an entity is required or permitted to apply that source of guidance. *[IFRS S1.BC130, IFRS S1.BC131, IFRS S1.BC132]*.

5.1.1 Use of sources of guidance when identifying sustainability-related risks and opportunities

As discussed in section 5.1 above, in identifying the sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects, an entity needs to apply the ISSB standards. That is, an entity needs to consider the sustainability-related topics and the respective sustainability-related risks and opportunities associated with those topics included in the ISSB standards. *[IFRS S1.54]*.

In addition to the ISSB standards, IFRS S1 provides a list of other sources of guidance to assist in the judgement involved in this identification process. More specifically, an entity is required to refer to and consider the applicability of the Sustainability Accounting Standards Board standards (the SASB standards). *[IFRS S1.55(a)]*. The ISSB considered that using the SASB standards could reduce application costs for entities and produce useful and

comparable disclosures for primary users. This is because the SASB standards were developed with a similar objective to IFRS S1 and their overall design with respect to disclosure topics and associated metrics generally follows the structure of the requirements in IFRS S1. In fact, the industry-based guidance provided by the SASB standards is complementary to the general requirements of IFRS S1, and includes disclosure topics that are focused on sustainability-related risks and opportunities that arise in an industry throughout the value chain. *[IFRS S1.BC130, IFRS S1.BC134].*

5.1.1.A Considerations when referring to the SASB standards to identify sustainability-related risks and opportunities

Each SASB standard contains: *[IFRS S1.IG12].*

- *Industry descriptions:* Intended to support entities in identifying applicable industry guidance by describing the business models, activities and other common features that characterise participation in the industry
- *Disclosure topics:* Describe specific sustainability-related risks or opportunities associated with the activities conducted by entities within a particular industry
- *Metrics:* Accompany disclosure topics and are designed to provide useful information regarding an entity's performance for a specific disclosure topic (either individually or as part of a set) (see section 5.1.2 below)
- *Technical protocols:* Provide guidance on definitions, scope, implementation and presentation of associated metrics (see section 5.1.2 below)
- *Activity metrics:* Quantify the scale of specific activities or operations by an entity and are intended for use in conjunction with metrics accompanying the disclosure topics to normalise data and facilitate comparison (see section 5.1.2 below)

In considering the applicability of SASB standards, an entity first needs to understand the activities that a particular SASB standard covers. The industry descriptions summarise the business that each SASB standard covers so that an entity understands the activities addressed and determines if a SASB standard is likely to be applicable to its business model and associated activities. The industry names and descriptions may not precisely align with the industry an entity considers itself to be a part of because industries can be classified and defined according to varying conventions. In performing that assessment, an entity may determine that: *[IFRS S1.IG14, IFRS S1.IG15, IFRS S1.IG16].*

- Its business model and activities closely align with the description of a single SASB standard, in which case, the entity may need to refer only to that particular applicable SASB standard
- Its business model and activities closely align with the description of more than one SASB standard (e.g., when the entity constitutes a hybrid or complex business model with activities spanning a wider array of activities than those reflected in any single SASB standard) and, therefore, needs to refer to and consider the applicability of those SASB standards
- Its industry does not precisely align with the industry name of the SASB standard to which it considers itself to be part of, or its activities may not be specifically addressed by a SASB standard(s) for a particular industry. However, other SASB standards are likely to address those activities or similar activities.

The disclosure topics in the SASB standards are useful in helping entities understand the range of sustainability-related risks and opportunities that are within the scope of IFRS S1, which is particularly important in the

identification of the sustainability-related risks and opportunities. Furthermore, the metrics that accompany disclosure topics in the SASB standards are commonly tailored to the activities of entities within a particular industry. *[IFRS S1.BC134]*. Having identified the SASB standard(s) that closely align(s) with its activities, an entity needs to determine which disclosure topic(s) within that SASB standard(s) align(s) with its activities in order to identify the sustainability-related risks and opportunities based on its business model and activities. *[IFRS S1.IG17]*.

Consider the following Illustration, based on an example provided in the *Implementation Guidance* to IFRS S1, about using disclosure topics of the SASB standards to enable entities to consistently identify sustainability-related risks and opportunities based on their business model and activities: *[IFRS S1.IG18, IFRS S1.IG19]*.

Illustration 5-1:	**Identifying sustainability-related risks and opportunities by referring to and considering the applicability of SASB standards**
Entity B conducts meat, poultry and dairy operations and, therefore, refers to and considers the applicability of the Meat, Poultry & Dairy SASB standard. Entity B concludes that the disclosure topics in that SASB standard that are applicable in its circumstances include disclosure topics such as the food safety and the workforce health & safety. Effectively, Entity B's process of identification of sustainability-related risks and opportunities is informed by the using the disclosure topics in this SASB standard. In applying those disclosure topics, Entity B explains that a failure to maintain the quality and safety of its product may result in costly recalls, harm the reputation of its brand, lead to fines, reduce its revenues and increase regulatory scrutiny, including the imposition of trade restrictions. Moreover, Entity B uses the disclosure topics to meet the requirements of IFRS S1 about how it manages the identified risks. In particular, Entity B provides information about its robust workforce safety practices to avoid reputational impairment, costly turnover, low worker morale and productivity, risks associated with potential liability for injuries, associated healthcare and workers' compensation costs.	

The approach described in Illustration 5-1 can be repeated for each of the applicable disclosure topics of the entity. However, the disclosure topics of the SASB standards are meant to inform the identification of sustainability-related risks and opportunities of a typical entity within a given industry, rather than every entity within a given industry. That is, SASB standards may include disclosure topics that would not result in useful information for primary users for every entity within a given industry. For example, an entity operating in a particular industry may not engage in activities that are covered by a disclosure topic of that industry in the SASB standards. Therefore, information resulting from that disclosure topic would not be useful to its primary users. Also, the disclosure topics in SASB standards are not exhaustive and, as such, they are not meant to include every disclosure topic that would result in useful information and be applicable to all entities in a given industry. *[IFRS S1.IG13, IFRS S1.IG20]*. Therefore, when an entity considers the applicability of the disclosure topics of SASB standards, it may, for the reasons explained above, conclude that those disclosure topics are not sufficient to inform the identification of all sustainability-related risks and opportunities that could reasonably be expected to affect its prospects.

The following examples from the *Implementation Guidance* to IFRS S1 illustrate the identification of sustainability-related risks and opportunities by referring to and considering the applicability of the SASB standards: *[IFRS S1.IE Example 1, IFRS S1.IE3, IFRS S1.IE4, IFRS S1.IE Example 2, IFRS S1.IE9, IFRS S1.IE10, IFRS S1.IE11]*

Extract from IFRS S1

Example 1—An entity with a single line of business

Entity Y is a regional passenger airline company. In identifying sustainability-related risks and opportunities that could reasonably be expected to affect its prospects, Entity Y is required to apply IFRS Sustainability Disclosure Standards in accordance with paragraph 54 of IFRS S1. In addition to applying IFRS Sustainability Disclosure Standards, Entity Y is required to refer to and consider the applicability of the disclosure topics in the SASB Standards. Entity Y concludes that its business model and activities most closely align with the *Airlines* SASB Standard.

Entity Y applies IFRS S2 *Climate-related Disclosures* and identifies climate-related risks or opportunities that could reasonably be expected to affect its prospects. In addition, Entity Y refers to and considers the applicability of the disclosure topics in the *Airlines* SASB Standard in accordance with paragraph 55(a) of IFRS S1. Entity Y concludes that all four disclosure topics in the *Airlines* SASB Standard are applicable to its activities and uses those disclosure topics to inform its identification of sustainability-related risks and opportunities that could reasonably be expected to affect its prospects.

…

Example 2—A large conglomerate with diverse activities

Entity A is a large conglomerate with diverse activities. Entity A produces electrical and industrial equipment for use in a range of industries. In addition to IFRS Sustainability Disclosure Standards, Entity A is required to refer to and consider the applicability of the disclosure topics in the SASB Standards in identifying its sustainability-related risks and opportunities. Because of the wide-ranging nature of its activities, Entity A begins its consideration of the applicability of the SASB Standards by considering the various sectors into which the SASB Standards are grouped.
Entity A conducts activities in industries in the Health Care, Resource Transformation and Infrastructure sectors, and in some cases owns particular parts of its production process rather than relying on suppliers. It also has some activities in the Transportation and Consumer Goods sectors.

Entity A refers to and considers the applicability of the disclosure topics in the SASB Standards. Entity A concludes that eight SASB Standards are applicable to its business model and activities. Entity A considers the disclosure topics in the eight standards. Although Entity A observes that it engages in activities related to all of those disclosure topics, Entity A concludes that some of those disclosure topics are not applicable in the entity's circumstances. For example, Entity A concludes that the sustainability-related risk or opportunity characterised by a particular disclosure topic could not reasonably be expected to affect its prospects over the short, medium or long term because the disclosure topic relates to activities that are insignificant for the entity.

Entity A concludes that most of the disclosure topics in the SASB Standards it has considered are applicable to its significant activities. In some cases where it has less significant activities, it finds that only particular disclosure topics in those related industries are applicable. For example, Entity A concludes that most of the disclosure topics that it considered for its transportation and retail businesses are not applicable, due to the relatively small size of these businesses. However, Entity A concludes that incidents related to safety and labour practices in these businesses, although unlikely to have a large effect on its cash flows in the short term, could have a major effect on its reputation over the medium

and long term. This reputational risk could affect the performance of its larger businesses, including its ability to attract and retain talent, over a medium- and long-term time horizon, which could be reasonably expected to affect its medium- and long-term cash flows, access to finance and cost of capital. Thus, Entity A considers these topics in identifying sustainability-related risks and opportunities that could reasonably be expected to affect its prospects.

5.1.1.B Considerations when referring to other sources of guidance to identify sustainability-related risks and opportunities

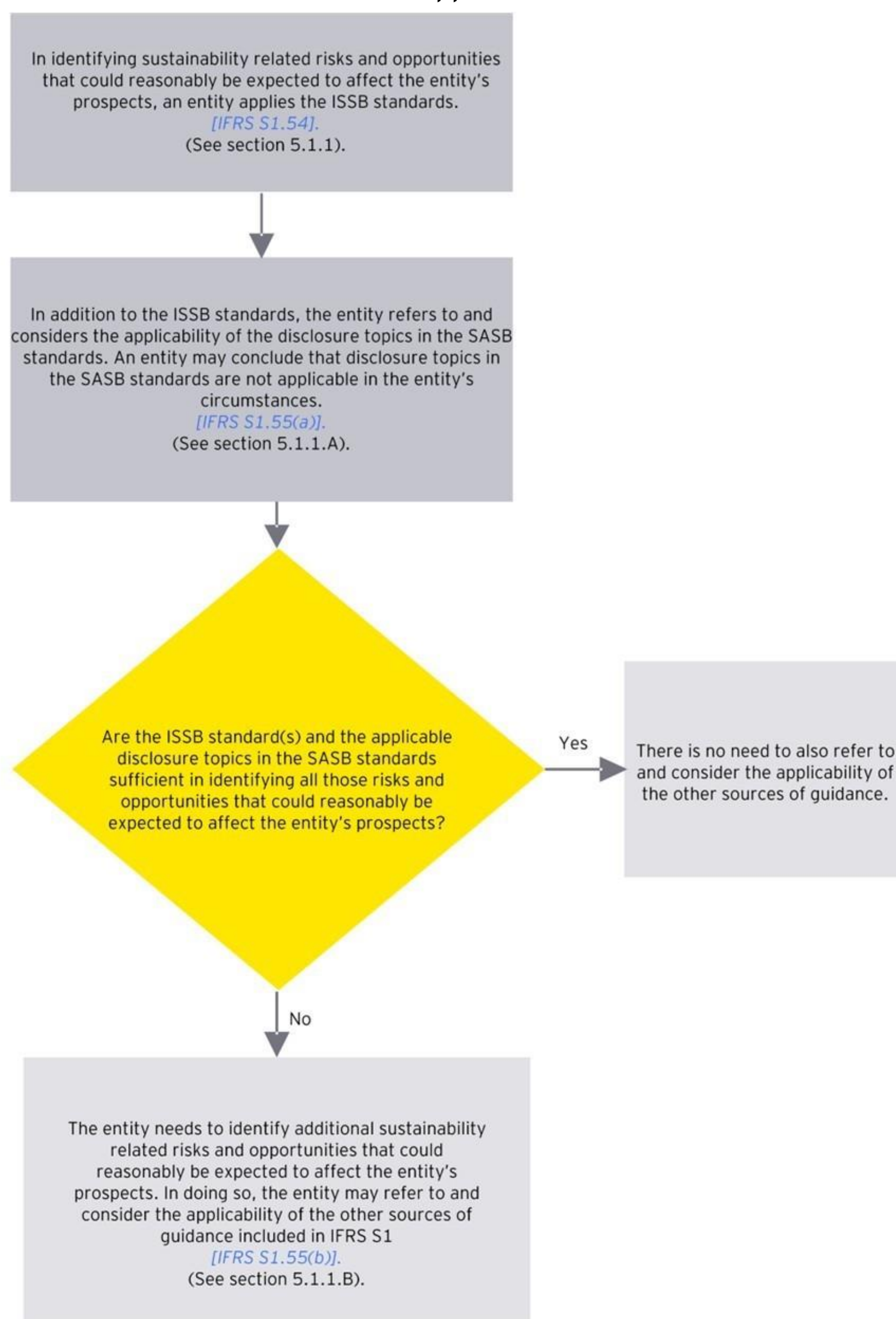
The entity may also need to consider additional sources of guidance specified in IFRS S1 to identify its sustainability-related risks or opportunities. *[IFRS S1.IG13, IFRS S1.IG20].* In particular, an entity may refer to and consider the applicability of the CDSB Framework Application Guidance for Water-related Disclosures and the CDSB Framework Application Guidance for Biodiversity-related Disclosures (collectively referred to as 'CDSB Framework Application Guidance'). In addition, an entity is permitted to refer to and consider the applicability of the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of primary users, and to refer to the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographical regions. *[IFRS S1.55(b)].*

For example, the CDSB Framework Application Guidance can support entities in identifying biodiversity-related risks (e.g., reduction in soil fertility, reduction in pollination for crop production, reduced availability of fish stocks) or water-related opportunities (e.g., improved water efficiency, development of new products and services, conservation and restoration of ecosystems through engagement and collaboration with stakeholders). However, that does not preclude an entity from having identified water- or biodiversity-related risks and opportunities in accordance with the SASB standards or other sources of guidance. *[IFRS S1.IG26, IFRS S1.IG27].*

Moreover, the CDSB Framework Application Guidance explains how water- and biodiversity-related risks may be connected to other sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects (e.g., water-related risks such as more frequent flooding are often inherently linked to climate-related risks). This information is necessary for an entity in meeting the requirements of IFRS S1 about connected information, as discussed in section 3.4 above).

The main reasons that the ISSB decided to permit and not require entities to consider these sources were: a) to prevent entities from having to consider an extensive list of open-ended sources of guidance that would lead to an increased burden for entities; and b) to facilitate the transition to the ISSB standards by enabling entities to use sources that they may already be familiar with. The application of those sources of guidance is intended to support the application of the ISSB standards and, therefore, an entity is still required to comply with all the requirements in the ISSB standards to assert compliance with them. *[IFRS S1.BC135].*

Figure 5-1: Use of sources of guidance to identify sustainability-related risks and opportunities



How we see it

An entity applies the ISSB standards as a starting point and refers to and considers the applicability of the SASB standards to identify its sustainability-related risks and opportunities. However, an entity needs to use its judgement to determine whether these two sources are sufficient to identify all those sustainability-related risks and opportunities that could reasonably be expected to affect its prospects. If they do not, the entity needs to refer to and consider the applicability of the other sources of guidance discussed in this section.

Judgement is expected to occur in order to ensure that fair presentation of sustainability-related risks and opportunities is achieved when identifying information by using other sources of guidance.

5.1.2 Sources of guidance when identifying material sustainability-related financial information

As discussed in section 5.1 above, in determining whether information about sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects is material, an entity needs to apply the requirements of the ISSB standard that specifically applies to that sustainability-related risk or opportunity. *[IFRS S1.56]*. For example, if an entity identifies climate-related risks and opportunities that could reasonably be expected to affect its prospects, the requirements in IFRS S2 (that are discussed in Part B – *Introduction to IFRS S2*) are those that the entity needs to apply since IFRS S2 is the ISSB standard that specifically applies to climate-related risk and opportunities.

However, as mentioned in section 5.1 above, the ISSB has, thus far, only issued specific requirements for disclosing information about sustainability-related risks and opportunities in relation to climate (i.e., IFRS S2). Moreover, the information needs of primary users is continuously evolving and it is likely that the ISSB standards may not provide specific guidance for all circumstances. Therefore, in the absence of an ISSB standard that specifically applies to a sustainability-related risk or opportunity, an entity needs to apply the requirements to sources of guidance specified in IFRS S1. Those requirements emphasise the judgement that is expected to occur when identifying information to ensure that the sustainability-related risks and opportunities are presented fairly in an entity's disclosures (see also discussion on fair presentation in section 3.1.1 above). That is, while developing disclosures in the absence of an ISSB standard, an entity is required to identify information from sources of guidance that: *[IFRS S1.57, IFRS S1.C1]*.

- Is relevant to the decision-making needs of primary users
- Faithfully represents the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity

The list of sources of guidance included in IFRS S1 is intended to assist in making this judgement by including metrics that may be relevant to a particular sustainability-related risk or opportunity for a particular industry or in specified circumstances.

5.1.2.A Considerations when referring to the SASB standards to identify material information about sustainability-related risks and opportunities

As discussed in section 5.1.2 above, in the absence of an ISSB standard that specifically applies to a sustainability-related risk or opportunity, an entity needs to apply judgement to identify information that is relevant and faithfully represents that sustainability-related risk or opportunity. In making this judgement, IFRS S1 requires an entity to refer to and consider the applicability of the metrics associated with the disclosure topics included in the SASB standards. *[IFRS S1.58(a)]*. As explained in section 5.1.1 above, those metrics accompany the disclosure topics and are designed to, either individually or as part of a set, provide useful information regarding an entity's performance for a specific disclosure topic. Each of these metrics is supported by technical protocols that provide guidance on definitions, scope, implementation and presentation. The technical protocols may also serve as criteria against which the disclosed information can be verified (which is one of the enhancing qualitative characteristics of the provided information as discussed in section 3.1.1 above). In conjunction to those metrics, there are activity metrics that quantify the scale of specific activities or operations by an entity and are used to normalise data and facilitate comparison. *[IFRS S1.IG12, IFRS S1.IG23]*.

How we see it

IFRS S1 requires an entity to provide information that fairly presents the sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects (see section 3.1 above). Therefore, when an entity needs to refer to and consider the applicability of other sources of guidance to identify material information, it needs to ensure that the disclosures developed are relevant to the decision-making of primary users, and faithfully represent the entity's sustainability-related risks and opportunities. We believe that this is a fundamental threshold that the selected sources of guidance need to meet in order to ensure the appropriateness of material information included in sustainability-related financial disclosures.

Consider the following Illustration, based on an example provided in the *Implementation Guidance* to IFRS S1, which is a continuation of the example provided in Illustration 5-1 in section 5.1.1 above. The example relates to requirement in IFRS S1 to refer to and consider the applicability of the metrics associated with the disclosure topics included in SASB standards: *[IFRS S1.IG18, IFRS S1.IG22, IFRS S1.IG23, IFRS S1.IG24].*

Illustration 5-2: Identifying material information about sustainability-related risks and opportunities by referring to and considering the applicability of SASB standards

Entity B conducts meat, poultry and dairy operations and therefore, refers to and considers the applicability of the Meat, Poultry & Dairy SASB standard. Entity B concludes that the disclosure topics in that SASB standard that are applicable in its circumstances include disclosure topics such as the food safety and the workforce health & safety. In identifying material information about the sustainability-related risks and opportunities it has identified based on those disclosure topics, Entity B refers to and consider the applicability of the following metrics included in the Meat, Poultry & Dairy SASB Standard:

(a food safety:

- (i) FB-MP-250a.1–Global Food Safety Initiative (GFSI) audit (1) non conformance rate and (2) associated corrective action rate for (a) major and (b) minor non-conformances;
- (ii) FB-MP-250a.2–Percentage of supplier facilities certified to a Global Food Safety Initiative (GFSI) food safety certification program;
- (iii) FB-MP-250a.3–(1) Number of recalls issued and (2) total weight of products recalled; and
- (iv) FB-MP-250a.4–Discussion of markets that ban imports of the entity's products; and

(b) workforce health & safety:

- (i) FB-MP-320a.1–(1) Total recordable incident rate (TRIR) and (2) fatality rate; and
- (ii) FB-MP-320a.2–Description of efforts to assess, monitor, and mitigate acute and chronic respiratory health conditions.

In applying the accompanying technical protocols of the SASB standards, Entity B discloses information related to workforce health and safety for all of its workers, regardless of their location and type of employment (e.g., full-time, part-time, direct, contract, executive, labour, salary, hourly or seasonal). Entity B applies the accompanying technical protocols as a guide in supplementing its metrics with appropriate context (e.g., a discussion of notable recalls, including information related to the cause, amount, remediation cost, nature (voluntary or involuntary), associated corrective actions and other significant outcomes related to the recall, such as legal proceedings or consumer illness).

The importance of providing industry-specific disclosures to primary users is also explicit in the section of IFRS S1 that relates to the core content of disclosures about metrics (see discussion in section 4.5 above), which requires an entity to disclose industry-based metrics in relation to its sustainability-related risks and opportunities (i.e., metrics associated with particular business models, activities or other common features that characterise participation in an industry). The associated metrics are likely to be applicable in assessing the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term. Entity-specific judgement is needed for the metrics chosen in the information about sustainability-related risks and opportunities to be material. *[IFRS S1.BC125, IFRS S1.BC133]*.

The following examples are a continuation of the Illustrative Example 1 and Example 2 included in the *Implementation Guidance* to IFRS S1 provided in the respective extract in section 5.1.1 above and relate to the identification of information about sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects by referring to and considering the applicability of the SASB standards: *[IFRS S1.IE Example 1, IFRS S1.IE Example 2, IFRS S1.IE5-9, IFRS S1.IE12-15]*.

Extract from IFRS S1

Example 1—An entity with a single line of business

Entity Y is a regional passenger airline company. In identifying sustainability-related risks and opportunities that could reasonably be expected to affect its prospects, Entity Y is required to apply IFRS Sustainability Disclosure Standards in accordance with paragraph 54 of IFRS S1. In addition to applying IFRS Sustainability Disclosure Standards, Entity Y is required to refer to and consider the applicability of the disclosure topics in the SASB Standards. Entity Y concludes that its business model and activities most closely align with the *Airlines* SASB Standard.

…

In disclosing information about its sustainability-related risks and opportunities, Entity Y applies IFRS Sustainability Disclosure Standards that specifically apply to its identified sustainability-related risks and opportunities. For example, Entity Y applies IFRS S2 to disclose information about its greenhouse gas emissions. In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to the sustainability-related risks and opportunities which Entity Y has identified, Entity Y refers to and considers the applicability of the metrics associated with the applicable disclosure topics in the *Airlines* SASB Standard. Entity Y concludes that applying these metrics will provide information that is relevant to the decision-making of users of general purpose financial reports and faithfully represents the sustainability-related risks and opportunities that it has identified. For example, the metrics associated with the 'Accident & Safety Management' disclosure topic include:

(a) TR-AL-540a.1—Description of implementation and outcomes of a Safety Management System;

(b) TR-AL-540a.2—Number of aviation accidents; and

(c) TR-AL-540a.3—Number of governmental enforcement actions of aviation safety regulations.

In identifying information to provide, Entity Y considers the applicability of the technical protocols accompanying the metrics. For example, while disclosing a description of the implementation and outcomes of a Safety Management System, Entity Y might describe any actions or measures it has implemented to mitigate any safety risks and hazardous situations that it has identified. These actions or measures include, for example, particular

changes in controls, operations, management, processes, products, business partners, training or technology.

Entity Y is required to apply the requirements relating to 'core content' in IFRS S1. Entity Y considers the disclosure topics, metrics and associated technical protocols in the *Airlines* SASB Standard when providing information required by IFRS S1, including information relating to strategy and metrics and targets.

Entity Y discloses that it applied the disclosure topics and metrics in the *Airlines* SASB Standard in preparing its sustainability-related financial disclosures, in accordance with paragraphs 49 and 59 of IFRS S1.

Example 2 - A large conglomerate with diverse activities

Entity A is a large conglomerate with diverse activities. Entity A produces electrical and industrial equipment for use in a range of industries. In addition to IFRS Sustainability Disclosure Standards, Entity A is required to refer to and consider the applicability of the disclosure topics in the SASB Standards in identifying its sustainability-related risks and opportunities. Because of the wide-ranging nature of its activities, Entity A begins its consideration of the applicability of the SASB Standards by considering
the various sectors into which the SASB Standards are grouped.
Entity A conducts activities in industries in the Health Care, Resource Transformation and Infrastructure sectors, and in some cases owns particular parts of its production process rather than relying on suppliers. It also has some activities in the Transportation and Consumer Goods sectors.

...

In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to the sustainability-related risks and opportunities that Entity A has identified, Entity A refers to and considers the applicability of the metrics associated with applicable disclosure topics. In identifying applicable metrics, Entity A considers whether the metric will provide information that is relevant to the decision-making of users of general purpose financial reports and that faithfully represents the sustainability-related risks and opportunities that it has identified.

In preparing its sustainability-related financial disclosures, Entity A concludes that some information should be aggregated to avoid obscuring material information with immaterial information. For example, it concludes that information about its strategy for sourcing critical materials for devices produced by its various activities should be aggregated because the entity manages the supplier relationships for those critical materials centrally.

In contrast, for other types of information, Entity A concludes aggregation would result in obscuring material information. For example, it concludes that information about the number of recalls related to its equipment in the Health Care sector should not be aggregated with information about the number of recalls related to its equipment in the Consumer Goods sector because the technologies, production processes and markets for each sector differ. Therefore, there are also varied reasons for the occurrence of product recalls in these sectors.

Entity A discloses information about the SASB Standards it has applied in preparing its sustainability-related financial disclosures, in accordance with paragraphs 49 and 59 of IFRS S1, including identifying the specific SASB Standards, disclosure topics and metrics it applied. Entity A also provides information to enable users of general purpose financial reports to understand the judgements that it has made in the process of preparing its sustainability- related financial disclosures and that have the most

significant effect on the information included in those disclosures in accordance with paragraph 74 of IFRS S1.

The ISSB expects (as in the case of disclosure topics discussed in section 5.1.1 above) the associated metrics in the SASB standards to be typically applicable for an entity with the given business model and associated activities. Also, those metrics are not exhaustive. In situations where an entity concludes that metrics specified in the SASB standards are not applicable in its circumstances or are not sufficient to identify information that would fairly present all sustainability-related risks and opportunities that could reasonably be expected to affect its prospects (as discussed in 5.1.2 above), an entity needs to exercise judgement to refer to and consider other sources of guidance in accordance with IFRS S1 in this identification process. *[IFRS S1.57, IFRS S1.C1, IFRS S1.IG13, IFRS S1.BC133]*.

5.1.2.B Considerations when referring to other sources of guidance to identify material information about sustainability-related risks and opportunities

To the extent that there is no conflict with the ISSB standards, an entity is permitted to refer to and consider the applicability of: a) the CDSB Framework Application Guidance; b) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of primary users; and c) the information, including metrics, disclosed by entities that operate in the same industry(s) or geographical region(s). *[IFRS S1.58(b)]*.

For example, an entity refers to and considers the applicability of the CDSB Framework Application Guidance in identifying information, including metrics, about the water- or biodiversity-related risks or opportunities that could reasonably be expected to affect an entity's prospects. An entity may consider the CDSB Framework Application Guidance in applying the core content requirements that are discussed in section 4 above). The Illustrative Example below is based on the *Implementation Guidance* to IFRS S1: *[IFRS S1.IG27]*.

Illustration 5-3: Identifying material information to disclose about the sustainability-related risks and opportunities by referring to and considering the applicability of CDSB Framework Application Guidance

(a) Governance—in providing disclosures on governance relating to water-related risks and opportunities, the CDSB Framework Application Guidance on Water-related Disclosures suggests an entity may provide information about how water policies, strategy and information are delegated to management. In relation to collaboration with stakeholders to achieve effective water management, the guidance also suggests an entity may provide information about whether there are specific bodies, individuals or mechanisms located in areas that are affected by significant water loss whose function is to ensure compliance with water-related regulation and engagement with stakeholders.

(b) Strategy—in providing disclosures on strategy relating to biodiversity-related risks and opportunities, the CDSB Framework Application Guidance on Biodiversity-related Disclosures suggests an entity may provide, for example, information about the geographic-specificity of biodiversity-related risks and opportunities and how those risks and opportunities may vary over the short, medium and long term. The guidance also suggests the type of quantitative and qualitative information an entity may consider providing in accordance with paragraphs 34–40 of IFRS S1, for example, the operational expenses, cost savings and revenue associated with biodiversity management, such as information about remediation costs or provisions in the case

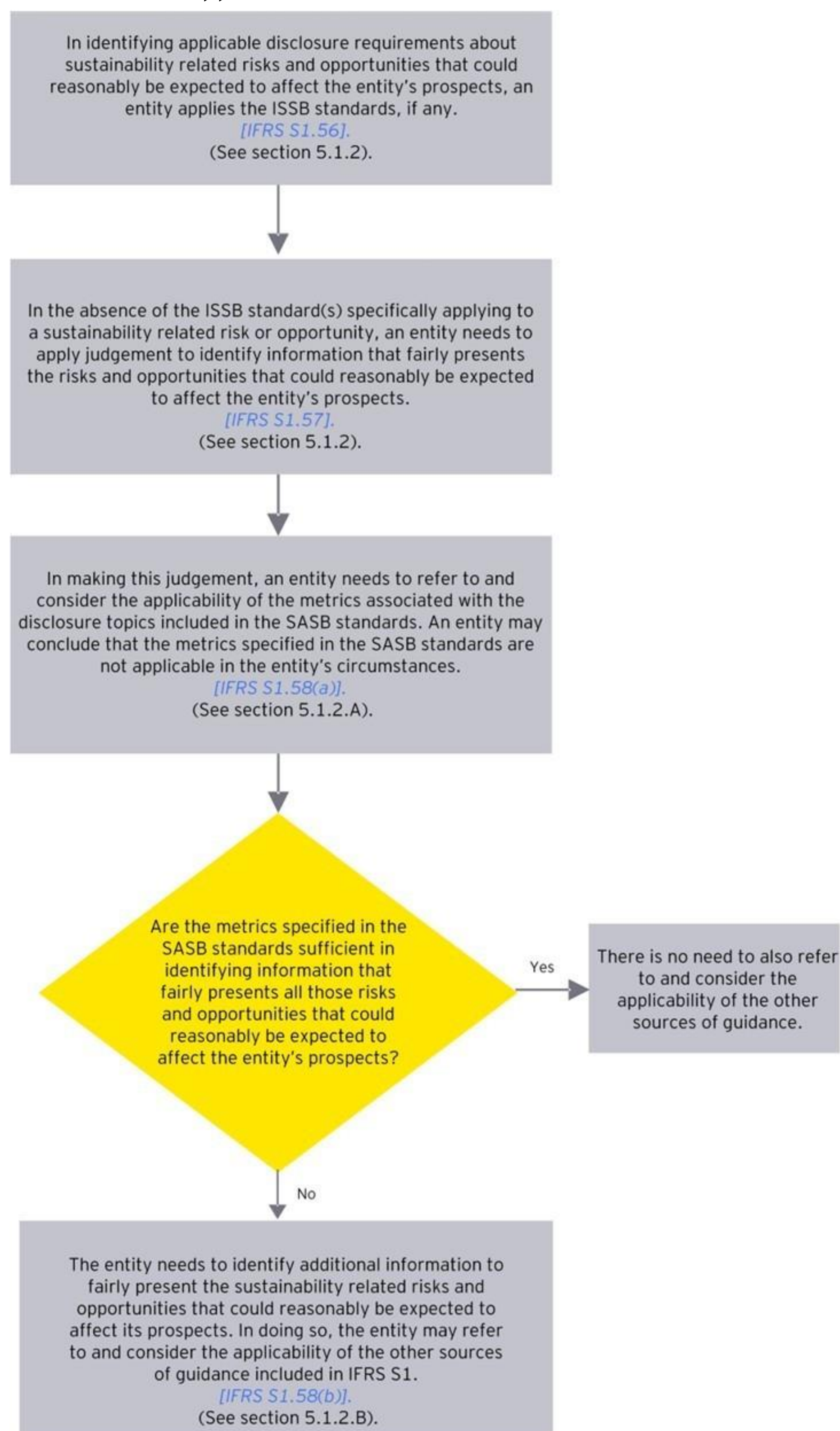
of accidents such as polluting spills, costs of staff training and revenue from biodiversity-efficient products and services.

(c) Metrics and targets—the CDSB Framework Application Guidance on Biodiversity-related Disclosures provides examples of common biodiversity metrics such as concentrations of key pollutants in wastewater, the volume of timber and non-timber forest products harvested and areas of forest, grassland or wetland converted due to urbanisation. Due to changes in biodiversity over time, the guidance suggests an entity provides information about the time frames it has set for targets. The guidance also discusses targets tailored to specific locations due to geographical variation in biodiversity priorities, as well as differing legal and regulatory requirements.

Moreover, an entity may refer to and consider the applicability of the sources specified in Appendix C to IFRS S1, namely the GRI standards and the European Sustainability Reporting Standards (ESRS). *[IFRS S1.58(c), IFRS S1.C2].* Unlike the SASB standards and the CDSB Framework Application Guidance, the GRI standards and ESRS are intended to meet the information needs of a different audience than primary users. Therefore, IFRS S1 states that, if an entity refers to and considers the applicability of the GRI standards and ESRS, this is only allowed to the extent that these sources assist the entity in meeting the objective of IFRS S1 (see section 1.1 above) and do not conflict with the ISSB standards. Allowing an entity to refer to and consider the applicability of those sources in identifying material information about sustainability-related risks or opportunities, but not in identifying the sustainability-related risks or opportunities themselves, is intended to ensure that any information disclosed by entities relates to a topic that has been identified as being of interest to primary users. *[IFRS S1.58(c), IFRS S1.C2, IFRS S1.BC137, IFRS S1.BC138].*

Although a subset of disclosures provided in accordance with GRI standards or ESRS could produce information that is useful to primary users, an entity still needs to consider the requirements in the ISSB standards and not just repurpose a report prepared in accordance with those standards to automatically consider it as meeting the requirements in the ISSB standards. In addition, an entity needs to comply with the requirement of IFRS S1 not to obscure material information required by the ISSB standards (discussed in section 3.2.3.B above). Otherwise, if an entity applies these standards without applying the requirements in the ISSB standards, it will not be able to make an explicit and unreserved statement of compliance with the ISSB standards (see discussion about compliance also in section 7 below). *[IFRS S1.58(c), IFRS S1.C3, IFRS S1.BC138, IFRS S1.BC139].*

Figure 5-2: Use of sources of guidance to identify material information about sustainability-related risks and opportunities



5.1.3 Disclosure of information about sources of guidance

To enable primary users to understand how sustainability-related financial disclosures have been prepared, an entity is required to identify and disclose:

- The sources of guidance (e.g., specific standards, pronouncements, industry practice or other sources, including, if applicable, the disclosure topics in the SASB standards) it applied in preparing its sustainability-related financial disclosures. *[IFRS S1.59(a)].*
- The industry or industries specified in the ISSB standards, the SASB standards or other sources of guidance relating to a particular industry or industries that the entity has applied to the disclosures it has provided, including in identifying applicable metrics. This is intended to help primary users to understand the materiality judgements made by a entity in applying the industry-based disclosure requirements (e.g., if an SASB standards were used to prepare disclosures). By disclosing the industry as required above, primary users will be able to understand if a metric applicable for an entity in that industry has been omitted. *[IFRS S1.59(b), IFRS S1.BC140].*
- Information about the judgements an entity has made in the process of preparing its sustainability-related financial disclosures that have the most significant effect on the information included in those disclosures (see section 6.1. below) that include the sources of guidance applied. As part of this disclosure, it may be necessary for an entity to also disclose that it considered other sources of guidance but did not apply them. *[IFRS S1.74, IFRS S1.75, IFRS S1.BC141].*

5.2 Location of disclosures

The disclosures required by the ISSB standards need to be part of an entity's general purpose financial reports. As explained in section 1.1 above, general purpose financial reports are those that provide financial information about a reporting entity that is useful to primary users in making decisions relating to providing resources to the entity. Therefore, requiring sustainability-related financial disclosures to be part of an entity's general purpose financial report, is intended to ensure that the primary users of those reports are provided with a comprehensive and connected package of reports. *[IFRS S1.60, IFRS S1.BC142].*

5.2.1 Flexibility in location of disclosures

Apart from requiring the sustainability-related financial disclosures to be part of an entity's general purpose financial report, IFRS S1 does not prescribe the exact location of those disclosures within general purpose financial reports. There are various possible locations in which the sustainability-related financial information can be disclosed, but this may be subject to regulations or other requirements that apply in the jurisdiction in which an entity operates. That is, there may be regulations or other requirements that specify the exact location in which an entity is required to provide its sustainability-related financial disclosures. For example, in some jurisdictions, entities prepare management commentary (also known as the 'management report', 'management's discussion and analysis', 'operating and financial review', 'integrated report' or 'strategic report') or a similar report. When such a report forms part of an entity's general purpose financial reports, this can be considered a possible location for sustainability-related financial disclosures. *[IFRS S1.61, IFRS S1.BC143].*

Moreover, the information required by the ISSB standards can be included in the same location as the information disclosed to meet other requirements, such as information required by regulators (as discussed in section 3.2.3.C above). However, in such cases, the entity needs to ensure that the

sustainability-related financial disclosures are clearly identifiable and not obscured by the additional information provided to meet those other requirements. *[IFRS S1.62]*. See also section 3.2.3.B above for the requirements for not obscuring material information.

5.2.2 Information included by cross-reference

IFRS S1 allows for cross-references to avoid unnecessary duplication where disclosure of common items of information is required. The cross-referenced information becomes part of the complete set of sustainability-related financial disclosures.

There are cases where information required by the ISSB standards may be available in another report published by the entity. For example, the required information could be disclosed in the related financial statements. As discussed in section 3.4.3 above, IFRS S1 specifies that when the ISSB standards require the disclosure of common items of information, an entity is required to avoid unnecessary duplication. In such cases, IFRS S1 permits an entity to include cross-references in the reports to provide sustainability-related financial disclosures. *[IFRS S1.63, IFRS S1.B45]*.

Despite the benefit of cost-effectiveness when including information by cross-reference, IFRS S1 includes specific conditions in which cross-referencing is permitted. In particular, if material information is included in an entity's sustainability-related financial disclosures by cross-reference (cross-referenced information), that information is required to be available whenever an entity's sustainability-related financial disclosures are available. That is, the cross-referenced information needs to be available on the same terms and at the same time as all other sustainability-related financial disclosures. *[IFRS S1.B45, IFRS S1.BC144]*.

When the cross-referenced information is not part of the same report as the entity's sustainability-related financial disclosures, an entity needs to explain how primary users can access that information. In doing so, an entity needs to clearly identify in its sustainability-related financial disclosures, the report within which the cross-referenced information is located, and explain how to access that report. Also, the cross-reference needs to indicate a precisely specified part of that report. *[IFRS S1.B47, IFRS S1.BC144]*.

The cross-referenced information, effectively, becomes part of the complete set of sustainability-related financial disclosures and, therefore, it needs to comply with the requirements of the ISSB standards (e.g., it needs to meet the qualitative characteristics discussed in section 3.1.1 above). An entity needs to ensure that this complete set of sustainability-related financial disclosures is not made less understandable because of including information by cross-reference. Moreover, the responsibility of the governance body(ies) or individual(s) authorising general purpose financial reports is the same for information included by cross-reference as for the information included directly. *[IFRS S1.B45, IFRS S1.B46]*.

5.3 Timing of reporting

5.3.1 Simultaneous reporting of sustainability-related financial disclosures and financial statements

Sustainability-related financial disclosures need to be provided at the same time as an entity issues its related financial statements.

IFRS S1 requires an entity to provide its sustainability-related financial disclosures at the same time as it issues its related financial statements. This is also a natural consequence of the requirement in IFRS S1 that information included in an entity's sustainability-related financial disclosures by cross-reference needs to be available on the same terms and at the same time as all other sustainability-related financial disclosures. This simultaneous issuance is intended to provide primary users with a coherent, holistic and connected picture of an entity's financial position and performance, and to provide users with a comprehensive set of sustainability- related financial disclosures to enable more informed decisions. *[IFRS S1.64, IFRS S1.BC142, IFRS S1.BC145]*.

5.3.2 Reporting period of sustainability-related financial disclosures

An entity normally prepares sustainability-related financial disclosures for a 12-month period (unless, for practical reasons, an entity prefers to report, for example, a 52-week period which is not precluded by IFRS S1). Regardless of this determination, an entity's sustainability-related financial disclosures need to cover the same reporting period as the related financial statements. *[IFRS S1.64, IFRS S1.65].*

IFRS S1 requires an entity to provide specific disclosures when it changes the end of its reporting period and provides sustainability-related financial disclosures for a period longer or shorter than 12 months. In particular, it needs to disclose the period covered by the sustainability-related financial disclosures, the reason for using a longer or shorter period, and the fact that the amounts disclosed in the sustainability-related financial disclosures are not entirely comparable. *[IFRS S1.64, IFRS S1.66].*

Sometimes entities receive information after the end of the reporting period about conditions that existed at the end of that reporting period. If such information is received before the date on which the sustainability-related financial disclosures are authorised for issue, the entity needs to update disclosures that relate to those conditions in the light of the new information. *[IFRS S1.67].*

Moreover, there may be transactions, other events and conditions that occur after the end of the reporting period, but before the date on which the sustainability-related financial disclosures are authorised for issue. In such cases, an entity needs to disclose information about those transactions, other events and conditions if non-disclosure of that information could reasonably be expected to influence decisions that primary users make on the basis of those reports. *[IFRS S1.68].*

5.3.3 Interim reporting

IFRS S1 does not mandate which entities are required to provide interim sustainability-related financial disclosures, or the frequency, or timing of such disclosures after the end of an interim period. However, entities may be required to publish interim general purpose financial reports by governments, securities regulators, stock exchanges and accountancy bodies, when their debt or equity securities are publicly traded.

Unlike the IFRS accounting standards, the ISSB standards do not include a standard that is specific to interim reporting. Instead, there are requirements within IFRS S1 that relate to interim reporting. In particular, entities that are required, or elect, to publish interim sustainability-related financial disclosures may be required, or choose, to provide less information than is provided in that of their annual sustainability-related financial disclosures. This is due to timeliness and cost considerations, and to avoid repetition of information previously reported. In general, interim sustainability-related financial disclosures are intended to provide an update on the latest complete set of the respective annual disclosures and therefore, focus on new information, events and circumstances without duplicating information previously reported. However, although more condensed sustainability-related financial disclosures may be provided, IFRS S1 does not prohibit or discourage an entity from publishing a complete set of sustainability-related financial disclosures (according to the requirements in IFRS S1) as part of its interim general purpose financial report. *[IFRS S1.69, IFRS S1.B48].*

5.4 Comparative information

IFRS S1 requires an entity to disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period, unless

Comparative information is required in respect of the preceding period for all amounts disclosed in the reporting period, unless another ISSB standard permits or requires otherwise.

another ISSB standard permits or requires otherwise. Moreover, IFRS S1 requires an entity to disclose comparative information for narrative and descriptive sustainability-related financial disclosures if that information is useful to primary users to understand the reporting period's disclosures. *[IFRS S1.70, IFRS S1.B49]*.

The IASB decided to not limit this requirement to metrics, but to expand it to 'all amounts' as this would be more useful to primary users. Amounts reported in sustainability-related financial disclosures may relate, e.g., to the current and anticipated financial effects of sustainability-related risks and opportunities or to metrics and targets. *[IFRS S1.71, IFRS S1.BC147]*.

For specific disclosure requirements about comparative information when changes occur in amounts that are estimates, see discussion in section 6.2.3 below.

6 Judgements, uncertainties and errors

6.1 Judgements

In preparing and presenting sustainability-related financial disclosures, an entity will need to apply various judgements. IFRS S1 requires an entity to disclose information about the judgements (apart from those involving estimations of amounts discussed in section 6.2 below) an entity has made in the process of preparing its sustainability-related financial disclosures. This requirement specifically relates to judgments that have the most significant effect on the information included in the sustainability-related financial disclosures. Providing such information to primary users enables them to understand how sustainability-related financial disclosures have been prepared. *[IFRS S1.74, IFRS S1.BC158]*.

IFRS S1 provides some examples where judgement is required by an entity in preparing its sustainability-related financial disclosures. These are when an entity is: *[IFRS S1.75]*.

- Identifying sustainability-related risks and opportunities that could be reasonably expected to affect the entity's prospects (see section 1.2 above)
- Determining which sources of guidance to apply (see section 5 above)
- Identifying material information to include in the sustainability- related financial disclosures (see section 3.2.2 above)
- Assessing whether an event or change in circumstances is significant and requires reassessment of the scope of all affected sustainability-related risks and opportunities throughout the entity's value chain (see section 1.2.3 above)

This requirement builds on the principle of IAS 1 relating to judgements made by an entity in applying its accounting policies that have the most significant effects on the amounts recognised in an entity's financial statements. The ISSB decided to include this overarching requirement for judgements made by an entity in the absence of a specifically applicable disclosure requirement about judgements in other ISSB standards. Other ISSB standards may require disclosure of judgements and estimates. In such cases, the requirements in IFRS S1 would complement those more specific requirements. However, other ISSB standards may also require disclosure of some of the information that an entity would otherwise be required to disclose in accordance with this overarching requirement in IFRS S1. *[IFRS S1.76, IFRS S1.BC159, IFRS S1.BC160, IFRS S1.BC162]*.

6.2 Measurement uncertainty

6.2.1 Estimated amounts give rise to measurement uncertainty

Measurement uncertainty arises when amounts included in sustainability-related financial disclosures cannot be measured directly and can only be estimated. Such measurement uncertainty not only arises when estimating metrics, but also in other cases, such as when providing information about the effects of sustainability-related risks and opportunities on an entity's financial position, financial performance and cash flows for the reporting period, and the anticipated financial effects over the short, medium and long term (see further discussion in section 4.3.4 above). *[IFRS S1.BC163].*

The following example is based on the BC to IFRS S1: *[IFRS S1.BC163].*

Illustration 6-1: Example of measurement uncertainty
Entity N's assets are increasingly at risk from climate-related forest fire events. This risk is considered as part of the impairment analysis and measurement of those assets. The frequency and severity of these fires are highly uncertain. Therefore, primary users need information about this uncertainty, including the fact that there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of these assets.

6.2.2 IFRS S1 requirements for measurement uncertainties

IFRS S1 requires an entity to disclose information to enable primary users to understand the most significant uncertainties affecting the amounts reported in the sustainability-related financial disclosures. In doing so, an entity identifies the amounts it has disclosed that are subject to a high level of measurement uncertainty and, for each of those amounts, it needs to disclose: (i) the sources of measurement uncertainty (e.g., the dependence of the amount on the outcome of a future event, on a measurement technique or on the availability and quality of data from the entity's value chain), and (ii) the assumptions, approximations and judgements the entity has made in measuring the amount. *[IFRS S1.78, IFRS S1.82, IFRS S1.BC163].*

These disclosure requirements relate to estimates used in preparing sustainability-related financial disclosures and are the entity's most difficult, subjective or complex judgements. In some cases, estimates involve assumptions about possible future events with uncertain outcomes. The greater the number of variables and assumptions, the more subjective and complex those judgements become. Accordingly, the uncertainty affecting the amounts reported in the sustainability-related financial disclosures increases. *[IFRS S1.79, IFRS S1.80].*

The use of reasonable estimates is essential in preparing sustainability-related financial disclosures. However, estimates need to be accurately described and explained to avoid undermining the usefulness of the information that includes those estimates. IFRS S1 is explicit that even a high level of measurement uncertainty would not necessarily prevent such an estimate from providing useful information. *[IFRS S1.79].*

The type and extent of the information an entity may need to disclose will vary according to the nature of the amount reported in the sustainability-related financial disclosures, i.e., the sources of and the factors contributing to the uncertainty and other circumstances.

IFRS S1 provides examples of the type of information an entity may need to disclose: *[IFRS S1.81].*

Extract from IFRS S1

81 The type and extent of the information an entity might need to disclose vary according to the nature of the amount reported in the sustainability-related financial disclosures—the sources of and the factors contributing to the uncertainty and other circumstances. Examples of the type of information an entity might need to disclose are:

(a) the nature of the assumption or other source of measurement uncertainty;

(b) the sensitivity of the disclosed amount to the methods, assumptions and estimates underlying its calculation, including the reasons for the sensitivity;

(c) the expected resolution of an uncertainty and the range of reasonably possible outcomes for the disclosed amount; and

(d) an explanation of changes made to past assumptions concerning the disclosed amount, if the uncertainty remains unresolved.

6.2.3 Revised comparative information for estimated metrics

6.2.3.A New information for estimated metrics disclosed in the preceding period

New information may be identified in relation to an estimated metric disclosed in the preceding period which could provide evidence of circumstances that existed in that preceding period. In such case, a revised comparative amount needs to be disclosed.

As explained in section 5.4.1 above, an entity is required to provide comparative information in respect of the preceding period for all amounts disclosed in the reporting period (unless another ISSB standard permits or requires otherwise). Sometimes, the amount disclosed for a metric is an estimate (as discussed in section 6.2.1 above), and there may be cases where an entity identifies new information in relation to the estimated metric that was disclosed in the preceding period. If this new information provides evidence of circumstances that existed in that preceding period, IFRS S1 requires an entity to: *[IFRS S1.B50]*

- Disclose a revised comparative amount that reflects that new information
- Disclose the difference between the amount disclosed in the preceding period and the revised comparative amount
- Explain the reasons for revising the comparative amount

Although the feedback that the ISSB received for the principle of providing comparative information was widely accepted, there were concerns over its application specifically to comparative information of amounts that are estimates. One of the main concerns related to the fact that the requirement to revise comparative information differs from the approach to changes in estimates in financial statements prepared under the IFRS accounting standards. That is, according to the requirements in the IFRS accounting standards, changes in estimates are recognised in the current and future periods affected by the change and, therefore, the comparative information is not changed. Instead, the change in estimate is reflected in the profit or loss of the reporting period that the change occurs and in equity because they are part of a double-entry model. However, in sustainability-related financial disclosures, estimates cannot affect equity (e.g., a change in a Scope 3 greenhouse gas emissions estimate affects only the estimate itself). Therefore, revised comparatives that reflect updated estimates are useful information for primary users to understand trends. Consequently, the ISSB decided that an entity would provide more useful information if the entity

revised comparatives to reflect changes in estimates that relate to the preceding period rather than changing reporting period information. *[IFRS S1.BC149, IFRS S1.BC150, IFRS S1.BC151].*

IFRS S1 acknowledges that sometimes it may be impracticable to revise a comparative amount to achieve comparability with the reporting period (e.g., data may not have been collected in the preceding period in a way that allows retrospective application of a new definition of a metric which may make it impracticable to recreate the data). Therefore, a revised comparative amount for the preceding period does not need to be disclosed if it is impracticable to do so, but an entity needs to disclose that fact. *[IFRS S1.B51, IFRS S1.B54].*

However, if a metric is forward-looking and relates to possible future transactions, events and other conditions, the entity is permitted, but not required, to revise a comparative amount for that forward-looking metric (e.g., when disclosing expected expenditure on new equipment for a future year and the price of that equipment subsequently increases). If the entity chooses to provide comparative information for a forward-looking metric, it needs to ensure that this does not involve the use of hindsight. *[IFRS S1.B51].*

How we see it

As more reliable information becomes available in the current reporting period that supports sustainability-related metrics that are based on estimates, it may be appropriate to revise previously reported estimates to improve comparability of the information provided to primary users. For example, in the case of assessing progress towards net zero targets, improved or more granular greenhouse gas emissions data may become available in future periods. Therefore, an entity needs to set up appropriate processes and controls to collect the necessary data to provide revised estimates retrospectively and disclose what has changed compared to the preceding period.

6.2.3.B Revised comparatives for redefined, replaced and new metrics

If an entity redefines, replaces or introduces a new metric in the reporting period, it needs to disclose a revised comparative amount for that metric, unless it is impracticable to do so. IFRS S1 includes a definition for the term 'impracticable' in Appendix A, clarifying that "applying a requirement is impracticable when an entity cannot apply it after making every reasonable effort to do so". This definition is based on IAS 1 for consistent use with the IFRS accounting standards. Accordingly, IFRS S1 also sets a high threshold for how an entity determines whether it is impracticable to meet the requirements and this threshold is higher than a cost-benefit threshold. In addition, an entity needs to explain the changes in the metric and the reasons for those changes, including why the redefined or replacement metric provides more useful information than the previous metric. *[IFRS S1.B52, IFRS S1.B53, IFRS S1.BC152, IFRS S1.BC155].*

6.3 Errors

IFRS S1 describes prior period errors as omissions from and misstatements in the entity's sustainability-related financial disclosures for one or more prior periods. These errors can be the effects of mathematical mistakes, mistakes in applying the definitions for metrics or targets, oversights or misinterpretations of facts, or fraud. Such errors arise from a failure to use, or the misuse of, reliable information that was available when the sustainability-related financial disclosures for that period(s) were authorised for issue. Also, errors arise when such reliable information is not used or

misused, while it could reasonably be expected to have been obtained and considered in the preparation of those disclosures. *[IFRS S1.84, IFRS S1.B56].*

Potential reporting period errors are corrected before the sustainability-related financial disclosures are authorised for issue, if these are discovered in the reporting period to which they relate. However, material errors are sometimes not discovered until a subsequent period. If an entity identifies a material error in its prior period sustainability-related financial disclosures, this needs to be corrected by restating the comparative amounts for the prior period(s) disclosed, unless it is impracticable to do so. *[IFRS S1.83, IFRS S1.86, IFRS S1.B57].*

Moreover, if a material error is identified in the sustainability-related financial disclosures for its prior periods, an entity needs to disclose the nature of that error, and the correction (to the extent practicable) for each prior period disclosed. Also, if correction of that error is impracticable, an entity needs to disclose the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected. When it is impracticable to determine the effect of an error on all prior periods presented, the comparative information is restated to correct the error from the earliest date practicable. *[IFRS S1.B58, IFRS S1.B59]*

Corrections of errors are distinguished from changes in estimates. This is because estimates are approximations that an entity may need to revise due to additional information that becomes known (see also discussion in section 6.2 above), rather than omissions or misstatements. Therefore, IFRS S1 distinguishes the requirements for an entity that revises a comparative amount (e.g., to update an estimate for a metric or redefine a metric), as discussed in section 6.2.3 above, and the requirements for restating an amount due to an error. *[IFRS S1.85, IFRS S1.BC165].*

7 Statement of compliance

An explicit and unreserved statement of compliance can be included only if an entity's sustainability-related financial disclosures comply with all the requirements of the ISSB standards.

An explicit and unreserved statement of compliance can be included only if an entity's sustainability-related financial disclosures comply with all the requirements of the ISSB standards. Qualified statements of compliance with the ISSB standards are not allowed. Including a statement of compliance is important information to communicate to primary users about the entity having applied all the requirements of the ISSB standards, rather than having been selective in its approach to reporting sustainability-related financial information. *[IFRS S1.72, IFRS S1.BC156].*

However, there are situations where IFRS S1 relieves an entity from disclosing information that is specifically required by an ISSB standard, without preventing that entity from asserting compliance with them. These situations relate to where: *[IFRS S1.73].*

- Law or regulation may prohibit an entity from disclosing information that is specifically required by an ISSB standard (see discussion on interaction with law or regulation in section 3.2.3.C above)
- The information about a sustainability-related opportunity is commercially sensitive (see discussion on commercially sensitive information in section 3.2.4.B above)

To assert compliance with the ISSB standards, an entity does not necessarily need to implement strategic goals. For example, an entity does not need to follow a particular transition plan to a lower-carbon economy, but it is required to disclose information about the targets it has set or is required to set by law or regulation. That is, an entity that does not manage some of its sustainability-related risks and opportunities, or that has not established its own metrics and targets for them, could still assert compliance with the ISSB standards by disclosing that fact, as this is often material for primary users to know. Similarly, an entity may not have governance processes, controls or

procedures in place to monitor and manage specific sustainability-related risks and opportunities, but that fact, in itself, is often material for primary users to know through a disclosure. *[IFRS S1.BC157]*.

8 Effective date

Several stakeholders stressed the fact that, due to the urgency of creating a global baseline of sustainability-related financial disclosures, the effective dates for IFRS S1 and IFRS S2 should not be more than 12 months after their issuance. The ISSB decided that setting an effective date for annual reporting periods beginning on or after 1 January 2024 is consistent with its current pace in meeting primary users' urgent need for sustainability-related and climate-related financial disclosures. *[IFRS S1.BC167, IFRS S1.BC171]*.

In particular, an entity needs to apply IFRS S1 for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted, however, if doing so, an entity needs to disclose that fact and apply IFRS S2 at the same time. *[IFRS S1.E1]*. The actual effective date for entities will depend on when the ISSB standards become mandatory in the jurisdictions in which they operate, unless those entities voluntarily apply the ISSB standards before they become mandatory in their jurisdictions.

IFRS S1 includes the transition reliefs available in the first annual reporting period in which an entity applies the ISSB standards.

9 Transition reliefs to IFRS S1 requirements

How well prepared an entity is to apply the ISSB standards will depend on various factors such as an entity's current reporting approach for sustainability-related risks and opportunities, its size and the jurisdiction in which it operates, etc. Taking into consideration the level of preparedness, the ISSB acknowledged that entities may need time to create or adjust internal systems, processes and controls to prepare the disclosures required by the ISSB standards. Therefore, the ISSB decided to introduce transition reliefs. *[IFRS S1.BC170]*.

IFRS S1 includes transition reliefs available in the first annual reporting period in which an entity applies IFRS S1 that are discussed in section 9.1, 9.2 and 9.3 below. *[IFRS S1.E3]*.

9.1 Transition relief for simultaneous reporting

The ISSB considered the feedback received from stakeholders expressing a number of concerns about data availability and preparer readiness to meet the requirement of simultaneous reporting of sustainability-related financial disclosures and financial statements, especially in the first year of application of the ISSB standards. For example, challenges due to the potential reporting burden and higher costs, time-consuming collection and aggregation of data due to underdeveloped systems, delayed calculation of metrics due to later finalisation of financial statements.

In response to these concerns, the ISSB decided to provide transition relief to give entities more time to prepare and align reporting of sustainability-related financial disclosures and financial statements. The transition relief is available in the first annual reporting period in which an entity applies IFRS S1 and allows an entity to not report its sustainability-related financial disclosures at the same time as its related financial statements. *[IFRS S1.BC145, IFRS S1.BC146, IFRS S1.BC172]*. In particular, Appendix E states: *[IFRS S1.E4]*.

Extract from IFRS S1	
E4	In the first annual reporting period in which an entity applies this Standard, the entity is permitted to report its sustainability-related financial disclosures after it publishes its related financial

statements. In applying this transition relief, an entity shall report its sustainability-related financial disclosures:

(a) at the same time as its next second-quarter or half-year interim general purpose financial report, if the entity is required to provide such an interim report;

(b) at the same time as its next second-quarter or half-year interim general purpose financial report, but within nine months of the end of the annual reporting period in which the entity first applies this Standard, if the entity voluntarily provides such an interim report; or

(c) within nine months of the end of the annual reporting period in which the entity first applies this Standard, if the entity is not required to and does not voluntarily provide an interim general purpose financial report.

As indicated above, the relief permits the annual sustainability-related financial disclosures to be provided with the following second-quarter or half-year interim general purpose financial report. The ISSB decided to specify the timing of delay to enable primary users to know when the information would be provided. However, this relief is not suggesting that an entity is required to provide quarterly or half-yearly reporting (see also discussion about interim reporting in section 5.3.4 above). *[IFRS S1.BC172, IFRS S1.BC173].*

9.2 Transition relief for comparative information

Considering that entities may be able to apply the requirements in IFRS S1 sooner if comparative information is not required in the first annual reporting period in which they apply IFRS S1, the ISSB decided to provide a relief from the requirement to disclose comparative information. This relief allows an entity to report on only that first annual reporting period without being required to provide disclosures specified in IFRS S1 for any period before the date of initial application. That is, an entity is not required to disclose comparative information in the first annual reporting period in which it applies IFRS S1. *[IFRS S1.E3, IFRS S1.BC174].*

9.3 'Climate-first' transition relief

In taking advantage of the 'climate-first' transition relief, an entity would apply the requirements in IFRS S1 only to the extent that they relate to the disclosure of information about climate-related risks and opportunities.

Limiting an entity's disclosures to information that relates only to climate-related risks in the first annual reporting period in which an entity applies IFRS S1, is another relief that the ISSB decided to provide to entities. Therefore, the entity would apply the requirements in IFRS S1 only to the extent that they relate to the disclosure of information about climate-related risks and opportunities. *[IFRS S1.E5, IFRS S1.BC175].*

In particular, if an entity applies this relief: *[IFRS S1.E5, IFRS S1.E6, IFRS S1.BC176].*

- It applies IFRS S2 (that is discussed in Part B – *Introduction to IFRS S2*) to identify climate-related risks and opportunities and discloses information about them.
- It is required to disclose that fact.
- The relief from providing comparative information would be extended. Specifically, in the first annual reporting period in which it applies IFRS S1, the entity is not required to disclose comparative information about its climate-related risks and opportunities. Also, in the second annual reporting period in which the entity applies IFRS S1, the entity is not required to disclose comparative information about its sustainability-related risks and opportunities, other than its climate-related risks and opportunities. Therefore, comparative information in relation to climate-related risks and opportunities is required in the second annual reporting period.

Some entities that decide to take advantage of this relief in the first year of application of IFRS S1, may also wish to disclose information about sustainability-related risks and opportunities, beyond those relating to climate. The ISSB clarified that this relief is not intended to restrict an entity from providing incremental information to primary users. Instead, the relief is still available to entities that want to also provide information for sustainability-related risks and opportunities, in addition to those relating to climate, to the extent that this additional information does not reflect information about all sustainability-related risks and opportunities that could be reasonably expected to affect the entity's prospects. Therefore, the ISSB emphasised the importance of ensuring in those cases where the relief is used, that the information about climate-related risks and opportunities provided in accordance with IFRS S1 and IFRS S2 is not obscured by the incremental information. *[IFRS S1.BC177].*

How we see it

Entities may already have been disclosing information about sustainability-related topics, other than climate, in their general purpose financial reports. In the first annual reporting period that these entities apply the ISSB standards, they may continue providing information in their sustainability-related financial disclosures about the other sustainability-related topics for consistency and comparability purposes with their prior year reporting. However, they need to be explicit that the 'climate-first' transition relief is applied and that the additional information is not provided for the purposes of complying with the full requirements of the ISSB standards had the 'climate-first' relief not been applied. They also need to ensure that material information provided in accordance with the ISSB standards is not obscured by this additional information.

Part B – Introduction to IFRS S2

1 Introduction to IFRS S2

1.1 The objective and scope of IFRS S2

IFRS S2 requires an entity "to disclose information about its climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity." *[IFRS S2.1]*. To meet this objective, an entity is required to disclose information about the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Consistent with the requirements in IFRS S1, risks and opportunities that could reasonably be expected to affect the entity's prospects are those that could reasonably be expected to affect its cash flows, its access to finance or cost of capital over the short, medium, and long term. *[IFRS S2.2]*.

Those climate-related risks and opportunities that are not reasonably expected to affect an entity's prospects are outside the scope of IFRS S2. *[IFRS S2.4]*.

An entity's climate-related risks and opportunities are a subset of its sustainability-related risks and opportunities that are required to be disclosed in accordance with IFRS S1. For further information on the identification of sustainability-related risks and opportunities, refer to section 1.2 of Part A - *Introduction to IFRS S1*.

In developing IFRS S2, the ISSB acknowledged that climate change is likely to present risks for nearly all entities and economic sectors. The ISSB also acknowledged that climate change opportunities might be available to entities, such as opportunities arising from an entity's actions to mitigate climate change or adapt to the effects of climate change. *[IFRS S2.BC2]*.

An entity's exposure to climate-related risks and opportunities might be direct (i.e., the impact is on the entity's own resources) or indirect through its value chain and relationships with, for example, suppliers and customers. *[IFRS S2.BC2]*. The concept of a 'value chain' is explained in section 3.3.2 of Part A - *Introduction to IFRS S1*. Furthermore, the extent of an entity's exposure to climate-related risks and opportunities will depend on factors such as the sector, industry, location (geographical and geopolitical) in which the entity operates and other specific circumstances including its business model. The nature and extent of an entity's exposure to climate-related risks and opportunities will affect how users of general purpose financial reports assess an entity's overall risk profile and, therefore, influence users' decisions about whether they will provide resources to the entity.

When an entity prepares the climate-related financial disclosures required by IFRS S2 (such as the cross-industry metric disclosures about the amount and percentage of assets or business activities vulnerable to climate-related transition risks and physical risks – see section 4.5.1), the entity needs to consider the linkages between the amounts disclosed in its climate-related financial disclosures and the amounts recognised and disclosed in its corresponding financial statements. Connections between these disclosures may be able to be explained by cross referring to information already reflected in the entity's financial statements. *[IFRS S2.BC133]*. To assist an entity in assessing and disclosing the extent to which climate change affects its financial statements prepared in accordance with IFRS accounting standards, refer to *Applying IFRS: Accounting for Climate Change (Updated August 2023)*.[12]

[12] Applying IFRS Accounting for Climate Change August 2023

IFRS S2 does not define the scope of the term 'climate-related' in the context of climate-related risks and opportunities.

2 Climate-related risks and opportunities

IFRS S2 applies to the climate-related risks to which an entity is exposed and the climate-related opportunities that are available to the entity. *[IFRS S2.3]*.

Consistent with the TCFD Recommendations, climate-related risks to which IFRS S2 applies are either: *[IFRS S2.BC18]*.

- Physical risks from climate change ('climate-related physical risks')

  Or

- Transition risks associated with the transition to a lower-carbon economy ('climate-related transition risks')

IFRS S2 defines the 'climate-related physical risks' and 'climate-related transition risks', as follows: *[IFRS S2 Appendix A]*.

Extract from IFRS S2

Appendix A

Defined terms

climate-related physical risks	Risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, drought or heatwaves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and temperature which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity. These risks could carry financial implications for an entity, such as costs resulting from direct damage to assets or indirect effects of supply-chain disruption. The entity's financial performance could also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting the entity's premises, operations, supply chains, transportation needs and employee health and safety.
climate-related transition risks	Risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technological, market and reputational risks. These risks could carry financial implications for an entity, such as increased operating costs or asset impairment due to new or amended climate-related regulations. The entity's financial performance could also be affected by shifting consumer demands and the development and deployment of new technology.

IFRS S2 does not define the scope of the term 'climate-related'. The ISSB explained that this is because climate change impacts are wide ranging and interrelated and their effects on an entity will vary depending on the region, market and industry in which an entity operates, which means it is not possible to precisely define the full scope of climate-related risks and opportunities that might affect an entity. *[IFRS S2.BC24]*.

Extract from the BC to IFRS S2	
BC25	Although the requirements in IFRS S2 do not explicitly reference some climate-related matters such as reduced access to fresh water, biodiversity loss, deforestation and climate-related social impacts, disclosures about these and other such matters are required if an entity determines that the information is material for users of general purpose financial reports. For example, if a beverage manufacturer determines it is exposed to short-, medium- or long-term effects of climate change on water availability—especially in water-stressed regions—the entity might determine that information about the implications of reduced water availability for its strategy, operations, capital planning and asset values is material. Therefore, this information would be required by IFRS S2.

An entity may seek to manage the physical and transition risks related to climate change by developing mitigation and adaptation responses: *[IFRS S2.BC21]*.

- Mitigation efforts relate primarily to an entity's responses to transition risks (e.g., adopting new technologies or changing business models to reduce greenhouse gas (GHG) emissions).
- Adaptation responses primarily involve an entity preparing for both the current and anticipated effects of physical risks (e.g., infrastructure investments to improve resilience to physical risks).

The ISSB explained that an entity's climate-related risks and opportunities will not necessarily be mutually exclusive. This is because, for example, a customer preference for low-carbon products might simultaneously represent both a risk to the demand for an entity's existing product line and an opportunity for the entity to produce an alternative low-carbon product or gain market share. *[IFRS S2.BC23]*.

3 Identifying climate-related risks and opportunities

Similar to sustainability-related risks and opportunities (as discussed in section 1.2 of Part A - *Introduction to IFRS S1*), climate-related risks and opportunities arise from an entity's impacts and dependencies on natural resources and its relationships with stakeholders and society, the economy and its interaction with the natural environment. *[IFRS S2.BC26]*.

The importance of understanding the role of impacts and dependencies in the identification of climate-related risks and opportunities is explained further in Figure 3-1 below.

Figure 3-1: Impacts and dependencies

Topic	Explanation	Example
Dependencies	A climate-related risk may arise from changes in the availability, quality or cost-stability of essential inputs that an entity depends on.	A sports drink company depends on the availability and quality of water to manufacture its products. Supplies of fresh water become limited during times of drought, which could result in water supply disruptions and higher water costs. This could affect production volumes and costs and, therefore, affect the amount of future cash flows that the sports drink company can expect to generate from its operations. ***[IFRS S2.BC27]*.**
Impacts	A climate-related risk or opportunity may arise if an entity's impacts on climate change affect the resources and relationships on which the entity depends.	A manufacturing company expects a carbon tax to be introduced in a key jurisdiction in which it has emissions-intensive operations. The introduction of a carbon tax will increase the company's costs of production which it will pass onto consumers through higher product prices. Higher prices will affect the demand of the company's products and thus the amount of its future cash flows and the useful life of its manufacturing plant. ***[IFRS S2.BC28]*.**

The TCFD provided categories for climate-related risks and opportunities, which may help an entity to identify its climate-related risks and opportunities under IFRS S2. A list of these categories is provided in Figure 3-2 below. Furthermore, the ISSB noted that the *Industry-based Guidance on Implementing IFRS S2*, which is based on the SASB standards but is not intended to be comprehensive or interpreted as such, provides some parameters for identifying climate-related risks and opportunities. This is discussed further in section 4.3.1.B below. *[IFRS S2.BC24]*.

Figure 3-2: Categories of climate-related risks and opportunities

Physical risks	Transition risks	Opportunities
‣ Acute risk ‣ Chronic risk	‣ Policy and legal risks ‣ Market risk ‣ Technology risk ‣ Reputation risk	‣ Resource efficiency ‣ Energy source ‣ Products and services ‣ Markets ‣ Resilience

4 Core content

4.1 Overview

The core content disclosures in IFRS S2 are structured around four thematic areas that address how an entity oversees and manages its climate-related risks and opportunities. The core content areas require an entity to disclose information about its governance, strategy, risk management, and metrics and targets. This disclosure is intended to provide users of general purpose financial reports with a complete set of information that enables them to understand the entity's exposure to and management of its climate-related risks and opportunities. *[IFRS S2.BC30]*.

These disclosure requirements in IFRS S2 for climate-related risks and opportunities are structured around the same core content disclosure requirements in IFRS S1 for general sustainability-related risks and opportunities. The purpose of the core content disclosures and guidance on avoiding duplication in disclosures are discussed in section 4.1 of Part A - *Introduction to IFRS S1*.

4.1.1 Comparison with TCFD Recommendations

In July 2023, the ISSB published *Comparison IFRS S2 Climate-related Disclosures with the TCFD Recommendations*, which notes that the requirements of IFRS S2 integrate and are consistent with the 11 recommended disclosures of the TCFD.[13] In analysing the core content requirements in IFRS S2 and the associated core recommendations, recommended disclosures and guidance in the TCFD, the ISSB categorised the differences between IFRS S2 and TCFD Recommendations into three types, which are summarised in Figure 4-1 below:

Figure 4-1: Comparing TCFD Recommendations and IFRS S2

Type of difference	What IFRS S2 requires
Different wording	In some cases, IFRS S2 uses different wording to capture the same information as the TCFD Recommendations. In those cases, the requirements in IFRS S2 are considered to be broadly consistent with the TCFD Recommendations.
More detailed information	In some cases, IFRS S2 requires the disclosure of more detailed information, noting that the IFRS S2 disclosure requirements remain in line with the corresponding TCFD Recommendations.

[13] Further guidance provided by the ISSB on the TCFD can be found at IFRS - Making the transition from TCFD to ISSB

Different guidance	In some cases, IFRS S2 requirements differ from the TCFD Recommendations, but mainly as a result of providing additional requirements and guidance. However, there is no intended difference between IFRS S2 and the TCFD's overall recommendations.

The specific differences between the IFRS S2 requirements and the TCFD Recommendations for each of the core content areas are identified and explained in the sections below.

How we see it

Entities that are currently preparing climate-related disclosures in accordance with the TCFD Recommendations cannot assume that their existing disclosures will be sufficient to comply with ISSB standards. As noted in the table above, IFRS S2 includes additional requirements and guidance. IFRS S1 also specifies additional disclosure considerations. All of these requirements need to be met in order to provide a complete set of sustainability-related financial disclosures in accordance with ISSB standards.

4.2 Governance

The governance disclosure requirements in IFRS S2 for climate-related risks and opportunities correspond with the governance disclosure requirements for sustainability-related risks and opportunities in IFRS S1. As such, the commentary in Section 4.2 of Part A - *Introduction to IFRS S1* on governance disclosure requirements in IFRS S1 is also applicable to the preparation of governance disclosures relating to climate-related risks and opportunities.

An entity is not required to provide separate governance disclosures for each sustainability-related risk and opportunity if oversight of the entity's sustainability-related risks and opportunities is managed on an integrated basis. In such cases, an entity needs to avoid unnecessary duplication by providing an integrated governance disclosure that meets the requirements set out in both IFRS S2 and IFRS S1. *[IFRS S2.7]*.

TCFD comparison

The ISSB indicates that IFRS S2 disclosure requirements for an entity's governance on climate-related risks and opportunities is broadly consistent with the TCFD recommended disclosures.

However, in its TCFD comparison document, the ISSB noted that IFRS S2 requires disclosure of more detailed information about the description of the board's oversight of climate-related risks and opportunities. For example, how responsibilities for climate-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to the governance body(ies) or individual(s) who have oversight of those risks and opportunities.

4.3 Strategy

The strategy requirements in IFRS S2 for climate-related risks and opportunities correspond with the strategy disclosure requirements for sustainability-related risks and opportunities in IFRS S1, except that IFRS S2 has additional requirements and provides additional guidance in relation to:

- Identifying and classifying climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects
- The effects of an entity's climate-related risks and opportunities on its strategy and decision-making, including information about its climate-related transition plan (if it exists)
- The resilience of the entity's strategy and business model to climate-related changes, developments and uncertainties

The following sections discuss each of these additional requirements and guidance.

For the remainder of the strategy disclosure requirements in IFRS S2, the commentary in section 4.3 of Part A - *Introduction to IFRS S1* on strategy disclosure requirements in IFRS S1 is also applicable to the preparation of strategy disclosures relating to climate-related risks and opportunities.

4.3.1 Disclosures about climate-related risks and opportunities

IFRS S2 requires an entity to classify each climate-related risk identified as either a climate-related physical risk or climate-related transition risk.

4.3.1.A Classifying climate-related risks

IFRS S2 requires an entity to classify each climate-related risk identified as either a climate-related physical risk or climate-related transition risk. *[IFRS S2.10(b), IFRS S2.B5].* The differences between physical risks and transition risks are discussed in sections 2 and 3 above.

4.3.1.B Using industry-based guidance to identify climate-related risks and opportunities

In identifying the climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects, IFRS S2 requires an entity to refer to and consider the applicability of the industry-based disclosure topics defined in the *Industry-based Guidance on Implementing IFRS S2*, which was issued by the ISSB at the same time as IFRS S1 and IFRS S2. *[IFRS S2.12].*

In the Exposure Draft of IFRS S2, the ISSB proposed industry-based requirements that were derived from SASB standards (with enhancements made to the international applicability of some requirements) to enable comparable disclosures among industry peer entities. Feedback on the proposed industry-based requirements was mixed, in part because of concerns about the ability and relevance of applying some of the proposals internationally given the SASB standards were primarily developed for the US market. In response to that feedback, the ISSB decided to retain the industry-based guidance but issued it as non-authoritative guidance that "suggests possible ways to apply some of the disclosure requirements in IFRS S2 but does not create additional requirements".[14]

The disclosure topics identified and defined in the industry-based guidance list climate-related risks and opportunities that are typically associated with particular business models, activities or other common features that characterise participation in an industry. For example, in the real estate industry, the industry-based guidance identifies energy management, water management, management of tenant sustainability impacts and climate change adaption as disclosure topics. *[IFRS S2.BC135, IFRS S2.BC136].*

The industry-based guidance also suggests possible ways to measure and disclose information about climate-related risks and opportunities. This is discussed further in relation to metrics and targets in section 4.5 below.

[14] Industry-based Guidance on implementing Climate-related Disclosures, IFRS Foundation, 2023, page 4

IFRS S2 requires an entity to "refer to and consider the applicability of" the disclosure topics defined in the *Industry-based Guidance on Implementing IFRS S2*. *[IFRS S2.12].* The same requirements are included in IFRS S1 in relation to the sources of guidance. As discussed in section 5.1 of Part A - *Introduction to IFRS S1,* this requirement means that, after referring to the industry-based guidance, an entity is not required to apply that guidance if the entity considers that it is not applicable.

The ISSB included this requirement to refer to the industry-based guidance because it considers the guidance to be a helpful starting point for identifying climate-related risks and opportunities about which an entity might need to prepare disclosures. The ISSB also noted that the disclosure topics and associated metrics set out in the guidance are not intended to be exhaustive. Consequently, an entity will also need to disclose climate-related financial information about topics that are not included in the industry-based guidance if those topics relate to climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. *[IFRS S2.BC137].*

4.3.1.C Using reasonable and supportable information to identify climate-related risks and opportunities

In identifying the climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects, IFRS S2 requires an entity to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. This information includes information about past events, current conditions and forecasts of future conditions. *[IFRS S2.11].*

The requirement that an entity "use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort" is a concept that is employed in both IFRS S1 and IFRS S2 so that the ISSB could clarify its expectations about the level of effort needed to comply with a specific disclosure requirement.

More information about the application of the "use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort" concept is provided in section 1.2.2.B of Part A - *Introduction to IFRS S1*.

4.3.2 Disclosures about the effects of climate-related risks and opportunities on the entity's strategy and decision-making

Consistent with IFRS S1, IFRS S2 requires an entity to disclose information to enable users of general purpose financial reports to understand the effects of climate-related risks and opportunities, including how it has responded, and plans to respond, to such risks and opportunities in its strategy and decision-making. However, IFRS S2 is more prescriptive by also requiring the disclosure of: *[IFRS S2.14(a)].*

- How the entity plans to achieve any climate-related targets it has set, and
- Any targets it is required to meet by law or regulation

Figure 4-2 below outlines the specific disclosures that IFRS S2 requires an entity to provide about its responses or planned responses to climate-related risks and opportunities.

Figure 4-2: An entity's responses to climate-related risks and opportunities

Required disclosure	Remarks
Information about current and anticipated changes to the entity's business model, including its resource allocation, to address climate-related risks and opportunities. *[IFRS S2.14(a)(i)]*.	Examples include: ▸ Plans to manage or decommission operations that are carbon, energy or water-intensive ▸ Reallocation of resources due to demand or supply-chain changes ▸ Reallocation of resources due to new business development resulting in capital expenditure or additional expenditure on research and development ▸ Acquisitions or divestments
Information about current and anticipated direct mitigation and adaptation efforts. *[IFRS S2.14(a)(ii)]*.	Examples include: ▸ Changes in production processes ▸ Equipment changes ▸ Relocation of facilities ▸ Workforce adjustments ▸ Product specification changes
Information about current and anticipated indirect mitigation and adaptation efforts. *[IFRS S2.14(a)(iii)]*.	Examples include: ▸ Working with customers ▸ Working with supply chains
Information about an entity's climate-related transition plan (if it has one). *[IFRS S2.14(a)(iv)]*.	Information to be disclosed about an entity's transition plan includes: ▸ Key assumptions used in developing the transition plan ▸ Dependencies on which the transition plan relies upon
Information about how the entity plans to achieve any climate-related targets, including any GHG emission targets. *[IFRS S2.14(a)(v)]*.	This includes targets that the entity has set and targets that the entity is required to meet by law or regulation. The targets are discussed further in section 4.5 below.

With respect to the entity's plans, IFRS S2 also requires an entity to disclose:

- Information about how the entity is resourcing, and intends to resource, those plans *[IFRS S2.14(b)]*.
- Information (both quantitative and qualitative) about the progress of those plans compared to previous reporting periods *[IFRS S2.14(c)]*.

4.3.2.A Climate-related transition plans

IFRS S2 defines the 'climate-related transition plan' as follows:
[IFRS S2 Appendix A].

Extract from IFRS S2

Appendix A
Defined terms

climate-related transition plan	An aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its **greenhouse gas** emissions.

The ISSB considers that disclosure of an entity's transition plan, or set of plans, to respond to the expected transition to a lower-carbon economy (if it has such plans) will help users of general purpose financial reports assess the effects of climate-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital. *[IFRS S2.BC46]*.

IFRS S2 does not specify what is included in a transition plan. The ISSB notes that a transition plan will reflect an entity's individual circumstances, therefore, its focus is to enhance the comparability and consistency of disclosures about transition plans. *[IFRS S2.BC52]*. Transition plans can vary; for some entities, their transition plans form part of their overall business strategy as the plan is being used to adjust the entity's business model in response to its climate-related risks and opportunities. Whereas for some other entities, the plan does not form part of the overall business strategy and instead applies only to a particular product line, business unit or set of activities. *[IFRS S2.BC47]*.

To assess the credibility of an entity's transition plan and to be able to make comparisons between entities' transition plans, users of general purpose financial reports need to understand the assumptions and dependencies that underpin an entity's transition plan. For that reason, IFRS S2 requires an entity to disclose:

- The assumptions it made in developing its climate-related transition plan
- The dependencies on which the plan's achievement relies

The ISSB explains the difference between assumptions and dependencies in the context of transition plans in Figure 4.3 below *[IFRS S2.BC52]*.

Figure 4-3: Differences between assumptions and dependencies in transition plans

	Meaning	Examples
Assumption	A belief, expectation, hypothesis or premise that the entity expects will occur and, therefore, builds into its climate-related transition plan. Assumptions are uncertain.	‣ Expectations about regulatory requirements ‣ Expectations about the ability of an entity to implement planned changes within its value chain
Dependencies	Critical factors and conditions that are required for an entity's transition plan to be realised.	‣ An emission removal technology that an entity will rely upon to meet its GHG emission targets ‣ The minimum level of resource availability needed so that the entity can implement its transition plan

In preparing its climate-related financial disclosures, an entity needs to consider how to make connections between information disclosed in its transition plan and the disclosure of other information such as its GHG emissions, its emission targets and climate resilience. *[IFRS S2.BC49]*.

How we see it

IFRS S2 does not require an entity to develop a transition plan. The standard only requires the disclosure of particular information about transition plans if an entity has such a plan. In our view, given the importance that users of general purpose financial reports place on information about an entity's transition plan, an entity that does not have a transition plan needs to consider disclosing that fact.

Some organisations that are external to the ISSB have also been working on guidance on the preparation of transition plans. One such initiative is the Transition Plan Taskforce (TPT) which was launched by the UK Government with the intention to set out good practices for robust and credible transition plan disclosures as part of an entity's annual reporting on forward business strategy. The TPT published its *Disclosure Framework* in October 2023, which sets out five key elements of a good practice transition plan, which are expanded upon through 19 sub-elements and a series of disclosure recommendations for each sub-element.

TPT's five key elements of a good practice transition plan are summarised in Figure 4.4 below.

Figure 4-4: Key elements of a transition plan

Key element	Details
Foundations	"An entity shall disclose the Strategic Ambition of its plan. This shall comprise the entity's objectives and priorities for responding and contributing to the transition towards a low GHG emissions, climate-resilient economy, and set out whether and how the entity is pursuing these objectives and priorities in a manner that captures opportunities, avoids adverse impacts for stakeholders and society, and safeguards the natural environment. Under this element, an entity should also disclose the high-level implications that this transition plan will have on its business model and value chain, as well as the key assumptions and external factors on which the plan depends".
Implementation Strategy	"An entity shall disclose the actions it is taking within its business operations, products and services, and policies and conditions to achieve its Strategic Ambition, as well as the resulting implications for its financial position, financial performance, and cash flows".
Engagement Strategy	"An entity shall disclose how it is engaging with its value chain, industry peers, government, public sector, communities, and civil society in order to achieve its Strategic Ambition".
Metrics & Targets	"An entity shall disclose the metrics and targets that it is using to drive and monitor progress towards its Strategic Ambition".
Governance	"An entity shall disclose how it is embedding its transition plan within its governance structures and organisational arrangements in order to achieve the Strategic Ambition of its transition plan".

The ISSB's Vice-Chair, Sue Lloyd, stated in a foreword to the TPT Disclosure Framework that the TPT Disclosure Framework, "provides a practical and useful complement to [the ISSB] Standards. It will be a useful tool for companies in developing transition plans and informing the disclosure requirements in IFRS S2".[15]

How we see it

External initiatives such as the TPT Disclosure Framework may provide a useful source of insight and guidance that entities may choose to refer to when preparing their transition plan disclosures in accordance with IFRS S2. In our view, these initiatives may help to improve good disclosure practices and, as such, an entity may wish to consider the relevance of those initiatives to its own disclosures. However, entities need to be mindful that ISSB standards do not require an entity to comply with the guidance or recommendations in the TPT Disclosure Framework or other external initiatives and that, similarly, compliance with the TPT Disclosure Framework or other external initiatives will not necessarily mean that the entity's disclosures comply with ISSB standards.

All requirements in IFRS S1 and IFRS S2 need to be met in order to provide a complete set of sustainability-related financial disclosures in accordance with ISSB standards.

An entity is not required to disclose the specific results of its scenario analysis. Instead, an entity is required to disclose information about its interpretation of those results.

4.3.3 Disclosures about the resilience of the entity's strategy and business model

Because the likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are uncertain and often complex, users of general purpose financial reports have indicated that they need to understand the resilience of the entity's strategy and business model to climate change. *[IFRS S2.BC57].*

IFRS S2 defines 'climate resilience' as follows: *[IFRS S2 Appendix A].*

Extract from IFRS S2

Appendix A

Defined terms

climate resilience	The capacity of an entity to adjust to climate-related changes, developments or uncertainties. Climate resilience involves the capacity to manage **climate-related risks** and benefit from **climate-related opportunities**, including the ability to respond and adapt to **climate-related transition risks** and **climate-related physical risks**. An entity's climate resilience includes both its strategic resilience and its operational resilience to climate-related changes, developments and uncertainties.

Compared to IFRS S1, the climate resilience disclosure requirements in IFRS S2 are more extensive and prescriptive and require a scenario analysis to be completed. In providing quantitative information, IFRS S2 permits an entity to disclose a single amount or a range. *[IFRS S2.22].*

IFRS S2 requires disclosure of:

[15] TPT *Disclosure Framework*, October 2023, page 3

- An entity's assessment of its climate resilience as at the reporting date. *[IFRS S2.22(a)]*.
- How and when the entity carried out climate-related scenario analysis, which is used to inform the resilience assessment. *[IFRS S2.22(b)]*.

The relationship between a resilience assessment and scenario analysis is explained in Figure 4.5 below.

Figure 4-5: Difference between a resilience assessment and scenario analysis

Topic	Explanation
Resilience assessment	Using a range of plausible but uncertain climate outcomes (i.e., scenarios), management assesses the implications for the entity's business model and strategy and its capacity to adapt or respond. *[IFRS S2.BC59]*. Information about an entity's assessment of its climate resilience has to be disclosed as at each reporting date. *[IFRS S2.BC68]*.
Scenario analysis	An analytical exercise used to inform that resilience assessment. An entity is not required to disclose the specific results of its scenario analysis. Instead, an entity is required to disclose information about its interpretation of those results. *[IFRS S2.BC59]*. A scenario analysis does not need to be performed every year. *[IFRS S2.BC68]*.

4.3.3.A Resilience assessment

Within the context of an entity's identified climate-related risks and opportunities, paragraph 22(a) requires disclosure of information about the resilience of the entity's strategy and business model to the following factors described in Figure 4.6 below, *[IFRS S2.BC58]*.

Figure 4-6: Assessing resilience

Factor	Explanation	Example
Climate-related changes	Such as events or changes resulting from climate change	‣ Pervasive wildfires ‣ Rising sea levels
Climate-related developments	Such as evolving macroeconomic factors, e.g., regulatory responses and demographic shifts	‣ Regulatory limits on the use of particular fossil fuels
Climate-related uncertainties	Such as different confidence intervals associated with climate-related changes and climate-related developments	‣ Assumptions about the pervasiveness of wildfires ‣ Assumptions about the stringency of regulation

A resilience assessment involves interpreting the results of the scenario analysis. *[IFRS S2.BC59]*. In particular, IFRS S2 requires that an entity's disclosure of the assessment of its climate resilience as at the reporting date

enables users of general purpose financial reports to understand: *[IFRS S2.22(a)]*.

- The implications (if any) for its strategy and business model, including how the entity would need to respond to the effects identified in the scenario analysis
- The significant areas of uncertainty considered in the entity's assessment of its climate resilience
- The entity's capacity to adjust or adapt its strategy and business model to climate change over the short, medium and long term, including:
  - The availability of, and flexibility in, the entity's existing financial resources to respond to the effects identified in the climate-related scenario analysis, including to address climate-related risks and to take advantage of climate-related opportunities
  - The entity's ability to redeploy, repurpose, upgrade or decommission existing assets
  - The effect of the entity's current and planned investments in climate-related mitigation, adaptation and opportunities for climate resilience

The following illustration is based on the example used in the BC to IFRS S2 to explain the type of information that an entity might disclose about the significant areas of uncertainty considered in its climate resilience assessment: *[IFRS S2.BC60]*.

Illustration 4-1:	**Example showing disclosure of significant areas of uncertainty**

In performing scenario analysis, Entity A identifies that future climate-driven migration could have implications in the long term for some of the assets and operations of Entity A and its major suppliers that are located near Region X which might become uninhabitable due to rising sea levels. Depending upon where those affected local communities relocate, the ability for Entity A and its suppliers to continue to run their operations at full capacity could be adversely impacted. It is not known whether, where or when the local communities may relocate and the consequential impact on Entity A's operations and its supply chain is also uncertain.

In accordance with paragraph 22(a)(ii) of IFRS S2, Entity A discloses that its resilience assessment is subject to significant uncertainty arising from the effects of future climate-driven migration from Region X, which, in turn, has implications for the stability of Entity A's supply chain and the resilience of its own assets and operations that are located near Region X. Given the time horizon that applies to this risk in the long term, Entity A also discloses that the degree of judgement required to interpret the results of this scenario analysis also increases.

4.3.3.B Scenario analysis

As noted above, IFRS S2 does not require an entity to disclose the results of its scenario analysis. Instead, IFRS S2 requires disclosure of information about the approach the entity used to carry out its scenario analysis.

In relation to how the scenario analysis was carried out, IFRS S2 requires disclosure of: *[IFRS S2.22(b)]*.

- Information about the inputs used in the analysis
- Key assumptions made in the analysis

Disclosures about inputs and assumptions used in the analysis are discussed in Figure 4.7 below (noting these lists are not exhaustive).

Figure 4-7: Scenario analysis inputs and assumptions

Disclosures about inputs	Disclosures about assumptions
‣ Which climate-related scenarios were used for the analysis and the sources of those scenarios ‣ Whether the analysis included a diverse range of climate-related scenarios ‣ Whether the scenarios used are associated with climate-related transition risks or climate-related physical risks ‣ Whether a climate-related scenario aligned with the 'latest international agreement on climate change' was used ‣ Why the entity decided that its chosen scenarios are relevant to assessing its resilience to climate-related changes, developments or uncertainties ‣ The time horizons used in the analysis ‣ What scope of operations (e.g., the operating locations and business units) was used in the analysis	‣ Climate-related policies in the jurisdictions in which the entity operates ‣ Macroeconomic trends ‣ National- or regional-level variables (e.g., local weather patterns, demographics, land use, infrastructure and availability of natural resources) ‣ Energy usage and mix ‣ Developments in technology

The 'latest international agreement on climate change' is defined by IFRS S2 to mean "An agreement by states, as members of the United Nations Framework Convention on Climate Change, to combat climate change. The agreements set norms and targets for a reduction in greenhouse gases." *[IFRS S2 Appendix A]*.

When the ISSB issued IFRS S2, the Paris Agreement of April 2016 was the latest international agreement on climate change. Signatories to the Paris Agreement agreed to: *[IFRS S2.BC145]*.

- Limit the increase in the global average temperature to well below 2 degrees Celsius above pre-industrial levels
- Pursue efforts to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels

However, the ISSB decided against requiring the use of scenarios consistent with the latest international agreement on climate change or particular science-based scenarios for the following reasons: *[IFRS S2.BC67]*.

- It would not be practical to specify which scenarios an entity should be required to use.
- Any scenarios specified in the standards might quickly become out of date and could lead to an entity disclosing information that does not reflect its circumstances or the views of management on what might be plausible.

IFRS S2 requires disclosure of the reporting period in which the climate-related scenario analysis was carried out. This is because the ISSB decided that, for the purposes of IFRS S2, an entity could carry out scenario analysis as part of its multi-year strategic planning cycle (e.g., every 3-5 years) rather than be required to update its scenario analysis at each reporting date.

Although an entity is not required to update its scenario analysis at each reporting date, IFRS S2 requires the entity to: *[IFRS S2.B18, IFRS S2.BC68].*

- At a minimum, update its climate-related scenario analysis in line with its strategic planning cycle
- Assess its climate resilience on an annual basis to reflect updated insight into the implications of climate uncertainty for the entity's business model
- Disclose the information required in section 4.3.3 at each reporting date, including the information about how and when the scenario analysis was carried out, even if the scenario analysis had not been updated during the reporting period

IFRS S2 only requires scenario analysis to be used in assessing an entity's climate resilience. However, an entity may choose to use scenario analysis to inform a variety of other disclosures that are required by IFRS S2, including: *[IFRS S2.BC69].*

- Identifying and assessing climate-related risks and opportunities (see section 3)
- Assessing the anticipated financial effects associated with those risks and opportunities (see section 4.3.3.C)
- Developing transition plans (see section 4.3.2.A)

4.3.3.C Application guidance on preparing climate-related scenario analysis

During the development of IFRS S2, the ISSB received feedback that scenario analysis might be challenging, and especially so for entities that lack the skills, capabilities and resources to carry out that analysis. As a consequence of that feedback, the ISSB: *[IFRS S2.BC62, IFRS S2.BC63].*

- Included application guidance in IFRS S2 for preparing climate-related scenario analysis, noting that scenario analysis encompasses a range of practices, from qualitative scenario narratives to sophisticated quantitative modelling.
- Clarified that the approach an entity uses for scenario analysis needs to be 'commensurate with its circumstances'.

The application guidance in IFRS S2 was developed to support an entity to select an approach to scenario analysis that is commensurate with its circumstances. This application guidance is based on the range of practices outlined in documents published by the TCFD, including, *Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities* (2017)[16] and *Guidance on Scenario Analysis for Non-Financial Companies* (2020).[17] *[IFRS S2.BC64].*

This application guidance requires an entity to use an approach to scenario analysis that enables it to consider all reasonable and supportable information available to the entity at the reporting date without undue cost or effort. In making judgements on the selection of an approach to scenario analysis, the application guidance specifies: *[IFRS S2.B1].*

- The factors to consider when assessing an entity's circumstances (see (i) in this section below)
- The factors to consider when determining an entity's appropriate approach to climate-related scenario analysis (see (ii) in this section below)
- Additional factors to consider when determining an entity's approach to climate-related scenario analysis over time (see (iii) in this section below)

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[16] TCFD Technical Supplement

[17] TCFD Guidance on Scenario Analysis for Non-Financial Companies

(i) Assessing an entity's circumstances

Assessing an entity's circumstances requires consideration of: *[IFRS S2.B2]*.

- The entity's exposure to climate-related risks and opportunities
- The skills, capabilities and resources available to the entity for the climate-related scenario analysis

An entity's approach to climate-related scenario analysis needs to be commensurate with the entity's circumstances at the time the climate-related scenario analysis is carried out. For example, an entity with a relatively low climate risk exposure and limited resources might develop a scenario narrative that is focused on a key product, business unit or operating location. In contrast, a large entity that is highly exposed to climate risks and has strong analytical expertise might perform sophisticated quantitative modelling that uses a range of scenarios to capture multiple risk transmission channels across the entity's own operations and value chain. *[IFRS S2.BC65]*.

Figure 4-8: Assessing an entity's circumstances

Factors to consider	Explanation
Exposure to climate-related risks and opportunities	An entity's exposure to climate-related risks and opportunities will inform the entity's assessment of: ‣ Its circumstances ‣ The approach to use for its climate-related scenario analysis Generally speaking, the greater the entity's exposure to climate-related risks or opportunities, the more likely it is the entity would determine that a more technically sophisticated form of climate-related scenario analysis is required. *[IFRS S2.B4]*.
Skills, capabilities and resources available	An entity considers both internal and external skills, capabilities and resources when determining an appropriate approach to use for its climate-related scenario analysis. Context is necessary when assessing an entity's skills and capabilities, noting also that the ISSB expects entities to develop their skills and capabilities and strengthen their disclosures over time through a process of learning and iteration. For instance, an entity that is only just starting to explore scenario analysis in assessing climate resilience or that participates in an industry where scenario analysis is not commonly used might need more time to develop its skills and capabilities. Consequently, such entities might be unable to use a quantitative or technically sophisticated approach to scenario analysis without undue cost or effort. In contrast, an entity that participates in an industry whereby scenario analysis is an established practice (such as the extractive industries) would be expected to have had experience to develop its skills and capabilities. However, if an entity's climate-related risk exposure warrants a sophisticated approach to scenario analysis, IFRS S2 states that the entity cannot use a lack of skills or capabilities to justify using a less sophisticated approach if it has the resources available to invest in obtaining or

	developing the necessary skills and capabilities. *[IFRS S2.B6, IFRS S2.B7, IFRS S2.BC65]*.

Each time an entity carries out scenario analysis, it is required to assess its circumstances. The following illustration is based on the example used in IFRS S2 to explain when an entity reassesses its circumstances: *[IFRS S2.B3]*.

Illustration 4-2: Reassessing an entity's circumstances
Entity A carries out its climate-related scenario analysis every three years to align with its strategic planning cycle. In accordance with paragraph B3 of IFRS S2, Entity A would be required to assess its circumstances every three years when it carries out its scenario analysis. Each time Entity A assesses its circumstances, it needs to reconsider its exposure to climate-related risks and opportunities and the skills, capabilities and resources available at that time.

(ii) Determining the appropriate approach to climate-related scenario analysis

Determining an approach to climate-related scenario analysis that considers all reasonable and supportable information available to the entity at the reporting date without undue cost or effort involves: *[IFRS S2.B8]*.

- Selecting inputs to the climate-related scenario analysis
- Making analytical choices about how to carry out the climate-related scenario analysis

According to IFRS S2, reasonable and supportable information includes information that is obtained from an external source or owned or developed internally and is about: *[IFRS S2.B9]*.

- Past events
- Current conditions
- Forecasts of future conditions
- Quantitative or qualitative information

Judgement is needed to determine the mix of inputs and analytical choices that enables an entity to consider all reasonable and supportable information that is available to it at the reporting date without undue cost or effort. The degree of judgement required depends on the availability of detailed information and the time horizon (i.e., the degree of judgement required increases as the time horizon increases and the availability of detailed information decreases). *[IFRS S2.B10]*.

Selecting inputs

An entity also needs to consider all reasonable and supportable information available to it at the reporting date without undue cost or effort when selecting the scenarios, variable and other inputs to use in its climate-related scenario analysis. *[IFRS S2.B11]*

The ISSB clarified that publicly available climate-related scenarios from authoritative sources that describe future trends and a range of pathways to plausible outcomes are inputs that are available to the entity without undue cost or effort. *[IFRS S2.B11]*.

Having a reasonable and supportable basis for selecting a particular scenario or set of scenarios means that the inputs to an entity's climate-related scenario analysis need to be relevant to the entity's circumstances. Therefore, when selecting a scenario or set of scenarios, the entity considers factors such as: *[IFRS S2.B12, IFRS S2.13, IFRS S2.BC66]*.

- The type and nature of activities undertaken by the entity
- The geographical location of those activities
- The physical and transition risks to which it is exposed

IFRS S2 does not specify the scenarios that an entity is required to use because the ISSB decided that it would not be practical, the scenarios specified might become outdated and it could lead to information being disclosed that fails to reflect the entity's specific circumstances and management's view of what is plausible. *[IFRS S2.BC67].*

The below illustration is based on an example used in IFRS S2: *[IFRS S2.B12].*

Illustration 4-3: Selecting relevant scenarios
Entity A's assets and operations are concentrated in Jurisdiction X where emissions are likely to be regulated in the near future. To carry out scenario analysis, Entity A selects a scenario that is consistent with Jurisdiction X's commitments to the latest international agreement on climate change.

IFRS S2 also requires an entity to disclose information such as the number of scenarios used and whether the scenarios cover different outcomes or pathways (such as, orderly and disorderly transition scenarios). This forms part of the requirement to disclose whether the analysis included a diverse range of scenarios. *[IFRS S2.22(b)(i)(2), IFRS S2.BC66].*

Making analytical choices

Analytical choices include whether an entity uses qualitative analysis or quantitative modelling in carrying out climate-related scenario analysis.

IFRS S2 requires an entity to prioritise the analytical choices that will enable it to consider all reasonable and supportable information that is available to it at the reporting date without undue cost or effort. For example, an entity's resilience assessment needs to incorporate multiple carbon price pathways associated with a given outcome (e.g., a 1.5 degree Celsius outcome) if information about those pathways is available without undue cost or effort and this approach is warranted by the entity's risk exposure. *[IFRS S2.B14].*

In making those analytical choices, the ISSB noted that: *[IFRS S2.B15].*

- The use of quantitative information will often enable a more robust assessment of an entity's climate resilience.
- The use of qualitative information including scenario narratives, which might or might not be combined with quantitative data, can also provide a reasonable and supportable basis for an entity's resilience assessment.

(iii) Additional considerations when determining an entity's approach to climate-related scenario analysis over time

IFRS S2 states that an entity's approach to climate-related scenario analysis may not be the same from one reporting period or strategic planning cycle to the next. *[IFRS S2.B16].* This is because:

- Climate-related scenario analysis is an evolving practice.
- The approach to scenario analysis that an entity uses is based on its particular circumstances (i.e., its exposure to climate-related risks and opportunities and the skills, capabilities and resources available to the entity). Therefore, as those circumstances change over time, the entity's approach to climate-related scenario analysis will change too.

For example, an entity that is highly exposed to climate-related risks might initially carry out scenario analysis by using qualitative scenario narratives because it does not currently have the skills, capabilities or resources to carry out quantitative climate-related scenario analysis. However, as the entity builds its capabilities through experience over time, the entity would begin to apply a more advanced quantitative approach to climate-related scenario analysis. In contrast, an entity that is highly exposed to climate-related risks which does have access to the necessary skills, capabilities or resources, is required to apply a more advanced quantitative approach to climate-related scenario analysis. *[IFRS S2.B17].*

TCFD comparison

The ISSB indicates that IFRS S2 disclosure requirements for an entity's strategy for managing climate-related risks and opportunities is broadly consistent with the TCFD recommended disclosures. However, in its TCFD comparison document, the ISSB noted that there are some differences, including those outlined below.

For disclosures related to an entity's climate-related risks and opportunities, IFRS S2:

- Includes an additional requirement for an entity to refer to and consider the applicability of industry-based disclosure topics in the *Industry-based Guidance on Implementing IFRS S2*, when identifying climate-related risks and opportunities
- Requires more detailed information to be disclosed about where climate-related risks and opportunities are concentrated within an entity's business model and value chain

For disclosures related to the impact of an entity's climate-related risks and opportunities on its business strategy and financial planning, IFRS S2:

- Requires more detailed information about the entity's response to the identified risks and opportunities, including any transition plans that the entity has and how the entity plans to achieve its climate-related targets
- Sets out criteria for when quantitative and qualitative information is required when disclosing the current and anticipated effects of the risks and opportunities on an entity's financial position, financial performance and cash flows
- Sets out the parameters for the information and approach to be used in disclosing the anticipated financial effects (i.e., to use all reasonable and supportable information that is available at the reporting date without undue cost or effort and to use an approach that is commensurate with the entity's circumstances)

For disclosures related to the resilience of the entity's strategy, IFRS S2:

- Does not specify specific scenarios that an entity must use in its climate-related scenario analysis
- Requires more detailed information to be disclosed about the resilience assessment, including significant areas of uncertainty in the assessment, the entity's capacity to adjust and adapt its strategy and business model, and how and when the scenario analysis was carried out
- Sets out the parameters for the information and approach to be used in climate-related scenario analysis (i.e., to consider all reasonable and supportable information that is available at the reporting date without undue cost or effort and to use an approach that is commensurate with the entity's circumstances)

4.4 Risk management

The risk management requirements in IFRS S2 for climate-related risks and opportunities correspond with the risk management disclosure requirements for sustainability-related risks and opportunities in IFRS S1, except that IFRS S2 requires an entity to provide information about the use of climate-related scenario analysis in its risk management processes.

Specifically, IFRS S2 requires an entity to explain whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related opportunities when disclosing information about the processes it uses

to identify, assess, prioritise and monitor climate-related opportunities. *[IFRS S2.25(b)]*.

In respect of the remainder of the risk management disclosure requirements in IFRS S2, the commentary in section 4.4 of Part A - *Introduction to IFRS S1* on risk management disclosure requirements also applies to the preparation of risk management disclosures relating to climate-related risks and opportunities.

An entity is not required to provide separate risk management disclosures for each sustainability-related risk and opportunity if oversight of the entity's sustainability-related risks and opportunities is managed on an integrated basis. In such cases, an entity is required to avoid unnecessary duplication by providing an integrated risk management disclosure that meets the requirements set out in IFRS S2 and IFRS S1. *[IFRS S2.26]*.

TCFD comparison

The ISSB indicates that IFRS S2 disclosure requirements about risk management for climate-related risks and opportunities is broadly consistent with the TCFD recommended disclosures, which focus more on risks.

For disclosures that describe an entity's processes for identifying, assessing, and managing climate-related risks, the ISSB noted in its TCFD comparison document that IFRS S2:

- Requires more detailed information about: the input parameters that an entity uses to identify risks; if and how the entity uses scenario analysis to identify risks; and whether the entity's processes for identifying, assessing, prioritising and monitoring risks have changed since the last reporting period
- Includes additional disclosures of the entity's processes for identifying, assessing, prioritising and monitoring opportunities

For disclosures related to describing how an entity's processes for identifying, assessing, and managing climate-related risks are integrated into the entity's overall risk management, the ISSB noted that IFRS S2 includes additional disclosures on the extent to which, and how, the processes used to identify, assess, prioritise and monitor opportunities are integrated into and inform the entity's overall risk management process.

4.5 Metrics and targets

The disclosure requirements in IFRS S2 for metrics and targets are much more detailed than the general disclosure requirements for metrics and targets in IFRS S1 because IFRS S2 specifically addresses the metrics and targets that are relevant to climate-related risks and opportunities.

To enable users of general purpose financial reports to understand an entity's performance in relation to its climate-related risks and opportunities, including progress towards any of the climate-related targets it has set, and any targets it is required to meet by law or regulation, IFRS S2 requires an entity to disclose:

- Information related to seven cross-industry metric categories (i.e., metrics that are industry agnostic) (see section 4.5.1 below)
- Industry-based metrics associated with the entity's business model and economic activities (i.e., metrics that are relevant to the industry that the entity participates in) (see section 4.5.2 below)
- Climate-related targets, which may be set either by the entity or required by laws or regulations that apply to the entity, to mitigate or adapt to climate-related risks or take advantage of climate-related opportunities, including metrics used by the government body or management to

measure progress towards these targets (see section 4.5.3 below) *[IFRS S2.27, IFRS S2.28]*.

IFRS S2 requires an entity to disclose information about metrics even if the entity does not have governance arrangements, strategies or risk management processes that address climate-related risks and opportunities. The ISSB clarified that the objective of the disclosures on metrics is to require an entity to disclose information about its performance against: *[IFRS S2.BC73]*.

- The metrics it uses for measuring and monitoring climate-related risks and opportunities (which may include metrics that are not specified by IFRS S2)
- The metrics specified by IFRS S2 (even in cases where the entity does not use those metrics to measure and monitor its climate-related risks and opportunities)

4.5.1 Cross-industry metrics

IFRS S2 requires entities to disclose information about seven cross-industry metric categories that the ISSB derived from the TCFD's *Guidance on Metrics, Targets and Transition Plans*[18], which was published in October 2021.

The seven cross-industry metric categories are summarised in Figure 4.9 below. *[IFRS S2.29]*.

Figure 4-9: Cross-industry metrics

#	Category	Information to be disclosed
1	GHG emissions	Absolute gross GHG emissions generated during the reporting period (in metric tonnes of CO2 equivalent), classified as: ▸ Scope 1 GHG emissions ▸ Scope 2 GHG emissions ▸ Scope 3 GHG emissions This disclosure and other GHG-related disclosures are discussed further in sections 4.5.1.A and 5 below.
2	Climate-related transition risks	The amount and percentage of assets or business activities vulnerable to climate-related transition risks (see section 4.5.1.B below)
3	Climate-related physical risks	The amount and percentage of assets or business activities vulnerable to climate-related physical risks (see section 4.5.1.B below).
4	Climate-related opportunities	The amount and percentage of assets or business activities aligned with climate-related opportunities (see section 4.5.1.B below)
5	Capital deployment	The amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities (see section 4.5.1.C below)
6	Internal carbon pricing	▸ An explanation of whether and how the entity is applying a carbon price in decision-making

[18] TCFD Guidance on Metrics, Targets and Transition Plans

		▸ The price of GHG emissions (per metric tonne) that the entity uses to assess the costs of its GHG emissions See section 4.5.1.D below.
7	Remuneration	▸ A description of whether and how climate-related considerations are factored into executive remuneration ▸ The percentage of executive management remuneration recognised in the current reporting period that is linked to climate-related considerations See section 4.5.1.E below.

By requiring entities to provide common information to users of general purpose financial reports regardless of the industries to which they belong, the cross-industry metrics are intended to allow users to: *[IFRS S2.BC75]*.

- Assess an entity's exposure to, and management of, its climate-related risks and opportunities
- Gain an understanding of key aspects and drivers of climate-related risks and opportunities
- Gain insight into the potential effects of climate change on the entity

IFRS S2 requires the GHG Protocol to be used to measure an entity's GHG emissions unless a jurisdictional authority or securities exchange requires a different method to be used.

4.5.1.A GHG emissions disclosures

An entity is required to disclose its absolute gross GHG emissions generated during the reporting period. An entity's gross GHG emissions are classified as: *[IFRS S2.29(a)(i)]*.

- Scope 1 GHG emissions
- Scope 2 GHG emissions
- Scope 3 GHG emissions

An entity's disclosure of its GHG emissions is expressed as metric tonnes of CO_2 equivalent. This means that the entity needs to aggregate the seven constituent GHG gases into CO_2 equivalent value. Refer to section 5.3.2 for further discussion..

IFRS S2 requires the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (2004) to be used to measure an entity's GHG emissions unless a jurisdictional authority or a securities exchange on which the entity is listed requires a different method to be used to measure the entity's GHG emissions. *[IFRS S2.29(a)(ii)]*. The *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (2004) is one of the publications that are collectively referred to as the GHG Protocol. Refer to section 5 for more details on the GHG Protocol and the use of other methods.

An entity is required to disclose the approach that it uses to measure GHG emissions, including: *[IFRS S2.29(a)(iii)]*.

- The measurement approach, inputs and assumptions used to measure its GHG emissions
- The reason why the entity has chosen the measurement approach, inputs and assumptions used to measure its GHG emissions
- Any changes the entity made to the measurement approach, inputs and assumptions during the reporting period and the reasons for those changes(see section 5.3.1 below for further discussion)

Additional disclosure requirements relating to an entity's absolute gross Scope 1, Scope 2 and Scope 3 GHG emissions are outlined in Figure 4.10 below. *[IFRS S2.29(a)(iv)]*.

Figure 4-10: GHG emissions disclosures

GHG emissions	Specific disclosures
Scope 1 and Scope 2	An entity is required to disaggregate Scope 1 and Scope 2 GHG emissions between: ‣ The consolidated accounting group (e.g., the parent and its consolidated subsidiaries); and ‣ Other investees excluded from the consolidated accounting group (e.g., investees include associates, joint ventures and unconsolidated subsidiaries) An illustration of this disaggregation is provided in Illustration 4-4 below.
Scope 2	For Scope 2 GHG emissions, an entity discloses: ‣ Its location-based Scope 2 GHG emissions ‣ Information about any contractual instruments that will inform users' understanding of the entity's Scope 2 GHG emissions (i.e., IFRS S2 does not require an entity to also disclose its market-based Scope 2 GHG emissions) The meaning of 'location-based' and 'market-based' Scope 2 GHG emissions is discussed further in section 5.2.3 below.
Scope 3	For Scope 3 GHG emissions, an entity is required to disclose the categories included within the entity's measure of Scope 3 GHG emissions, in accordance with the Scope 3 categories described in the *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011)*. These categories are: ‣ Category 1. Purchased goods and services ‣ Category 2. Capital goods ‣ Category 3. Fuel- and energy-related activities (not included in Scope 1 or Scope 2) ‣ Category 4. Upstream transportation and distribution ‣ Category 5. Waste generated in operations ‣ Category 6. Business travel ‣ Category 7. Employee commuting ‣ Category 8. Upstream leased assets ‣ Category 9. Downstream transportation and distribution ‣ Category 10. Processing of sold products ‣ Category 11. Use of sold products ‣ Category 12. End-of-life treatment of sold products ‣ Category 13. Downstream leased assets ‣ Category 14. Franchises ‣ Category 15. Investments Additional disclosures are required for Scope 3 'financed emissions' if an entity is engaged in

	asset management, commercial banking or insurance activities. Financed emissions are discussed further in section 5.7 below.

The following illustration is based on Illustrative Example 1 in *Accompanying Guidance on Climate-related Disclosures*: *[IFRS S2.IE3-IE5]*

Illustration 4-4: Disaggregating Scope 1 and Scope 2 GHG emissions

Entity A has an 80% interest in SubCo and a 40% interest in an incorporated joint venture, JVCo. Entity A and the other parties to the joint venture jointly control JVCo. Entity A has been appointed as the operator of JVCo, which means that Entity A is responsible for managing and conducting the activities and operations approved by the joint venturers.

Entity A prepares financial statements in accordance with IFRS accounting standards. In accordance with IFRS accounting standards, Entity A prepares consolidated financial statements which present the assets, liabilities, equity, income, expenses and cash flows of Entity A and the entities it controls as single economic entity. Entity A determines that it controls SubCo. The reporting entity of Entity A's consolidated financial statements, therefore, consists of Entity A and SubCo. The assets, liabilities, equity, income, expenses and cash flows of JVCo are not included in the Entity A consolidated group because Entity A does not control JVCo. Instead, Entity A recognises its interest in JVCo as an equity accounted investment.

Entity A's consolidated group is also the reporting entity for the preparation of Entity A's sustainability-related financial disclosures, including its disclosure of GHG emissions. Entity A has selected the operational control approach[19] to measure its GHG emissions. Because Entity A has operational control over JVCo, all of JVCo's GHG emissions are included in Entity A's GHG emissions (as the reporting entity).

The Scope 1 and Scope 2 GHG emissions for each individual entity is:

	GHG emissions (metric tonnes CO_2e)		
	Scope 1	**Scope 2**	**Total**
Entity A (parent)	1,000	350	1,350
SubCo	3,000	800	3,800
JVCo	6,000	1,400	7,400

The Scope 1 and Scope 2 GHG emissions for the Entity A reporting entity in accordance with operational control is measured as follows (noting that by having operational control, Entity A would include 100% of the GHG emissions into the measurement of its GHG emissions):

	GHG emissions (metric tonnes CO_2e)		
	Scope 1	**Scope 2**	**Total**
Entity A (parent)	1,000	350	1,350
SubCo	3,000	800	3,800
JVCo	6,000	1,400	7,400
Total	10,000	2,550	12,550

In accordance with paragraph 29(a)(iii) of IFRS S2, Entity A discloses the disaggregation of its Scope 1 and Scope 2 GHG emissions between the consolidated group and its other investee as follows:

[19] The operational control approach is discussed is section 5.2.2.B (ii)

	GHG emissions (metric tonnes CO_2e)		
	Scope 1	**Scope 2**	**Total**
Entity A consolidated group	4,000	1,150	5,150
Investment in JVCo	6,000	1,400	7,400
Total Scope 1 and Scope 2 GHG emissions (operational control basis)	10,000	2,550	12,550

4.5.1.B Assets or business activities vulnerable to climate-related risks or aligned to climate-related opportunities

An entity is required to disclose the amount and percentage of assets or business activities that are:

- Vulnerable to climate-related transition risks
- Vulnerable to climate-related physical risks
- Aligned with climate-related opportunities

These disclosures are required separately for transition risks, physical risks and opportunities.

In preparing these disclosures, IFRS S2 states that an entity must use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. *[IFRS S2.30].* The application of this requirement is discussed further in sections 4.3.1.C and 1.2.2.B of Part A - *Introduction to IFRS S1*.

4.5.1.C Capital deployment

An entity is required to disclose the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities. *[IFRS S2.29(e)].*

IFRS S2 does not provide application guidance that is specific to this disclosure requirement, but it does provide some general guidance, which is outlined in section 4.5.1.F below.

4.5.1.D Internal carbon prices

An entity is required to disclose: *[IFRS S2.29(f), IFRS S2.BC130].*

- An explanation of whether and how the entity is applying a carbon price in decision-making (e.g., investment decisions, transfer pricing and scenario analysis)—this is referred to as an 'internal carbon price'
- The price of GHG emissions (per metric tonne) that the entity uses, if any, to assess the costs of its GHG emissions

Extract from IFRS S2

Appendix A

Defined terms

Internal carbon price	Price used by an entity to assess the financial implications of changes to investment, production and consumption patterns, and of potential technological progress and future emissions-abatement costs. An entity can use internal carbon prices for a range of business applications. Two types of internal carbon prices that an entity commonly uses are:

(a) a shadow price, which is a theoretical cost or notional amount that the entity does not charge but that can be used to understand the economic implications or trade-offs for such things as risk impacts, new investments, the net present value of projects, and the cost and benefit of various initiatives; and

(b) an internal tax or fee, which is a carbon price charged to a business activity, product line, or other business unit based on its **greenhouse gas** emissions (these internal taxes or fees are similar to intracompany transfer pricing).

In explaining how the internal carbon price is used in decision-making, an entity is expected to explain whether it is using a current price, shadow price or another price to represent the price for each metric tonne of carbon. However, if the entity does not have an internal carbon price, the entity needs to consider disclosing that fact. *[IFRS S2.BC130]*.

4.5.1.E Executive remuneration

An entity is required to disclose: *[IFRS S2.29(g)]*.

- A description of whether and how climate-related considerations are factored into executive remuneration
- The percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations

How we see it

IFRS S2 does not define 'executive management'. As such, entities will need to exercise judgement in determining which management roles will represent 'executive management' and are, therefore, within the scope of this disclosure requirement.

In our view, this disclosure would allow users of general purpose financial reports to understand whether, and to what extent, the managers of an entity that have the authority and responsibility for managing the activities of the entity are incentivised through remuneration for their performance in managing the entity's climate-related risks and opportunities. In that context, to identify the management roles that represent 'executive management', an entity could consider the definition of 'key management personnel' in IAS 24 *Related Party Disclosures*, which states that "Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity".

IFRS S2 also does not define 'remuneration'. In our view, the ordinary meaning of 'remuneration' would be sufficient to apply this disclosure requirement. In determining what constitutes 'remuneration', an entity could also consider referring to the definition of 'compensation' in IAS 24, which includes short-term employee benefits (e.g., wages), post-employment benefits (e.g., pensions), other long-term employee benefits (e.g., long-service leave), termination benefits and share-based payment.

4.5.1.F Preparation guidance

In preparing the cross-industry metric disclosures other than GHG emissions mentioned above, IFRS S2 states that an entity is required to consider: *[IFRS S2.B65]*.

- The time horizons over which the effects of climate-related risks and opportunities could reasonably be expected to occur (refer to section 4.3.1 of Part A – *Introduction to IFRS S1*)
- Where in the entity's business model and value chain climate-related risks and opportunities are concentrated (e.g., geographical areas, facilities or types of assets) (refer to section 4.3.2 of Part A – *Introduction to IFRS S1*)
- The information disclosed in relation to the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period (refer to section 4.3.4 of Part A – *Introduction to IFRS S1*)
- Whether industry-based metrics partially or completely provide the information required by the cross-industry metric disclosures
- Connectivity between the cross-industry metric disclosures and the amounts recognised and disclosed in the related financial statements. Connectivity also includes consistency in the data and assumptions used (to the extent possible) in the disclosures and in the preparation of the financial statements

4.5.2 Industry based metrics

In addition to cross-industry metrics, IFRS S2 requires an entity to disclose industry-based metrics that are associated with one or more particular business models, activities or other common features that characterise participation in an industry.

IFRS S2 requires an entity to refer to the *Industry-based Guidance on Implementing IFRS S2* and consider the applicability of the industry-based metrics corresponding to the disclosure topics identified for the relevant industry. *[IFRS S2.32]*.

4.5.3 Climate-related targets

IFRS S2 requires an entity to disclose:

- Its climate-related targets (see section 4.5.3.A below)
- Information about its approach to setting, reviewing and monitoring progress against each target (see section 4.5.3.B below)
- Information about its performance against each target (see section 4.5.3.C below)
- Specific information for each GHG emission target the entity has (if any) (see section 4.5.3.D below)

4.5.3.A Disclosures about an entity's climate-related targets

IFRS S2 requires an entity to disclose its quantitative and qualitative climate-related targets. These may be either: *[IFRS S2.33]*.

- Targets that the entity has set to monitor progress towards achieving its strategic goals

  Or

- Targets that the entity is required to meet by law or regulation (if any)

These targets include any GHG emissions targets.

For each target, IFRS S2 requires an entity to disclose the following:

Figure 4-11: Climate-related target disclosures

Information to disclose	Further information
The metric used to set the target *[IFRS S2.33(a)]*	IFRS S2 also requires an entity to consider cross-industry metrics and industry-based metrics when identifying and disclosing metrics used to set climate-related targets and to measure progress. *[IFRS S2.B67]*. For metrics that were developed by an entity to measure progress towards a target, IFRS S1 specifies additional disclosures that the entity is required to make (see section 4.5.2 of Part A - *Introduction to IFRS S1*).
The objective of the target *[IFRS S2.33(b)]*	An entity might refer to, for example, mitigation, adaptation or conformance with science-based initiatives.
The part of the entity to which the target applies *[IFRS S2.33(c)]*	An entity might refer to, for example, whether the target applies to the entity in its entirety or only a part of the entity (e.g., a specific business unit or specific geographical region).
Target measurement considerations	Specifically, an entity is required to disclose: ‣ The period over which the target applies *[IFRS S2.33(d)]* ‣ The base period from which progress is measured *[IFRS S2.33(e)]* ‣ Any milestones and interim targets. *[IFRS S2.33(f)]*.
If the target is quantitative, whether it is an absolute target or an intensity target *[IFRS S2.33(g)]*	IFRS S2 describes: ‣ An *absolute target* as "a total amount of a measure or a change in the total amount of a measure" ‣ An *intensity target* as "a ratio of a measure, or a change in the ratio of a measure, to a business metric" *[IFRS S2.B66]*
How the latest international agreement on climate change has informed the target *[IFRS S2.33(h)]*	This disclosure includes any jurisdictional commitments that arise from the latest international agreement.

4.5.3.B Approach to set, review and monitor progress against targets

An entity is required to disclose information about the entity's approach to: *[IFRS S2.34]*.

- Setting and reviewing each target
- Monitoring its progress against each target

The information to be disclosed includes: *[IFRS S2.34]*.

- Whether a third party has validated the target and the methodology for setting the target
- The entity's processes for reviewing the target

- The metrics used by the entity to monitor its progress towards reaching the target
- Any revisions that have been made to the target and an explanation for those revisions

4.5.3.C Reporting performance against each target

An entity is required to disclose information about its performance against each climate-related target. The information disclosed also needs to include an analysis of trends or changes in the entity's performance. *[IFRS S2.35]*.

In identifying and disclosing the metrics used to set and monitor progress towards reaching a target, IFRS S2 requires that an entity refers to and considers the applicability of cross-industry metrics and industry-based metrics. The metrics include those described in an applicable ISSB standard and metrics that otherwise satisfy the IFRS S1 requirements. *[IFRS S2.37]*.

4.5.3.D GHG emission targets

In addition to the requirements outlined above, IFRS S2 also requires information to be disclosed in relation to any GHG emissions target(s) that an entity has set (or is required to meet by law or regulation) which is summarised in Figure 4-12 below. *[IFRS S2.36]*.

Figure 4-12: GHG emission target disclosures

Information to disclose	Further information
The scope of the GHG emissions target	Specifically, an entity is required to disclose: ‣ Which GHG emissions are covered by the target (noting that the various constituent gases are described in section 5.2 below) *[IFRS S2.36(a)]* ‣ Whether the target covers Scope 1, Scope 2 or Scope 3 GHG emissions *[IFRS S2.36(b)]*
Whether the target is a gross GHG emissions target or net GHG emissions target *[IFRS S2.36(c)]*.	IFRS S2 describes: ‣ Gross GHG emissions targets as "reflect[ing] the total changes in greenhouse gas emissions planned within the entity's value chain". ‣ Net GHG emissions targets as "the entity's targeted gross greenhouse gas emissions minus any planned offsetting efforts (for example, the entity's planned use of carbon credits to offset its greenhouse gas emissions)". For net GHG emissions targets, the entity is also required to separately disclose its associated gross GHG emissions target. IFRS S2 also clarifies that the net GHG emissions target disclosure cannot obscure information about the entity's gross GHG emissions target. *[IFRS S2.B68, IFRS S2.B69]*.
Whether the target was derived using a sectoral decarbonisation approach *[IFRS S2.36(d)]*.	In the BC to IFRS S2 the ISSB explains that a sectoral decarbonisation approach sets GHG emissions targets on a sector-by-sector basis by translating GHG gas emissions targets made at the international level (e.g., established through the latest international agreement on

<table>
<tr><td></td><td>climate change) into sector-based benchmarks, against which the performance of individual entities can be compared.

A sectoral decarbonisation approach acknowledges that entities operating in different sectors will have specific challenges associated with the transition to a lower-carbon economy (because, for example, the location of where in an entity's value chain that GHG emissions are concentrated will vary by sector).

The Science Based Targets Initiative (SBTi) uses a sectoral decarbonisation approach. [IFRS S2.BC150].</td></tr>
<tr><td>The entity's planned use of carbon credits to offset GHG emissions to achieve any net GHG emissions target [IFRS S2.36(e)].</td><td>IFRS S2 defines a carbon credit as "An emissions unit that is issued by a carbon crediting programme and represents an emission reduction or removal of greenhouse gases. Carbon credits are uniquely serialised, issued, tracked and cancelled by means of an electronic registry". [IFRS S2 Appendix A].

Information to be disclosed about an entity's planned use of carbon credits includes: [IFRS S2.36(e)].
‣ The extent of the entity's use of carbon credits to achieve its net GHG emissions targets (if any)
‣ The identity of the third-party scheme(s) that will verify or certify the carbon credits
‣ The type of carbon credit – this includes whether the underlying offset will be nature-based or based on technological carbon removals (see further discussion below)
‣ Any other factors that users of general purpose financial reports might need to understand the credibility and integrity of the scheme from which the entity obtains carbon credits (e.g., assumptions regarding the permanence of the carbon offset)

An entity might also disclose information about carbon credits it has already acquired and which the entity is planning to use to meet its GHG emissions targets. [IFRS S2.B71].</td></tr>
</table>

Carbon credits

Disclosure about the type of carbon credit helps users of general purpose financial reports to assess an entity's risk profile.

Carbon credits may be nature-based (i.e., aim to enhance natural carbon sinks, such as through afforestation, soil-based carbon sequestration and the use of other biomass stores) or based on technological carbon removals. The ISSB noted that disclosure about the type of carbon credit helps users of general purpose financial reports to assess an entity's risk profile. For example, if an entity plans to use carbon credits based on technological carbon removals, a user will want to understand whether the technological solution is currently economical at commercial scales or whether it will likely require substantial investment to be economically viable in the future. In contrast, nature-based approaches are often more cost-effective than

technological solutions. However, nature-based approaches may be subject to concerns about:

- Quality of the carbon offset scheme based on 'permanence' (i.e., how long the GHG emissions will be safely removed from the atmosphere) and 'additionality' (i.e., whether any new climate benefits have been brought about by a particular investment that would not have occurred anyway)

  And
- Their secondary effects on other social and environmental issues, such as food production

Consequently, disclosures about an entity's reliance on carbon credits, how credits are generated, and the credibility and integrity of the scheme from which the entity obtains the credits provide important information to users because additional climate-related risks and opportunities may arise from uncertainty about the suitability of some schemes, the available technology and future prices of carbon credits. The ISSB notes that this may happen because, for example: *[IFRS S2.BC154, IFRS S2.BC155, IFRS S2.BC156].*

- Carbon capture and storage technology solutions might prove to be ineffective.

  Or
- Regulations might be introduced or revised to discourage or ban the use of specified carbon credit schemes due to climate activism efforts, policy changes or concerns about food shortage issues that might arise as a consequence of decisions made.

TCFD comparison

The ISSB indicates that some of the IFRS S2 disclosure requirements for metrics and targets relating to climate-related risks and opportunities are broadly consistent with the TCFD recommended disclosures.

For disclosures related to the metrics used by an entity to manage and assess its climate-related risks, the ISSB noted in its TCFD comparison document that IFRS S2 requires the disclosure of industry-based metrics in addition to the categories of cross-industry metrics which are also included in TCFD guidance.

For disclosures related to GHG emissions, the ISSB noted that IFRS S2 includes additional requirements to:

- Separately disclose Scope 1 and Scope 2 GHG emissions for the consolidated group and for investees that are not part of the consolidated group (e.g., equity accounted investments)
- Disclose Scope 2 GHG emissions according to the location-based approach and to disclose information about any contractual instruments relating to Scope 2 GHG emissions
- Disclose 'financed emissions' if the entity has activities in asset management, commercial banking or insurance
- Disclose the measurement approach, inputs and assumptions used to measure Scope 3 GHG emissions

IFRS S2 also specifies a Scope 3 measurement framework for preparing disclosures on Scope 3 GHG emissions. The general 'disaggregation' principle in IFRS S1 would also require an entity to disaggregate its GHG emissions disclosure by constituent gases if that disaggregation provides material information to users of the entity's general purpose financial reports.

For disclosures related to targets used by the entity to manage its climate-related risks and opportunities and its performance against those targets, the ISSB noted that IFRS S2:

- Differs from the TCFD Recommendations by requiring an entity to disclose how the latest international agreement on climate change has informed its target and whether the target has been validated by . a third party
- Requires more detailed information to be disclosed about the entity's GHG emissions targets and additional requirements about the planned use of carbon credits to achieve the entity's net GHG emissions targets
- Includes additional requirements to disclose information about the entity's approach to setting and reviewing targets, monitoring progress against those targets, including whether a sectoral decarbonisation approach was used in setting the targets

5 Greenhouse gas emissions

5.1 Measurement of GHG emissions

IFRS S2 requires an entity's disclosure of its GHG emissions to be measured in accordance with the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)*. The ISSB clarified that an entity applies the requirements in the GHG Protocol only to the extent that those requirements do not conflict with IFRS S2. Therefore, as an example, an entity is required to disclose its Scope 3 emissions because that it is a requirement in IFRS S2 even though the GHG Protocol does not require the disclosure of Scope 3 GHG emissions. *[IFRS S2.29(a)(ii), IFRS S2.B23]*.

An exception to the general requirement in IFRS S2 to use the GHG Protocol to measure GHG emissions applies if an entity is required by a jurisdictional authority, or a securities exchange on which it is listed, to use a different method for measuring its GHG emissions. This exception applies for as long as the jurisdiction's, or securities exchange's, requirement to use a different method applies to the entity. Furthermore, in some cases, the jurisdiction's, or securities exchange's, specific requirements might apply only to one part of the reporting entity (e.g., its operations in a specific jurisdiction) or for only some categories of GHG emissions (e.g., Scope 1 and Scope 2 GHG emissions). In such cases, the exception that IFRS S2 allows does not exempt the entity from being required to disclose its Scope 1, Scope 2 and Scope 3 GHG emissions for the whole of the entity. *[IFRS S2.B24, IFRS S2.B25]*.

5.2 Overview of GHG Protocol

The GHG Protocol provides standards and guidance for accounting for, measuring and reporting emissions of the following seven GHGs identified by the United Nations Framework Convention on Climate Change (UNFCCC):

- Carbon dioxide (CO_2)
- Methane (CH_4)
- Nitrous oxide (N_2O)
- Hydrofluorocarbons (HFCs)
- Perfluorocarbons (PFCs)
- Sulphur hexafluoride (SF_6)
- Nitrogen trifluoride (NF_3)

These gases are classified as GHGs because they trap heat in the atmosphere.

The following publications are collectively known as the GHG Protocol:

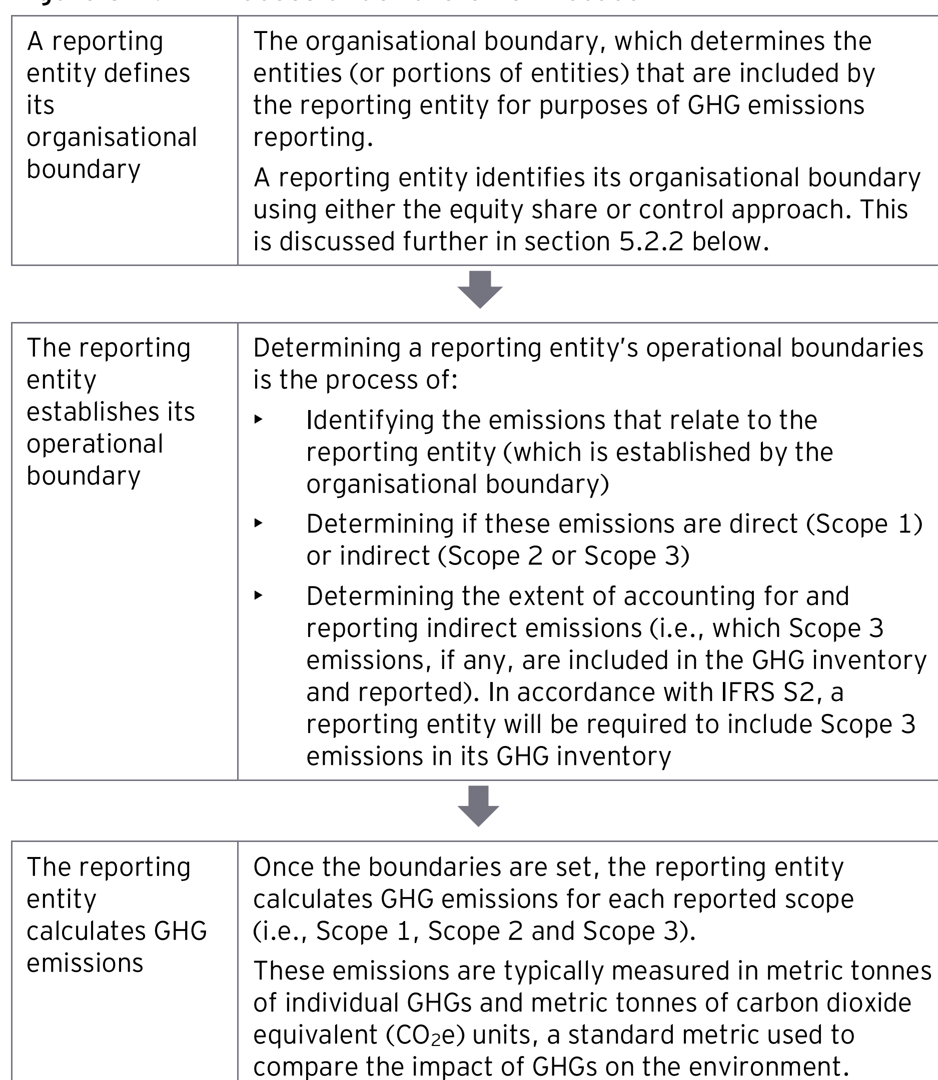
- *Corporate Accounting and Reporting Standard* (Corporate Standard)[20]
- *Scope 2 Guidance*[21]
- *Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (Scope 3 Standard)[22]
- *Technical Guidance for Calculating Scope 3 Emissions* (Scope 3 Guidance)[23]

The following sections provide a brief introduction to some of the key concepts in the GHG Protocol that may be relevant for measuring an entity's GHG emissions. Detailed guidance on the application of the GHG Protocol can be found in the EY publication, *Sustainability reporting developments - A comprehensive guide - Greenhouse Gas Protocol Interpretative guidance.*[24]

5.2.1 Accounting for, measuring and reporting GHG emissions

Accounting for, measuring and reporting GHG emissions in accordance with the GHG Protocol is based on the following process:

Figure 5-1: Process under the GHG Protocol



A reporting entity defines its organisational boundary	The organisational boundary, which determines the entities (or portions of entities) that are included by the reporting entity for purposes of GHG emissions reporting. A reporting entity identifies its organisational boundary using either the equity share or control approach. This is discussed further in section 5.2.2 below.
The reporting entity establishes its operational boundary	Determining a reporting entity's operational boundaries is the process of: ‣ Identifying the emissions that relate to the reporting entity (which is established by the organisational boundary) ‣ Determining if these emissions are direct (Scope 1) or indirect (Scope 2 or Scope 3) ‣ Determining the extent of accounting for and reporting indirect emissions (i.e., which Scope 3 emissions, if any, are included in the GHG inventory and reported). In accordance with IFRS S2, a reporting entity will be required to include Scope 3 emissions in its GHG inventory
The reporting entity calculates GHG emissions	Once the boundaries are set, the reporting entity calculates GHG emissions for each reported scope (i.e., Scope 1, Scope 2 and Scope 3). These emissions are typically measured in metric tonnes of individual GHGs and metric tonnes of carbon dioxide equivalent (CO_2e) units, a standard metric used to compare the impact of GHGs on the environment.

[20] Refer Corporate Standard | GHG Protocol
[21] Refer Scope 2 Guidance | GHG Protocol
[22] Refer Corporate Value Chain (Scope 3) Standard | GHG Protocol
[23] Refer Scope 3 Calculation Guidance | GHG Protocol
[24] Sustainability reporting developments: Greenhouse Gas Protocol

The GHG Protocol is designed to enable reporting entities to track and report consistent and comparable GHG emissions data over time. Therefore, it requires a reporting entity to establish a base year (a specific year or an average of multiple years) against which subsequent emissions can be compared. The GHG Protocol requires the base year emissions to be retrospectively recalculated in certain circumstances to maintain comparability over time.

5.2.2 Organisational boundary

A reporting entity may have many different entities in its legal and organisational structure, which may include wholly owned subsidiaries, partially owned subsidiaries and equity method investments. The GHG Protocol provides guidance on whether a reporting entity must include emissions from these various entities when measuring its GHG emissions. The GHG Protocol refers to the process of identifying which entities to include as "setting organisational boundaries."

The GHG Protocol allows a reporting entity to select one of two methods of setting organisational boundaries:

- The equity share approach

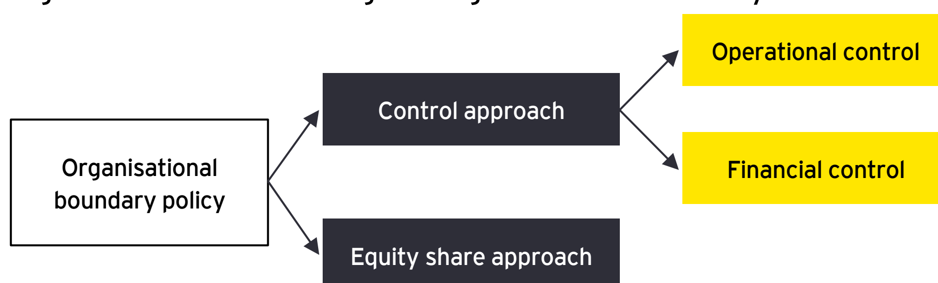
  Or

- The control approach

The GHG Protocol calls these methods consolidation approaches. For entities that wholly own and control all their operations, either approach will result in the same organisational boundary. However, for entities that have partially owned operations (or for entities that only have an economic interest in the operations without control), the organisational boundary identified, and therefore, the GHG emissions included in their inventory, can differ depending on the consolidation approach used.

Because control can be defined from an operational or financial perspective, the GHG Protocol further divides the control approach into the operational control approach and financial control approach. The decision tree below shows the options available to a reporting entity for determining its organisational boundary:

Figure 5-2: Determining the organisational boundary



5.2.2.A Equity share approach

Under the equity share approach, a reporting entity sets its organisational boundary based on its share of the equity of an owned, or partially owned, entity (i.e., the reporting entity includes the same proportionate share of emissions of the owned entity as its share of equity of the entity). The equity share percentage used by the reporting entity should reflect the extent of the rights the reporting entity has to both the risks and rewards generated by an owned entity. This percentage is often the same as the legal ownership share of the owned entity, but it may not be in all cases. For example, the equity share and ownership share will differ when the ownership share does not faithfully represent the economic interest in the owned entity.

5.2.2.B Control approach

Under the control approach, a reporting entity includes within its organisational boundaries 100% of the emissions of operations over which it has control, regardless of the equity share or legal ownership share held by the reporting entity. For example, a reporting entity that has an equity share of 65% and control over a subsidiary would account for and report 100% of the subsidiary's emissions using the control approach. Conversely, if the reporting entity has an equity share of 35% in an entity that it does not control, none of the emissions of the uncontrolled entity would be included in the reporting entity's GHG inventory.

The GHG Protocol provides two methods of determining control:

- Financial control (see (i) of this section below)
- Operational control (see (ii) of this section below)

The selected control approach must be used consistently throughout the entire organisation and over time.

(i) Financial control

A reporting entity has financial control over another entity if it can control the entity to gain economic benefits from the entity's activities. Financial control is often obtained if the reporting entity has the right to the majority of the economic benefits of the operation. Similar to the concept of equity share above, the determination of financial control depends on the economic substance of the relationship rather than the legal ownership. That is, financial control is not determined by legal ownership but by whether the reporting entity holds the rights to the majority of the economic benefits of the operation (e.g., the risks and rewards of ownership of the entity's assets). For example, a reporting entity may have financial control over another entity that is a variable interest entity, even though it owns less than 50% of the other entity.

When financial control is shared jointly by two or more parties (e.g., a joint venture under IFRS 11 *Joint Arrangements*), emissions are accounted for using the equity share approach even when the financial control approach is applied throughout the remainder of the reporting entity.

How we see it

We believe that the determination of financial control will often be consistent with the determination of control for financial reporting purposes under IFRS accounting standards (i.e., if an entity is consolidated for financial reporting purposes, it will likely be included in the organisational boundaries under the financial control approach).

However, the financial accounting guidance on the assessment of control under IFRS accounting standards has changed since the Corporate Standard was first issued. Therefore, there may be differences between the consolidation conclusion under the GHG Protocol's financial control approach and the conclusion for financial accounting.

(ii) Operational control

The GHG Protocol specifies that a reporting entity that applies the operational control approach needs to include any facility over which it has operational control in the organisational boundary, even if it is not the owner of the facility. This is particularly relevant for leased assets and other assets that are operated under a contractual arrangement. Determining the organisational boundary for these assets and contractual arrangements is outside the scope of this publication.

A reporting entity that elects to use the operational control approach determines control by whether it has the authority to introduce and

implement operating policies at an operation or facility. Operational control does not mean that the reporting entity can make **all** decisions concerning the operation or facility. For example, operational control may include decisions about how the day-to-day functions are performed but may not include certain other significant decisions (e.g., financing decisions, buying/selling significant assets) otherwise relevant to the financial control conclusions.

Certain facilities or operations may be under joint control (e.g., joint ventures). Under the operational control approach, a reporting entity needs to determine whether it can introduce and implement operating policies for each facility or operation to determine whether the facilities or operations under joint control are included in its reporting boundary. A reporting entity that has operational control over an operation will include 100% of the operation's emissions in its reporting boundary even though it only owns 50% of the investee.

5.2.3 Scope 2 GHG emissions calculation methods

Scope 2 GHG emissions measurement methods are:

- Location-based method (see section 5.2.3.A below)
- Market-based method (see section 5.2.3.B below)

5.2.3.A Location-based method

The location-based method reflects the average emissions factors of the electricity grids on which a reporting entity consumes electricity. The location-based method is required to be used by all reporting entities. A reporting entity's electricity procurement decisions (e.g., a decision to purchase electricity generated from renewable sources) are not factored into the location-based method calculation of Scope 2 emissions. Therefore, this method can be applied in all locations and provides information on emissions from the overall mix of generation sources used in the grid. The location-based method results in Scope 2 emissions from a reporting entity's activities in the respective regions that are consistent with the Scope 2 emissions from other entities' activities in the same region. This provides better comparability of entities based on the location of their activities.

Under the location-based method, a reporting entity uses an emissions factor that represents the average emissions from energy generation within a defined geographical area (e.g., local, subnational or national level) during a defined time period, which is often 12 months (i.e., the grid average emissions factor). Supplier-specific emissions factors should not be used under this method. Additionally, these emissions factors do not reflect the impact of contractual instruments.

5.2.3.B Market-based method

The market-based method represents the emissions associated with the choices a reporting entity makes when acquiring electricity. Scope 2 emissions under the market-based method are derived from a reporting entity's contractual relationships or instruments. For example, if a reporting entity chooses a specific energy generation supplier or enters into a supply agreement for electricity from a regional wind farm, it would use the emissions factors resulting from these contracts in its Scope 2 emissions calculation under the market-based method. Unlike the location-based method, the market-based method provides information about the decisions a reporting entity has made to reduce emissions from its consumption of electricity.

Contractual instruments include direct contracts with a supplier (e.g., power purchase arrangements, virtual power purchase arrangements) and bundled

or unbundled attribute claims (e.g., renewable energy certificates, energy attribute certificates, guarantees of origin, supplier-specific emission rates, residual mix factors).

While the GHG Protocol requires the disclosure of Scope 2 GHG emissions on both location-based as well as the market-based method, IFRS S2 only requires the disclosure of the location-based method. In addition to this, entities are required to provide information about any contractual instruments that is necessary to inform users' understanding of the entity's Scope 2 GHG emissions. *[IFRS S2.29(a)(v)]*. Even though the information about any contractual instruments may seem comparable to the market-based method, IFRS S2 does not mention the market-based method itself.

5.3 Categories of GHG emissions

Appendix A to IFRS S2 includes definitions of:

- Direct GHG emissions, specifically Scope 1 GHG emissions
- Indirect GHG emissions, which refer to Scope 2 and Scope 3 GHG emissions

These definitions from IFRS S2 are reproduced below:

Extract from IFRS S2

Appendix A

Defined terms

indirect greenhouse gas emissions	Emissions that are a consequence of the activities of an entity, but occur at sources owned or controlled by another entity.
Scope 1 greenhouse gas emissions	Direct **greenhouse gas** emissions that occur from sources that are owned or controlled by an entity.
Scope 2 greenhouse gas emissions	***Indirect greenhouse gas emissions*** from the generation of purchased or acquired electricity, steam, heating or cooling consumed by an entity. Purchased and acquired electricity is electricity that is purchased or otherwise brought into an entity's boundary. Scope 2 greenhouse gas emissions physically occur at the facility where electricity is generated.
Scope 3 greenhouse gas emissions	**Indirect greenhouse gas emissions** (not included in **Scope 2 greenhouse gas emissions**) that occur in the **value chain** of an entity, including both upstream and downstream emissions. **Scope 3 greenhouse gas** emissions include the Scope 3 categories in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011): ...

5.3.1 Measurement approach, inputs and assumptions

As noted in section 4.5.1.A above, IFRS S2 requires an entity to disclose the measurement approach, inputs and assumptions used to measure its GHG emissions. This disclosure required includes information about: *[IFRS S2.B26]*.

- The measurement approach the entity uses in accordance with the GHG Protocol (see section 5.3.1.A below)
- The applicable method if the entity is not using the GHG Protocol and the measurement approach the entity uses (see section 5.3.1.B below)
- The emission factors the entity uses (see section 5.3.1.C below)

5.3.1.A GHG Protocol measurement approaches

Because the GHG Protocol includes different measurement approaches for measuring its GHG emissions, IFRS S2 requires an entity to disclose: *[IFRS S2.B27]*.

- The approach it uses to determine its GHG emissions (e.g., the equity share or control approach)
- The reason(s) for the entity's choice of measurement approach and how that approach enables users of the entity's general purpose financial reports to understand the entity's performance in relation to its climate-related risks and opportunities, including progress towards its climate-related targets (if any)

5.3.1.B Other methods and measurement approaches

If an entity discloses its GHG emissions measured in accordance with another method (as outlined in section 5.1), IFRS S2 requires the entity to disclose: *[IFRS S2.B28]*.

- The applicable method and measurement approach the entity uses to determine its GHG emissions
- The reason(s) for the entity's choice of method and measurement approach and how that approach enables users of the entity's general purpose financial reports to understand the entity's performance in relation to its climate-related risks and opportunities, including progress towards its climate-related targets (if any)

5.3.1.C Emissions factors

If an entity estimates the GHGs emitted using activity data and emissions factors as its basis for measuring its GHG emissions, IFRS S2 requires the entity to use the emissions factors that best represent the entity's activity. IFRS S2 does not specify the emissions factors that an entity is required to use. *[IFRS S2.B29]*. These estimates require:

- 'Activity data', which refers to the number of times that a specific activity occurs for which an emissions factor is available and can be applied. For Scope 1 emissions, activity data is often denominated in fuel consumed (e.g., litres of petrol, cubic feet of natural gas) or units of product produced
- An 'emissions factor', which refers to a value that represents the quantity of a specific GHG (or CO_2e) emitted for a specific unit of activity. For example, CO_2e emissions by fuel type for specific vehicles are common emissions factors used for calculating Scope 1 mobile emissions

Consequently, IFRS S2 requires an entity to disclose information so that users of general purpose financial reports can understand the emission factors that the entity has used to measure its GHG emissions. *[IFRS S2.B29]*.

5.3.2 Aggregation of GHGs into CO_2 equivalents

Although there are seven constituent GHGs, IFRS S2 requires an entity's disclosure of its absolute gross GHG emissions generated during the reporting period to be expressed in metric tonnes of CO_2 equivalent (CO_2e). *[IFRS S2.29(a)(i)]*.

If an entity uses direct measurement (also known as 'direct monitoring') to measure its GHG emissions by measuring the concentration of GHGs and the rate of emissions from operations and processes, this means that the entity will be directly, and separately, measuring the specific constituent GHG emitted (e.g., the units of methane (CH_4) emitted). To convert the constituent GHGs into a CO_2 equivalent value, IFRS S2 requires an entity to use global warming potential (GWP) values based on a 100-year time horizon, from the latest Intergovernmental Panel on Climate Change assessment available at the reporting date. *[IFRS S2.B21]*.

Each of the seven constituent GHGs have a different GWP. The GWP of a given GHG indicates how much energy one unit of the GHG absorbs (i.e., the ability of that gas to trap heat in the atmosphere) compared to one unit of carbon dioxide, generally over a 100-year period. The larger the GWP, the more that the GHG warms the earth compared to carbon dioxide over the stated time period. For example, PFCs and HFCs often absorb thousands of times more energy than carbon dioxide. The GWP of each GHG is used to convert GHGs, other than carbon dioxide, into carbon dioxide equivalent (CO_2e) units. Therefore, the CO_2e unit of measurement is used to evaluate releasing (or avoiding releasing) different GHGs against a common basis. *[IFRS S2 Appendix A]*.

If an emission factor used by an entity has already converted the constituent gases into CO_2e values, IFRS S2 does not require the entity to recalculate the emission factors using GWP values based on a 100-year time horizon from the latest Intergovernmental Panel on Climate Change assessment available at the reporting date. However, if the emission factors are not converted into CO_2e values, then the entity is required to use the GWP values based on a 100-year time horizon from the latest Intergovernmental Panel on Climate Change assessment available at the reporting date. *[IFRS S2.B22]*.

5.3.3 Using information from reporting periods that are different from the entity's reporting period

An entity's reporting period may be different from the reporting periods used by some or all the entities in its value chain. A consequence of mismatched reporting periods is that GHG emissions information that relates to the entity's value chain may not be readily available for the entity to use when it prepares its own disclosures for its reporting period. The ISSB acknowledged that different reporting periods can cause challenges in preparing disclosures that rely on value chain information. For that reason, where an entity's reporting period is different from the reporting periods of entities in its value chain, IFRS S2 permits an entity to measure its GHG emissions using information for reporting periods that are different from its own reporting period if all of the following conditions are met: *[IFRS S2.B19]*.

- The entity uses the most recent data available from those entities in its value chain without undue cost or effort to measure and disclose its GHG emissions.
- The length of the reporting periods is the same.
- The entity discloses the effects of significant events and changes in circumstances (relevant to its GHG emissions) that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reports.

5.4 Scope 1 GHG emissions

Scope 1 emissions are emissions from sources owned or controlled by a reporting entity. For example, emissions from equipment, a vehicle or production processes that are owned or controlled by the reporting entity are considered Scope 1 emissions. These emissions include all direct emissions

within the entity's inventory boundary. The combination of organisational and operational boundaries make up a reporting entity's inventory boundary, which is also called the reporting boundary.

Two or more reporting entities should never account for the same emissions as Scope 1 emissions. For example, emissions from the generation of heat, electricity or steam that is sold to another entity are not subtracted from Scope 1 emissions but are reported as Scope 2 emissions by the entity that purchases the related energy. Theoretically, if every entity and individual throughout the world reported their GHG emissions using the same organisational boundary (e.g., equity share, financial control or operational control approach), the total of all Scope 1 emissions would equal the total GHGs emitted throughout the world.

5.5 Scope 2 GHG emissions

According to the GHG Protocol, an entity's Scope 2 GHG emissions need to be measured using either a location-based approach or a markets-based approach. This is described further in section 5.2.3 above on the application of the GHG Protocol.

As noted in section 5.2.3 above, IFRS S2 requires an entity to: *[IFRS S2.29(a)(v), IFRS S2.B30]*.

- Disclose its location-based Scope 2 GHG emissions
- Provide information about any 'contractual instruments' the entity has entered into if it has entered into those instruments and information about those instruments would inform users' understanding of the entity's Scope 2 GHG emissions

The meaning of a 'contractual instrument' is explained in IFRS S2: *[IFRS S2.B31]*.

Extract from IFRS S2	
B31	Contractual instruments are any type of contract between an entity and another party for the sale and purchase of energy bundled with attributes about the energy generation or for unbundled energy attribute claims (unbundled energy attribute claims relate to the sale and purchase of energy that is separate and distinct from the greenhouse gas attribute contractual instruments). Various types of contractual instruments are available in different markets and the entity might disclose information about its market-based Scope 2 greenhouse gas emissions as part of its disclosure.

5.6 Scope 3 GHG emissions

IFRS S2 requires an entity to disclose information about its Scope 3 GHG emissions according to the 15 categories of Scope 3 GHG emissions as described in the GHG Protocol. The purpose of this disclosure is to enable users of general purpose financial reports to understand the source of the entity's Scope 3 emissions. *[IFRS S2.29(a)(vi), IFRS S2.B32]*.

As such, when an entity prepares its Scope 3 GHG emissions disclosures, IFRS S2 requires the entity to: *[IFRS S2.B32, IFRS S2.B34]*.

- Consider its entire value chain (upstream and downstream)
- Reassess which Scope 3 categories and entities throughout its value chain to include in the measurement of its Scope 3 GHG emissions if a significant event or a significant change in circumstances has occurred. This reassessment is consistent with the requirements in IFRS S1 about reassessing the scope of sustainability-related risks and opportunities

(see relevant discussion in section 1.2.3 of Part A – *Introduction to IFRS S1*)

5.6.1 Scope 3 measurement framework

Scope 3 GHG emissions can be quantified by either direct measurement (i.e., the direct monitoring of GHG emissions) or estimation (which involves approximate calculations of data based on assumptions and appropriate inputs). The ISSB considers that, in theory, direct measurement provides the most accurate evidence of an entity's Scope 3 GHG emissions. However, the ISSB also acknowledges that, due to the challenges of directly measuring Scope 3 GHG emissions, an entity's measurement of Scope 3 GHG emissions is likely to include the use of estimation rather than solely comprising direct measurement. *[IFRS S2.B38, IFRS S2.B43, IFRS S2.B44, IFRS S2.B45].*

IFRS S2 requires an entity to use a measurement approach, inputs and assumptions that result in a faithful representation of its measurement of Scope 3 GHG emissions. Although IFRS S2 does not specify the inputs an entity is required to use to measure its Scope 3 GHG emissions, the standard does require the entity to prioritise inputs and assumptions using the following identifying characteristics:

- Data based on direct measurement (see section 5.6.1.A below)
- Data from specific activities within the entity's value chain (see section 5.6.1.B below)
- Timely data that faithfully represents the jurisdiction of, and the technology used for, the value chain activity and its GHG emissions (see section 5.6.1.C below)
- Data that has been verified (see section 5.6.1.D below)

Each of these characteristics are explained further in the sections below, noting that these characteristics are not listed in a particular order and, as such, an entity's prioritisation of the measurement approach, inputs and assumptions may require management to use judgement to make trade-offs between data. *[IFRS S2.B40, IFRS S2.B42].*

An example of a trade-off that management may need to make is between the timeliness of the data and specificity of the data. Recent data may provide less detail about the specific value chain activity (such as technology used, location and jurisdiction of the activity) whereas data that is older and published infrequently might be more representative of the value chain activity and its GHG emissions. *[IFRS S2.B42].*

When an entity selects the measurement approach, inputs and assumptions to measure its Scope 3 GHG emissions, IFRS S2 specifies that the entity is required to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. *[IFRS S2.B39].*

IFRS S2 states that an entity is required to apply the Scope 3 measurement framework to prioritise inputs and assumptions even if: *[IFRS S2.B41].*

- The entity is required by a jurisdictional authority or securities exchange to use a method other than the GHG Protocol to measure its GHG emissions
- The entity has elected to use the transition relief that allows the entity to measure its GHG emissions using a method other than the GHG Protocol for its first annual reporting period when its applies IFRS S2

5.6.1.A Data based on direct measurement

IFRS S2 requires an entity to prioritise direct measurement of Scope 3 GHG emissions, but acknowledges that it expects that Scope 3 GHG emissions data will include estimation. *[IFRS S2.B43, IFRS S2.B44].*

IFRS S2 outlines that estimates of Scope 3 GHG emissions are likely to use two types of inputs: *[IFRS S2.B45]*.

- Data that represents the entity's activity that results in GHG emissions (activity data). For example, the entity might use distance travelled as activity data to represent the transport of goods within its value chain.
- Emission factors that convert activity data into GHG emissions. For example, the entity will convert the distance travelled (activity data) into GHG emissions data using emission factors.

5.6.1.B Data from specific activities within the entity's value chain

Measurement of an entity's Scope 3 GHG emissions will be based on: *[IFRS S2.B46]*.

- Primary data — data obtained directly from specific activities within the entity's value chain (e.g., data provided by suppliers)
- Secondary data — data not obtained directly from activities within the entity's value chain (e.g., data from third party data providers and industry-average data)
- A combination of both primary and secondary data

IFRS S2 requires an entity to prioritise primary data when estimating the entity's Scope 3 GHG emissions. This is because the ISSB considers that data from specific activities within an entity's value chain provides a more accurate representation of the entity's specific value chain activities and, thus, primary data provides a better basis to measure an entity's Scope 3 GHG emissions. However, if an entity uses secondary data to measure its Scope 3 GHG emissions, IFRS S2 requires the entity to consider the extent to which the secondary data faithfully represents the entity's activities. *[IFRS S2.B47, IFRS S2.B48, IFRS S2.B49]*.

Examples of primary and secondary data are provided in Figure 5-3 below:

Figure 5-3: Primary and secondary data

Type of data	Examples
Primary data	‣ Data sources include meter readings, utility bills and other methods that represent specific activities in the entity's value chain. ‣ Data sources may be from internal sources such as from the entity's own records or from external sources such as from suppliers and other value chain partners (e.g., supplier-specific emission factors for purchased goods or services). *[IFRS S2.B48]*.

Secondary data	‣ Data sources include third-party data providers and industry-average data (e.g., from published databases, government statistics, literature studies and industry associations).
	‣ Secondary data includes both: *[IFRS S2.B49]*.
	  ‣ Data used to approximate the activity or emission factors
	  ‣ Primary data from a specific activity (proxy data) that is used to estimate GHG emissions for another activity

5.6.1.C Timely data that faithfully represents the jurisdiction of, and the technology used for, the value chain activity and its GHG emissions

If an entity uses secondary data to measure its Scope 3 GHG emissions, IFRS S2 requires the entity to prioritise the use of activity or emissions data that is: *[IFRS S2.B50, IFRS S2.B51, IFRS S2.B52].*

- Based on, or represents, the technology used in the value chain activity the data is intended to represent (see Illustration 5-1 below)
- Based on, or represents, the jurisdiction in which the activity happened (e.g., where the entity operates or where the activity took place)
- Timely and representative of the entity's value chain activity during the reporting period (e.g., considering whether the secondary data sources relied on information collected in the entity's current reporting period or in a reporting period that is different from the entity's current reporting period)

The illustration below is based on an example used in IFRS S2: *[IFRS S2.B50].*

Illustration 5-1: Use of secondary data

In measuring its Scope 3 GHG emissions from business travel, Entity A obtains primary data from its business travel activities including data about:

- The specific aircraft model used for each flight
- Distance travelled for each flight
- Travel-class used by the travelling employees

Entity A would then estimate its GHG emissions from business travel by applying this primary data with secondary data on the GHG emissions relating to each of those activities.

5.6.1.D Verified data

IFRS S2 requires an entity to prioritise Scope 3 GHG emissions data that is verified. Data can be subject to internal or external verification and may involve on-site checking, reviewing calculations, or cross-checking of data against other sources. *[IFRS S2.B53].*

The ISSB acknowledges that an entity might need to use unverified data if it is unable to verify its Scope 3 GHG emissions without undue cost or effort. *[IFRS S2.B54].*

5.6.1.E Disclosure of inputs to Scope 3 GHG emissions

As part of an entity's disclosure of information about the measurement approach, inputs and assumptions that the entity uses to measure its Scope 3 GHG emissions in accordance with IFRS S2 (as discussed in section 5.3.1 above), the entity is required to disclose information about: *[IFRS S2.B55, IFRS S2.B56].*

- The characteristics of the data inputs referred to in section 5.6.1 on Scope 3 measurement framework that are used in the measurement of Scope 3 GHG emissions
- How the entity has prioritised the highest quality data available, which faithfully represents the value chain activity and its Scope 3 GHG emissions
- The extent to which the entity's Scope 3 GHG emissions are measured using:
  - Inputs from specific activities within the entity's value chain
  - Inputs that are verified

IFRS S2 includes a specifically stated presumption that Scope 3 GHG emissions can be estimated reliably using secondary data and industry averages. However, if an entity determines it is impracticable to estimate its Scope 3 GHG emissions (i.e., the entity cannot apply the requirement after making every reasonable effort to do so), IFRS S2 requires the entity to disclose how it is managing its Scope 3 GHG emissions. The ISSB expects that cases when measuring Scope 3 GHG emissions is impracticable will be rare. *[IFRS S2.B57].*

5.7 Financed emissions

IFRS S2 requires an entity participating in financial activities, including commercial and investment banks, asset managers and insurance entities to provide additional and specific disclosures about its Category 15 Scope 3 GHG emissions or those emissions associated with its investments, specifically its 'financed emissions' in: *[IFRS S2.B59].*

- Asset management (see section 5.7.1 below)
- Commercial banking (see section 5.7.2 below)
- Insurance (see section 5.7.3 below)

Extract from IFRS S2

Appendix A

Defined terms

financed emissions	The portion of gross greenhouse gas emissions of an investee or counterparty attributed to the loans and investments made by an entity to the investee or counterparty. These emissions are part of Scope 3 Category 15 (investments) as defined in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).

The amount of financed emissions of an entity participating in financial activities is a key focus area for users of general purpose financial reports because it is an indicator of an entity's exposure to climate-related risks and opportunities and how the entity might need to adapt its financial activities over time. This is because: *[IFRS S2.B58].*

- Investees, borrowers and counterparties with high GHG emissions could be more susceptible to risks associated with technological changes, shifts in supply and demand and policy changes.
- As a consequence, those risks could increase the exposure of entities providing financial services to counterparties, borrowers and investees to credit risk, market risk, reputational risk and other financial and operational risks (such as credit risk associated with financing borrowers affected by carbon taxes or reputational risks from financing fossil fuel projects).

The application guidance in IFRS S2 supports the use of different measurement approaches to calculate an entity's financed emissions. In developing this application guidance, the ISSB's intention was to allow for measurement methodologies for different asset classes to emerge and be accepted by the market, such as the measurement methodologies developed by the Partnership for Carbon Accounting Financials. *[IFRS S2.BC125].*

5.7.1 Asset management

IFRS S2 requires an entity that participates in asset management activities to disclose the information set out in Figure 5-4 below:

Figure 5-4: Asset management disclosures

Information to disclose	Further considerations	
The entity's absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 GHG emissions *[IFRS S2.B61(a)]*	-	
For each of the disaggregated Scope 1, Scope 2 and Scope 3 GHG emissions disclosures, the total amount of assets under management (AUM) included in the entity's financed emissions disclosures, expressed in the presentation currency of the entity's financial statements *[IFRS S2.B61(b)]*	-	
The percentage of the entity's total AUM included in the financed emissions calculation *[IFRS S2.B61(c)]*	For exclusions	Explain the exclusions, including the type of assets excluded and associated amount of AUM, if the percentage of the entity's total AUM included in the financed emissions calculation is less than 100%.
The methodology used by the entity to calculate its financed emissions *[IFRS S2.B61(d)]*	Describe the allocation method used by the entity to attribute its share of emissions in relation to the size of its gross exposure.	

5.7.2 Commercial banking

IFRS S2 requires an entity that participates in commercial banking activities to disclose the information set out in Figure 5-5 below:

Figure 5-5: Commercial banking disclosures

Information to disclose	Further considerations	
The entity's absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 GHG emissions for each industry by asset class.	For disaggregation by industry	The Global Industry Classification Standard (GICS) 6-digit industry-level code is required to classify counterparties (using the latest version of the classification system available at the reporting date).

[IFRS S2.B62(a)].	For disaggregation by asset class	Asset classes include: ‣ Loans ‣ Project finance ‣ Bonds ‣ Equity investments ‣ Undrawn loan commitments If financed emissions are calculated and disclosed for other asset classes, the entity is required to explain why including those additional asset classes provides relevant information to users of general purpose financial reports.
The entity's gross exposure to each industry by asset class, expressed in the presentation currency of the entity's financial statements. *[IFRS S2.B62(b)].*	For funded amounts	Gross exposure is to be calculated as the funded carrying amounts (before subtracting any loss allowance), whether prepared in accordance with IFRS accounting standards or other GAAP.
	For undrawn loan commitments	The full amount of the commitment is disclosed separately from the drawn portion of loan commitments.
The percentage of the entity's gross exposure included in the financed emissions calculation. *[IFRS S2.B62(c)].*	For exclusions	Explain the exclusions, including the type of assets excluded, if the percentage of the entity's gross exposure included in the financed emissions calculation is less than 100%.
	For funded amounts	Exclude all impacts of risk mitigants (if applicable) from gross exposure.
	For undrawn loan commitments	Separately disclose the percentage of the entity's undrawn loan commitments included in the financed emissions calculation.
The methodology used by the entity to calculate its financed emissions. *[IFRS S2.B62(d)].*	Describe the allocation method used by the entity to attribute its share of emissions in relation to the size of its gross exposure.	

5.7.3 Insurance

IFRS S2 requires an entity that participates in insurance activities to disclose the information set out in Figure 5-6 below:

Figure 5-6: Insurance disclosures

Information to disclose	Further considerations	
The entity's absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 GHG emissions for each industry by asset class. *[IFRS S2.B63(a)].*	For disaggregation by industry	The GICS 6-digit industry-level code is required to classify counterparties (using latest version of the classification system available at the reporting date).
	For disaggregation by asset class	Asset classes include: ▸ Loans ▸ Bonds ▸ Equity investments ▸ Undrawn loan commitments If financed emissions are calculated and disclosed for other asset classes, the entity is required to explain why including those additional asset classes provides relevant information to users of general purpose financial reports.
The entity's gross exposure for each industry by asset class, expressed in the presentation currency of the entity's financial statements. *[IFRS S2.B63(b)].*	For funded amounts	Gross exposure is to be calculated as the funded carrying amounts (before subtracting any loss allowance), whether prepared in accordance with IFRS accounting standards or other GAAP.
	For undrawn loan commitments	The full amount of the commitment is disclosed separately from the drawn portion of loan commitments.
The percentage of the entity's gross exposure included in the financed emissions calculation. *[IFRS S2.B63(c)].*	For exclusions	Explain the exclusions, including the type of assets excluded, if the percentage of the entity's gross exposure included in the financed emissions calculation is less than 100%.
	For undrawn loan commitments	Separately disclose the percentage of the entity's undrawn loan commitments included in the financed emissions calculation.

The methodology used by the entity to calculate its financed emissions. *[IFRS S2.B63(d)]*.	Describe the allocation method used by the entity to attribute its share of emissions in relation to the size of its gross exposure.

6 Effective date

IFRS S2 is effective for annual reporting periods beginning on or after 1 January 2024. An entity is permitted to apply IFRS S2 earlier than 1 January 2024, but to do so, the entity is required to disclose that fact and it is also required to apply IFRS S1 at the same time. *[IFRS S2.C1]*.

The actual effective date for entities will depend on when the ISSB standards become mandatory in the jurisdictions in which they operate, unless those entities voluntarily apply the standards before they become mandatory in their jurisdictions. See also relevant discussion in section 8 of Part A – *Introduction to IFRS S1*.

7 Transition reliefs to IFRS S2

In developing IFRS S2, the ISSB decided to provide some relief to ease an entity's transition to the new requirements in the entity's first year of applying those requirements.

The transition reliefs set out in Table 7-1 below are available for an entity to use in the first annual reporting period in which the entity applies IFRS S2. The entity can choose to use all, some, or none of those reliefs in its first annual reporting period. *[IFRS S2.C4, IFRS S2.BC174]*.

Figure 7-1: Transition reliefs for IFRS S2

Relief topic	Nature of relief that applies to the first annual reporting period in which the entity applies IFRS S2
Comparative information	An entity is not required to disclose comparative information. *[IFRS S2.C3]*.
GHG Protocol	An entity is permitted to continue to use a method other than the GHG Protocol to measure its GHG emissions if the entity used that method to measure its GHG emissions in the annual reporting period immediately preceding the date of initial application of IFRS S2. *[IFRS S2.C4(a)]*. The date of initial application is the start of the reporting period in which an entity first applies IFRS S2.
Scope 3 GHG emissions	An entity is not required to disclose its Scope 3 GHG emissions, including the additional information about financed emissions (if applicable). *[IFRS S2.C4(b)]*.

If an entity uses either of the abovementioned reliefs relating to the GHG Protocol or Scope 3 GHG emissions, IFRS S2 allows the entity to continue to use that relief so that it is not required to present that information as comparative information in subsequent reporting periods. *[IFRS S2.C5]*. This is explained further in Illustration 7-1 below:

Illustration 7-1: Comparative information transition relief
Entity A applies ISSB standards for the first time for the annual reporting period ending 31 December 2024.

In its first set of sustainability-related financial disclosures, Entity A elects to not disclose its Scope 3 GHG emissions in accordance with the transition relief options available in IFRS S2.

In its second set of sustainability-related financial disclosures, which is for the annual reporting period ending 31 December 2025, Entity A is required to disclose its Scope 3 GHG emissions for the 2025 reporting period. However, in accordance with the transition relief in IFRS S2, Entity A elects to not disclose its Scope 3 GHG emissions for the 2024 comparative period.

In its third set of sustainability-related financial disclosures, which is for the annual reporting period ending 31 December 2026, Entity A is required to disclose its Scope 3 GHG emissions for the 2026 reporting period and its Scope 3 GHG emissions for the 2025 comparative period. This is because the transition relief for Scope 3 GHG emissions only applies to the Scope 3 GHG emissions that relate to the first annual reporting period.

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