Staff paper

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ISSB Meeting

Date	**February 2023**
Project	**General Sustainability-related Disclosures and Climate-related Disclosures**
Topic	**Effective date**
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Objective

1. This paper asks the ISSB to specify the effective date for IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and for IFRS S2 *Climate-related Disclosures* (IFRS S2). The staff recommendations are based on the assumption that the ISSB issues IFRS S1 and IFRS S2 in mid-2023.

2. This paper also asks the ISSB to confirm the duration of previously agreed transitional reliefs.

3. The staff have analysed and presented recommendations for IFRS S1 and IFRS S2 jointly given how closely they are related.

Summary of the staff's recommendations

Recommendation 1—Effective date

4. The staff recommends that the ISSB:

   (a) require that both IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after 1 January 2024 (meaning an entity would report its first sustainability-related disclosures in 2025);

   (b) confirm that early application of IFRS S1 and IFRS S2 is permitted;

   (c) permit early application only if an entity applies both IFRS S1 and IFRS S2 at the same time; and

   (d) confirm that if an entity applies IFRS S1 and IFRS S2 early, it is required to disclose that fact.

Recommendation 2—Transitional reliefs

5. The staff recommends that the ISSB:

(a) permit an entity, in applying short term transitional relief, to report its sustainability-related financial disclosures:

    (i) at the same time as its next second quarter or half-year interim report if the entity is **required** to provide such an interim report;

    (ii) at the same time as its next second quarter or half-year interim report, but no later than nine months after the end of its annual reporting period, if the entity **voluntarily** provides such an interim report;

    (iii) no later than nine months after the end of its annual reporting period, if the entity is **not required and does not voluntarily** provide an interim report;

(b) make the following reliefs available in the first annual reporting period in which an entity applies IFRS S1 and IFRS S2 (ie transitional relief would be provided for one year):

    (i) the relief from the requirement to report sustainability-related financial disclosures at the same time as the related financial statements (in accordance with paragraph 5(a) above);[1]

    (ii) the relief from the requirement to measure Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions in accordance with the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (GHG Protocol Corporate Standard) for entities that have previously used a different measurement basis;[2] and

    (iii) the relief from the requirement to disclose Scope 3 GHG emissions.[3]

Structure of the paper

6. This paper is structured as follows:

    (a) Background (paragraphs 7–11);

    (b) Summary of feedback received (paragraphs 12–21);

    (c) Staff analysis and recommendations (paragraphs 22–94); and

    (d) Questions for the ISSB (paragraph 95).

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[1] As decided by the ISSB at its November 2022 meeting. See the November 2022 Agenda Paper 3C *General Sustainability-related Disclosures—Timing of reporting*.
[2] As decided by the ISSB at its October 2022 meeting. See the October 2022 Agenda Paper 4C *Climate-related Disclosures—Greenhouse gas emissions measurement methods*.
[3] As decided by the ISSB at its December 2022 meeting. See the December 2022 Agenda Paper 4B *Climate-related Disclosures—Scope 3 greenhouse gas emissions*.

Background

7. Paragraph 6.30 of the IFRS Foundation *Due Process Handbook* states that the effective date and transition paragraphs are mandatory parts of an IFRS Standard.[4]

8. Exposure Draft IFRS S1 ([draft] S1) and Exposure Draft IFRS S2 ([draft] S2) do not include proposed effective dates. This is consistent with the approach taken by the International Accounting Standards Board (IASB) and allows the ISSB to consider feedback from respondents on [draft] S1 and [draft] S2 in setting an effective date for both Standards.

9. Additionally, [draft] S1 and [draft] S2 propose permitting early application and propose that if an entity does apply the respective Standards earlier, it discloses that fact. [Draft] S1 and [draft] S2 also propose that comparative information is not required to be disclosed in the first period in which an entity applies the respective Standards and that if an entity does apply the Standards earlier, that that fact be disclosed.

10. As part of the redeliberations on [draft] S1 and [draft] S2, the ISSB decided to provide transitional relief from:

    (a) the requirement for an entity to report its sustainability-related financial disclosures at the same time as its related financial statements, permitting the entity to report its sustainability-related financial disclosures after its related financial statements at the same time as its H1/Q2 earnings reporting;

    (b) the requirement for an entity to measure Scope 1, Scope 2 and Scope 3 GHG emissions in accordance with the *GHG Protocol Corporate Standard*, when the entity has not used the *GHG Protocol Corporate Standard* as a measurement method for measuring its Scope 1, Scope 2 and Scope 3 GHG emissions prior to the issuance of IFRS S2; and

    (c) the requirement for an entity to disclose its Scope 3 GHG emissions.

11. The ISSB agreed to confirm the articulation of the short term transitional relief from reporting sustainability-related financial disclosures at the same time as the financial statements at a later meeting. The ISSB also agreed to confirm the duration of these reliefs when considering the effective dates of the Standards.

Summary of feedback received

12. Respondents provided feedback on the effective date of [draft] S1 and [draft] S2 relative to the date of issuance of the Standards. Respondents were also asked to comment on whether the effective dates of the Standards should be the same. This feedback was summarised at the September 2022 ISSB meeting in Agenda Paper 3A *General Sustainability-related Disclosures—Summary of comments* and Agenda Paper 4A *Climate-related Disclosures—Summary of comments*.

[4] Note in March 2023 the IFRS Foundation Trustee's Due Process Oversight Committee agreed that the ISSB will apply the due process specified for the IASB in the *Due Process Handbook* for corresponding technical activities.

Effective date of IFRS S1 relative to the effective date of IFRS S2

13. Most respondents said that IFRS S2 should have the same effective date as IFRS S1. Most respondents emphasised that to apply the requirements proposed in [draft] S2, it is necessary to apply those requirements at the same time as the general features set out in [draft] S1. Furthermore, many respondents noted that users of general purpose financial reporting need information that is consistent across all sustainability-related risks and opportunities.

14. A few respondents said that [draft] S2 should have a later effective date than [draft] S1 to allow extra time for entities to invest in and implement the systems needed to measure and report against the proposed disclosure requirements in [draft] S2.

15. A few respondents said [draft] S2 should have an earlier effective date than [draft] S1. Those respondents emphasised the urgency for consistent and comparable climate-related disclosures due to the significance of climate-related risks and opportunities for most entities. Furthermore, those respondents highlighted the widespread adoption of the Taskforce on Climate-related Financial Disclosure (TCFD) recommendations as a reason [draft] S2 should (and could) have an earlier effective date.

Effective date of the final Standards

16. In response to [draft] S1, most respondents provided suggestions on the effective date, including:

    (a) a few respondents suggested that the Standard should be effective as soon as possible or within one year after being issued;

    (b) most respondents suggested an effective date of two or more years after issuance; and

    (c) a few respondents suggested an effective date of three or more years after issuance.

17. In response to [draft] S2, a few respondents provided suggestions on the effective date. Of the few respondents that provided a suggestion:

    (a) some respondents suggested that IFRS S2 should be effective as soon as possible, or within one year of the Standard after issuance;

    (b) many respondents suggested an effective date of two or more years after issuance; and

    (c) some respondents suggested an effective date of three or more years after issuance.

18. A few users of general purpose financial reporting asked for accelerated effective dates for IFRS S1 and IFRS S2 (no more than twelve months after issuance), noting that the proposed requirements build on well-established standards and frameworks.

19. Many respondents commented on the urgency of creating a global baseline of sustainability-related financial disclosures given similar proposals developed by the European Financial Reporting Advisory Group (EFRAG) and the US Securities and Exchange Commission (US SEC). Many respondents, including European preparers, suggested that the ISSB consider having the

same effective date as the EU Corporate Sustainability Reporting Directive. A few respondents suggested that the ISSB consider having the same effective date as the US SEC's requirements.

20. Almost all respondents agreed with the early application provision in [draft] S1 and [draft] S2. A few preparers said that they could apply the proposals immediately.

21. Almost all respondents agreed with the proposal in [draft] S1 and [draft] S2 to provide relief from disclosing comparatives in the first year of application.

Staff analysis and recommendations

Staff analysis—the effective date of IFRS S1 and S2

22. In setting the effective date for its first Standards, the staff has considered the following factors:

    (a) jurisdictional adoption;

    (b) application of the Standards by preparers;

    (c) the urgent need for sustainability and climate-related disclosure standards; and

    (d) interoperability with other jurisdictional developments.

23. Paragraph 6.35 of the *Due Process Handbook* provides the following guidance in determining the effective date for IFRS Standards:

> The mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying the Standards have sufficient time to prepare for the new requirements.

24. In other words, in setting the effective date of IFRS S1 and IFRS S2, the ISSB should consider (a.) the time needed by jurisdictions to adopt the Standards and to incorporate the requirements into their legal systems; and (b.) the time needed for preparers to be ready to apply the requirements in IFRS S1 and IFRS S2, whether on a voluntary or mandatory basis. These factors are therefore discussed below.

Jurisdictional adoption

25. The staff notes that, as a starting point, it is helpful to consider the IASB's precedent in setting the effective date of new Standards. The IASB generally has a practice of allowing a period of around 12–18 months between the finalisation of a new Standard and its effective date. However, we note that in the IASB's early standard setting work the period between the issuance of a new Standard and its effective date was 6 to 12 months. The IASB's most recent Standards have had periods of 2 to 3 years between issuance and the effective date.

26. That said, in considering jurisdictional adoption and setting an effective date for a new Standard, the current situation for the IASB is different from the ISSB. As of February 2023, 145 jurisdictions require IFRS Accounting Standards for all or most domestic publicly accountable entities. Whenever the IASB sets an effective date for a new IFRS Accounting Standard, this date is

relevant to those applying IFRS Accounting Standards because, in order to be able to continue to assert compliance with IFRS Accounting Standards, an entity must apply the Standards in accordance with the effective date requirements established by the IASB. It is also typically the case that jurisdictions applying IFRS Accounting Standards use the same effective dates as those set by the IASB. This is different to the ISSB's consideration of jurisdictional adoption in setting the effective date for its first two Standards. With the ISSB issuing its *first Standards*, there will be a range of dates over which the IFRS Sustainability Disclosure Standards, specifically IFRS S1 and IFRS S2, will be adopted for the first time by jurisdictions. Not all jurisdictions will adopt the Standards prior to the effective date (in which case entities in that jurisdiction would not be required to meet the effective date) and we anticipate that jurisdictions are likely to consider appropriate effective dates for application domestically at the time of adoption (so they may allow some or all entities to start applying the Standards later than the Standards' effective date).

27. However, the staff notes that the effective date will be an important signal to jurisdictions and other stakeholders of the date from which the ISSB believe preparers should be able to prepare the disclosures required by its first two Standards. In other words, the effective date set for IFRS S1 and IFRS S2 may be a factor that jurisdictions will consider when deciding when to adopt/endorse the IFRS Sustainability Disclosure Standards. For example, setting an effective date soon after the issuance of the Standards may encourage jurisdictions to adopt faster than they may have done if a later effective date was set. This must be balanced with preparers ability to apply the Standards as discussed in the following section.

28. Finally, the staff notes that when the ISSB issues Standards in the future, it may need to consider jurisdictional adoption in the same way as the IASB, as outlined in paragraph 26, assuming that many jurisdictions will have adopted the IFRS Sustainability Disclosure Standards by that time.

Application of the Standards by preparers

29. The staff notes the importance of taking into account the ability of preparers when setting the effective date for IFRS S1 and IFRS S2. This is in terms of both the signal it provides to jurisdictions as to the date from which the ISSB believe preparers should be able to disclose as required, and as a signal for an appropriate date for voluntary application.

30. The staff understands that the requirements in IFRS S1 and IFRS S2 will be new for many entities. Many entities will need time to create or adjust their internal systems and control procedures to prepare the disclosures required by the Standards. As noted in the paragraph BC87 of the Basis for Conclusions on [draft] S1: 'the time needed will depend, among other things, on an entity's current approach to sustainability-related risks and opportunities and reporting, as well as on an entity's information and circumstances, such as its size and the local requirements or regulations that currently apply.'

31. At the same time, the staff notes that IFRS S1 and IFRS S2 build on well-established standards and frameworks, which many preparers will be familiar with and will have applied. For example, many of the requirements in both IFRS S1 and IFRS S2 are based on the TCFD recommendations. The TCFD recommendations are increasingly being incorporated into legal/regulatory reporting requirements by several jurisdictions, including Canada, the EU, Hong Kong, Japan, Singapore, Switzerland, the UK and the US. As a result, preparers that are already

using the TCFD recommendations, CDSB Framework, and/or the SASB Standards may have an easier time applying the requirements of IFRS S1 and IFRS S2 than those preparers for whom sustainability-related financial reporting is new.

32. Therefore, when considering the time needed for preparers to apply the Standards, the staff think that the effective date set for IFRS S1 and IFRS S2 should encourage application by those preparers that are able to do so relatively quickly, while recognising that other preparers will need more time. This has been an important consideration throughout the redeliberations of [draft] S1 and [draft] S2. The ISSB has made a number of decisions, in particular the transition reliefs introduced (as summarised in paragraph 10) to support preparers in applying the requirements of IFRS S1 and IFRS S2. We think those reliefs will reduce the time that may be needed by entities to prepare to apply these Standards. For example, delaying the requirement to disclose Scope 3 GHG emissions information for a year will reduce the amount of preparation required to start applying IFRS S2.

33. Decisions taken by the ISSB that support preparer application are set out in this month's Agenda Paper 3D and 4C *General Sustainability-related Disclosures and Climate-related Disclosures—Proportionality and support for those applying IFRS S1 and IFRS S2*. Throughout the redeliberations, the ISSB has sought to include mechanisms that acknowledge that many will need to start with simpler application of the Standards and to build expertise over time. For example, in providing information about climate resilience, the scenario analysis required of entities allows for simpler approaches to be applied initially, reducing the initial burden for those entities that are new to such analysis. The staff think that, in combination, these decisions by the ISSB will allow preparers to comply with IFRS S1 and IFRS S2 at an earlier date than would have otherwise been the case.

Urgent need for sustainability and climate-related disclosure standards

34. Feedback from many respondents to [draft] S1 and [draft] S2 said the ISSB should continue moving at pace in issuing the final Standards. This is consistent with the feedback to the IFRS Foundation's Trustees Consultation Paper on Sustainability Reporting (September 2020) that highlighted the urgent need for global sustainability-related standards, most notably on climate-related matters. This feedback has been reflected in the speed at which [draft] S1 and [draft] S2 were published and in the subsequent redeliberations.

35. Therefore, the staff believe that the effective date for IFRS S1 and IFRS S2 should reflect the urgent need expressed by users of general purpose financial for decision-useful sustainability-related financial disclosures.

Interoperability

36. Many respondents to the exposure drafts noted that the effective date for IFRS S1 and IFRS S2 should support interoperability with other jurisdictional sustainability requirements, such as the European Sustainability Reporting Standards (ESRS) and the US SEC climate-related rules, by being as aligned as possible with their timelines, including when the Standards become effective. This would reduce the complexity and burden for preparers that will apply IFRS Sustainability Disclosure Standards and other sustainability reporting requirements (whether mandated or

voluntarily). For example, if timelines are different, an entity might need to develop processes and internal controls to comply with one set of requirements. At a later date when preparing to apply another set of requirements the entity may then have to reassess whether new processes and internal controls need to be introduced, or if existing processes and internal controls need to be adapted. In such a case the preparer may prefer to develop all the processes and internal controls necessary for both sets of requirements at the same time.

37. The staff notes that the first companies will begin to apply the ESRS in 2024, with reporting in 2025. We also note that the US SEC climate-related rules initially proposed disclosure from 2023 for 2024 reporting, although the staff understand this has now been pushed back.

38. In addition, it is also important to note the COP27 announcement from the International Organization of Securities Commissions (IOSCO), which set out its expectations that the ISSB's Standards should be ready for use by corporates for their 2024 year end accounts. We also note that CDP has announced it will incorporate IFRS S2 climate-related data into its global environmental disclosure platform for the 2024 disclosure cycle with over 18,700 entities disclosing on the CDP platform. Therefore, we think there will be many entities collecting data as required for IFRS S2 for the 2024 financial year.

Staff recommendation—an effective date for annual reporting periods beginning on or after 1 January 2024

39. Under this approach the ISSB would set the effective date for IFRS S1 and IFRS S2 for annual reporting periods beginning on or after 1 January 2024 (with the first disclosures therefore being provided in 2025). In assessing this approach, the staff notes the factors in paragraphs 25–38 on:

    (a) jurisdictional adoption;

    (b) application of the Standards by preparers;

    (c) the urgent need for sustainability and climate-related disclosure standards; and

    (d) interoperability with other jurisdictional developments.

Jurisdictional adoption

40. Setting an effective date for annual reporting periods beginning on or after 1 January 2024 would be consistent with the ISSB's current pace in meeting the urgent need for sustainability-related and climate-related financial disclosures by users of general purpose financial reporting. This approach would enable jurisdictions that are ambitious about the disclosure of decision-useful sustainability-related information to mandate the requirements for the preparers in their jurisdictions.

41. On first impression an aggressive effective date may create challenges for endorsement/adoption by some jurisdictions. However, a jurisdiction that may be concerned that some or all of its preparers will not be able to apply the Standards by the effective date specified in the Standards, could allow preparers (or a subset of preparers) to apply the Standards from a later date. This approach *enables* a jurisdiction to adopt and mandate the Standards on an ambitious timeline,

consistent with the feedback received in the consultation that there is an urgent need for sustainability-related disclosures.

Application of the Standards by preparers

42. The staff notes that some preparers responded to [draft] S1 and [draft] S2 stating they would be able to comply with the exposure drafts for 2024 reporting. This is particularly likely to be the case for those entities that are currently reporting in accordance with the TCFD recommendations (whether mandatorily or voluntarily) because S1 and S2 leverage and build on the TCFD recommendations. Setting such an effective date would encourage preparers that are capable of applying IFRS S1 and IFRS S2 to apply them at an early date and thus begin meeting the information needs of users of general purpose financial reporting, whether because the entity is required by its jurisdiction to provide this information, or because the entity chooses to provide the disclosures.

43. The staff recognises that an effective date beginning in the 2024 annual reporting period carries some risks. Specifically:

    (a) entities may rush to comply with IFRS S1 and IFRS S2 (either because they may be required to or because they feel stakeholder pressure to voluntarily apply the Standards). However, this may result in incomplete data and potentially poor-quality disclosures, which could, in turn, become the benchmark for complying with the Standards. The staff recognises that metrics in particular may require real time data collection, so preparers would ideally need to have the systems, processes and controls in place to collect this data before the start of its annual reporting period in 2024. But even if such systems, processes and controls were not fully in place by the start of its annual report, S1 and S2 facilitates and indeed will require the use of estimates in preparing sustainability-related metrics. Also, in many cases entities are required to explain their activities. For example, if an entity does not have a governance body overseeing its sustainability-related risks and opportunities, its disclosure of such information in itself would be useful for users of general purpose financial reporting.

        The staff also notes that on several occasions (such as in discussing the process of learning to measure Scope 3 GHG emissions) the ISSB has noted in its discussions that it is important that entities start the process of providing sustainability-related financial disclosures. In effect, there are benefits in motivating entities to begin applying the Standards as soon as possible as that is the most effective way for entities to progress quickly; in other words, learning by experience. Mechanisms such as the framework for measurement of Scope 3 GHG emissions are designed to enable entities to begin this process of embarking on reporting and improving over time.

    (b) an effective date beginning in the 2024 annual reporting period would be ambitious for some entities. However, the staff thinks that with the various decisions made by the ISSB to support preparers in apply IFRS S1 and IFRS S2 (as discussed in this month's Agenda Paper 3D and 4C *General Sustainability-related Disclosures and Climate-related Disclosures—Proportionality and support for those applying IFRS S1 and IFRS S2*), it is feasible for entities to begin applying IFRS S1 and IFRS S2 for the 2024 annual reporting period. In particular, with the ISSB's decision to introduce transitional relief on the timing of reporting requirements in [draft] S1 and the existing relief in both [draft] S1 and [draft] S2 on comparative information, the staff thinks entities should have sufficient time to apply IFRS S1 and IFRS S2, even if their annual reporting period begins on 1 January 2024.

For example, consider an entity with an annual reporting period beginning on 1 January 2024 and ending on 31 December 2024. We assume the entity takes advantage of the transitional relief to report its sustainability-related financial disclosures at the same time as its second quarter or half-year interim report (as outlined in the recommendation in paragraph 78 below). In this case we assume the entity is required to disclose its half-year interim report within 3 months of the end of its half-year (30 June 2025), thus it would need to publish its sustainability-related financial disclosures and its 2025 half-year report by 30 September 2025. Therefore, in this example, the entity in its first year of reporting would have 21 months between the start of its 2024 annual reporting and when it would need to report its sustainability-related financial disclosures. We note, in this example, that this entity would have up to 6 months to begin to prepare reporting after the issuance of IFRS S1 and S2 (anticipated by the middle of 2023). Therefore, the entity would have a total of 27 months to report its first sustainability-related financial disclosures after the issuance of the Standards.

44. The staff expect that there will be a learning curve for many entities when they apply IFRS S1 and IFRS S2 for the first time and the potential risk of lower quality disclosures in the first years of application should not prevent disclosure from beginning. Nevertheless, in addition to the capacity building efforts of the ISSB that will be important in supporting preparers to apply IFRS S1 and IFRS S2, the staff thinks that other stakeholders including users, assurance providers and regulators will have an important role to play in supporting improved reporting by preparers.

45. The staff also notes that the ISSB's project to issue updates to the SASB Standards that improve their international applicability should occur before the recommended effective date to support application by preparers in identifying sustainability-related risks and opportunities and related disclosures. However, the staff believes that this is feasible before 1 January 2024.

Urgent need

46. Setting an effective date for annual reporting periods beginning on or after 1 January 2024 would be addressing respondents' feedback on [draft] S1 and [draft] S2, as well as the feedback to the IFRS Trustee 2020 consultation, meeting the urgent need for sustainability-related and climate-related financial disclosures by users of general purpose financial reporting.

Interoperability

47. Such an effective date would also be aligned with the timetable of the ESRS and other jurisdictions moving at pace in setting up jurisdictional reporting requirements. As noted by preparers, it is less burdensome and complex to develop the controls and processes to apply both sets of requirements at the same time. The staff also notes that an effective date beginning in the 2024 annual reporting period would be consistent with the public statements of IOSCO and CDP. However, there is an argument that this effective date may be considered aggressive and thus a barrier to endorsement/adoption by some jurisdictions. However, the staff notes the interaction with jurisdictional decisions as set out above.

Staff recommendation

48. Following the above analysis, the staff recommends that the ISSB set the effective date for IFRS S1 and IFRS S2 for annual reporting periods beginning on or after 1 January 2024.

Other approaches considered but not recommended

Setting an effective date for annual reporting periods beginning on or after 1 January 2025 with earlier application allowed

49. The staff considered an alternative approach of an effective date for IFRS S1 and IFRS S2 for annual reporting periods beginning on or after 1 January 2025 (thus with the first disclosures being provided in 2026), with earlier application permitted. In assessing this approach, the staff notes the factors in paragraphs 25–38 on:

    (a) jurisdictional adoption;

    (b) application of the Standards by preparers;

    (c) the urgent need for sustainability and climate-related disclosure standards; and

    (d) interoperability with other jurisdictional developments.

Jurisdictional adoption

50. The staff notes that an effective date for annual reporting periods beginning on or after 1 January 2025 with an earlier application allowed, might be considered less aggressive and therefore provide more time for jurisdictions to overcome their adoption challenges.

51. However, as noted above, the staff believes that jurisdictions have the means to address domestic concerns in the approaches to adoption and application of the Standards.

52. Additionally, by not setting a 2024 effective date (ie annual reporting periods beginning on or after 1 January 2024), it is more likely that even if preparers in a jurisdiction were capable of earlier application, they would be dissuaded from doing so resulting in slower improvements to reporting.

Application of the Standards by preparers

53. The staff notes that many respondents to [draft] S1 and [draft] S2 suggested an effective date of two or more years after the issuance of the Standards, although this was suggested before the ISSB decided to introduce transitional reliefs, as well as other decisions to support preparers (see paragraphs 32–33).

54. A later effective date would, of course, allow more time for preparation. This could result in better application initially. However, it would also delay the time when entities are likely to begin working on application and preparing to provide the required information.

Interoperability

55. This approach would still allow preparers to use IFRS S1 and IFRS S2 alongside jurisdictional requirements (for example ESRS), and thus would reduce cost, burden and complexity that preparers might face if IFRS S1 and IFRS S2 were applied at a different time to jurisdictional requirements. However, fewer entities are likely to use IFRS S1 and S2 for annual reporting periods beginning on or after 1 January 2024 if this is not required and it is often cited that it can be harder for entities to obtain budget for implementation projects when they are not essential. Thus, in practice the ability to maximise operability could still be hampered.

Staff assessment

56. Although this alternative approach would permit application of the Standards for annual reporting periods beginning on or after 1 January 2024, setting an effective date for 2024 annual reporting period will in the staff's view be far more likely to result in information being applied in accordance with IFRS S1 and IFRS S2 for the 2024 annual reporting period.

57. In the staff's view, delaying the effective date by a year for the 2025 annual reporting period would delay meeting the needs of users of general purpose reporting. The staff thinks that this alternative approach would also be potentially detrimental from an interoperability perspective.

58. Although particular preparers may benefit from more time to prepare for applying IFRS S1 and IFRS S2, it would likely dissuade application by some preparers capable of applying the Standards for the 2024 annual reporting period. The staff also think that it is feasible for entities to apply the Standards for the 2024 annual reporting period, considering both Standards build on established sustainability frameworks, and the transitional reliefs and other decisions made by the ISSB to support preparers.

Effective dates beyond 2025

59. The staff also considered alternative effective dates beyond 2025, but concluded that such later effective dates would be inconsistent with the demand of users of general purpose financial reporting for disclosure of sustainability and climate-related financial reporting. It would also likely discourage earlier application of the Standards by preparers capable of doing so, whilst increasing burden and complexity for preparers who are complying with other jurisdictional reporting requirements at an earlier date.

Effective date of IFRS S1 versus IFRS S2

60. The staff also considered whether the effective dates for IFRS S1 and IFRS S2 should be different.

61. As discussed in paragraph 13, most respondents supported IFRS S2 having the same effective date as IFRS S1. A few respondents noted that [draft] S2 could be applied earlier as the requirements are familiar, building on the TCFD recommendations, whilst allowing more time for preparers to implement the disclosure of sustainability-related risks and opportunities at large.

62. However, in line with the feedback from most respondents, the staff thinks that the requirements proposed in [draft] S2 cannot be appropriately applied without the general features relating to sustainability-related financial reporting proposed in [draft] S1. This includes the requirements on

materiality, timing of reporting, location of information, disclosure of judgements, assumptions and estimates and treatment of errors. The staff note that this could be addressed by requiring entities to apply parts of IFRS S1 when it applies IFRS S2 to provide the necessary general features. However, this would introduce complexity in the Standards and for preparers.

63. Additionally, the staff think there is greater complexity, burden and cost for preparers in applying one Standard and then having to apply a second Standard at a later date (similar to the example given in paragraph 36).

64. If the effective date for IFRS S2 were before IFRS S1, users of general purpose financial reporting would not be provided with complete and connected information about an entity's sustainability-related risks and opportunities that is decision useful in contrast to the urgent need for this information. Arguably, IFRS S1 could come into effect first, but in applying the requirements in IFRS S1, if information about climate-related risks and opportunities was identified as material by an entity, we would expect preparers to apply the requirements in IFRS S2, whether or not it was effective. Considering the urgent need for disclosure of climate-related financial information, which some preparers are already providing and which is increasingly becoming mandated by jurisdictions, the staff does not think there is a strong reason for the effective date of IFRS S2 to be later than IFRS S1.

65. Therefore, the staff recommends the same effective date for both IFRS S1 and IFRS S2. We think this is less confusing and complex for preparers than different effective dates. The same effective date for both Standards will provide a more complete and holistic understanding of an entity's sustainability-related risks and opportunities for users of general purpose financial reporting.

Early application

66. [Draft] S1 and [draft] S2 would permit early application and propose that if an entity applies the respective Standards earlier, it discloses that fact. Almost all respondents to [draft] S1 and [draft] S2 agreed with these proposals.

67. If the ISSB supports an effective date for annual reporting periods beginning on or after 1 January 2024 the staff still believes such an early application provision is appropriate. Permitting early application of the Standards enables entities that are capable of doing so to meet the information needs of users of general purpose financial reporting more quickly. This may be particularly relevant for entities that are already providing disclosures about sustainability-related risks and opportunities (including climate-related risks and opportunities), and so are in a position to transition to IFRS Sustainability Disclosure Standards more quickly. We note that a few preparers said that they could apply the Standards immediately.

68. For the same reasons that the staff think that IFRS S1 and IFRS S2 should have the same effective date (see paragraphs 60–65), we think that early application should be permitted only when both IFRS S1 and IFRS S2 are applied at the same time by an entity.

Staff recommendation

69. Therefore, the staff recommend that the ISSB:

(a) confirm that early application of IFRS S1 and IFRS S2 is permitted;

(b) permit early application only if an entity applies both IFRS S1 and IFRS S2 at the same time; and

(c) confirm that if an entity applies IFRS S1 and IFRS S2 early, it is required to disclose that fact.

Staff recommendation—Transitional reliefs for specific requirements

70. As part of the redeliberations on [draft] S1 and [draft] S2, the ISSB decided to provide transitional relief on:

(a) the requirement for an entity to report its sustainability-related financial disclosures at the same time as its related financial statements, permitting the entity to report its sustainability-related financial disclosures after its related financial statements at the same time as its H1/Q2 earnings reporting;

(b) the requirement for an entity to measure Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions in accordance with the *GHG Protocol Corporate Standard*, when the entity has not used the *GHG Protocol Corporate Standard* as a measurement method for measuring its Scope 1, Scope 2 and Scope 3 greenhouse gas emissions prior to the issuance of IFRS S2; and

(c) the requirement for an entity to disclosure its Scope 3 GHG emissions.

71. The ISSB decided that the following would be decided at a later meeting:

(a) how to articulate the short term transitional relief described in paragraph 70(a) that would permit an entity to report its annual sustainability-related financial disclosures at the same time as its H1/Q2 earnings reporting; and

(b) for how long these transitional reliefs would be available.

Timing

72. At its meeting in November 2022, when discussing Agenda Paper 3C *General Sustainability-related Disclosures—Timing of Reporting*, the ISSB proposed that the transitional relief allowing an entity to report its sustainability-related financial disclosures after its related financial statements should be anchored to the entity's H1/Q2 earnings reporting. This was intended to align the reporting of sustainability-related financial to a point in time when there would be significant investor focus on an entity's reporting of its second quarter or half year earnings. However, in making its decision, the ISSB asked the staff to return with wording to clearly articulate its decision.

73. When it comes to jurisdictional requirements relating to earnings reporting, different jurisdictions have different requirements, including:

(a) whether quarterly or half year interim reporting is required; and

(b) the deadline by which the quarterly or half year interim report must be disclosed after the end of the period.

74. To take a few examples to illustrate this:

(a) China requires semi-annual financial reporting by listed companies that must be submitted within two months of the end of the period;

(b) listed companies in Germany have to publish a half-yearly financial report within two months after the end of the reporting period;

(c) in Japan, listed companies must report their quarterly earnings within 45 days after the end of the quarter;

(d) listed companies on the New Zealand stock exchange are required to file a six-monthly financial report with the exchange within three months of the half-year-end;

(e) in South Korea, listed companies are required to file quarterly financial reports within 45 days of the quarter-end;

(f) in the UK, listed companies must make public a half-yearly financial report no later than three months after the end of the period to which the report relates; and

(g) in the US, listed companies must file a quarterly earnings report within 40 to 45 days after the end of the quarter depending on the size of the company.

75. However, the staff notes that some jurisdictions have no quarterly or half-year interim reporting requirements, such as Nigeria. Similarly, some jurisdictions may have quarterly or half-year interim reporting requirements for only some entities but not others (for example, small public companies or private companies). Yet those jurisdictions may still require those other entities to apply IFRS Sustainability Disclosure Standards.

76. Therefore, for entities that are not required to provide quarterly or half-year interim reports, the staff thinks that the transitional relief should be in line with the longest quarterly or half-year filing deadline that has been identified. According to the research the staff has conducted, we think this is three months after the end of the second quarter or half-year period, as in accordance with the requirements of New Zealand and the UK. In other words, when an entity is not required to provide quarterly or half-year interim reporting, during the transitional relief phase, the staff thinks the entity should be able to report is sustainability-related financial disclosures up to nine months after the end of its annual reporting period.

77. The staff also notes that some entities may not be required to provide quarterly or half-year interim reports, but may nevertheless provide them voluntarily. Therefore, in line with the above, the staff think that such an entity should reports its sustainability-related financial disclosures at the same time as its voluntary second quarter or half-year interim report. However, we recognise that in voluntarily providing quarterly or half-year interim reporting, it is the entity's choice as to when it provides its interim report, which could be more than three months after the end of its second quarter or half-year period. Therefore, to be aligned with the recommendation for entities that are

not required and do not voluntarily provide interim reports, we think that entities that voluntarily provide an interim report should report its sustainability-related financial disclosures no later than nine months after the end of its annual reporting period, when its second quarter or half year interim report is provided later than this date. This ensures that sustainability-related financial disclosures are reported in a sufficiently timely manner to users of general purpose financial reporting in such a situation. Note that this would not mean an entity would be prevented from providing its second quarter or half year-interim report after three months of the end of its second quarter or half-year period. Rather, if an entity does provide interim report later than three months after the end of its second quarter or half-year period, its sustainability-related financial disclosures would need to be reported no later than nine months after the end of its annual reporting period, and thus not at the same time as its interim report.

Staff recommendation

78. The staff recommends that the ISSB permit an entity, in applying the short term transitional relief, to report its sustainability-related financial disclosures:

    (a) at the same time as its following second quarter or half-year interim 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 report, but no later than nine months after the end of its annual reporting period, if the entity **voluntarily** provides such an interim report; and

    (c) no later than nine months after the end of its annual reporting period, if the entity is **not required and does not voluntarily** provide an interim report.

79. Importantly, in introducing this transitional relief period, the staff is not suggesting that an entity is required to provide quarterly or half yearly reporting. That is a jurisdictional decision. This relief affects only when the sustainability information required by S1 and S2 must be provided.

Length of time the transitional reliefs are available for

80. The ISSB needs to decide for how long the transitional reliefs are available after an entity first applies IFRS S1 and IFRS S2. In deciding this, the staff think there are two main considerations.

81. Firstly, the ISSB should aim for simplicity in deciding the length of time the transitional reliefs are available, as the main purpose is to provide relief and reduce complexity for preparers when they initially apply the Standards. As such, the staff believes the ISSB should aim for the same duration of relief for the three requirements. If each transitional relief lasted for a different length of time for each requirement, this would create complexity for preparers as it would change what they are required to do in complying with IFRS S1 and IFRS S2 more than once. Therefore we think this should be avoided unless there is a strong need to do otherwise. As part of this, the ISSB may want to consider whether the length of time should also be consistent with the transitional relief for comparative information, which was proposed in [draft] S1 and [draft] S2 to be only for the first period in which an entity applies the Standards (so for one year).

82. Secondly, the staff believes that the ISSB should aim for the appropriate balance in providing relief to preparers, whilst recognising that reduce the decision-usefulness of information required by users of general purpose financial reporting as follows:

(a) the relief on the requirement for entity to report its sustainability-related financial disclosures at the same time as its related financial statements prevents users from being provided with sustainability-related financial disclosures in a timely manner and reduces the connectivity between the sets of information, which reduces the ability of users to see the complete package of financial statements and sustainability information together;

(b) the relief on the requirement for an entity to measure its Scope 1, Scope 2 and Scope 3 GHG emissions in accordance with the *GHG Protocol Corporate Standard* when the entity has not used the *GHG Protocol Corporate Standard* as a measurement method for measuring its Scope 1, Scope 2 and Scope 3 greenhouse gas emissions prior to the issuance of IFRS S2, prevents users from being provided with more comparable GHG emissions disclosures; and

(c) the relief on the requirement for an entity disclose its Scope 3 GHG emissions prevents users from being provided with complete GHG emissions disclosures.

83. Therefore, the transitional reliefs provided should last only for as long as the ISSB believes the benefits to preparers outweigh the needs of users of general purpose financial reporting. The staff notes that the ISSB has previously emphasised that these transitional reliefs should be short term and should not be available to preparers for many reporting cycles.

84. Based on the two considerations above, the staff recommends that the transitional reliefs are available only in the first annual reporting period in which an entity applies IFRS S1 and IFRS S2 (ie one year of relief).

85. The staff notes that transitional reliefs permit, but do not require, an entity to take advantage of the reliefs provided. In other words, in the first annual reporting period in which an entity applies IFRS S1 and IFRS S2, the entity is not prevented from:

(a) disclosing comparative information;

(b) disclosing its sustainability-related financial disclosures at the same time as its related financial statements;

(c) measuring its Scope 1, Scope 2 and Scope 3 GHG emissions in accordance with the *GHG Protocol Corporate Standard*, even when the entity has not used the *GHG Protocol Corporate Standard* as a measurement method for measuring its GHG emissions prior to the issuance of IFRS S2; and

(d) disclosing its Scope 3 GHG emissions.

86. If the ISSB agrees with the staff's recommendation for one year of relief, the next consideration is whether the relief should be available for one year from the effective dates of IFRS S1 and IFRS S2 **or** whether it should be provided for the first year of application of IFRS S1 and IFRS S2.

Taking the latter approach, if an entity (voluntarily or if required by a jurisdiction) applies IFRS S1 and IFRS S2 later than, or earlier than, the effective date, the entity would still be entitled to use the reliefs only in the first year of application.

87. The staff think that the length of time the transitional reliefs are available should be anchored to when an entity first applies IFRS S1 and IFRS S2. For example, a jurisdiction may endorse/adopt IFRS S1 and IFRS S2 only in 2025, thus the Standards for entities in that jurisdiction may become mandatory for the 2026 annual reporting period. In a different example, an entity in may be under the size threshold for mandatory application in its jurisdiction in 2024, but following growth, it is required to apply the IFRS Sustainability Disclosure Standards for the first time in 2025.

88. The staff thinks that the transitional reliefs should be available in both examples above—ie the reliefs would be available when entities first apply the Standards even if that is later than the effective dates.

89. The staff notes that these transitional reliefs may be appropriate when an entity first applies the Standards, at least in the first years after IFRS S1 and IFRS S2 are issued. However, as data availability and market practices/norms improve over time, we think that—in the longer term —it may no longer be appropriate for the transitional reliefs to be available in situations, such as, when:

   (a) a jurisdiction is a late endorser/adopter of the IFRS Sustainability Disclosure Standards and thus entities in that jurisdiction begin to apply IFRS S1 and IFRS S2 many years after the effective date; or

   (b) a preparer does not previously meet the threshold set in its jurisdiction for mandatory application of the IFRS Sustainability Disclosure Standards, but after growing meets the threshold and is then required to apply IFRS S1 and IFRS S2, again many years after the effective date of the Standards.

90. For example, in 15 years' time, the staff would expect that the norm for entities would be to disclose its sustainability-related disclosures at the same time as its financial statements and that data availability, amongst other things, would accommodate this. Therefore, it may no longer be appropriate for an entity applying IFRS S1 and IFRS S2 for the first time to have transitional relief from the requirement to report its sustainability-related financial disclosures at the same time as its related financial statements.

91. However, the staff think that we are not currently in a position to determine if, and for how long, each of these transitional reliefs should be available after the effective date of IFRS S1 and IFRS S2, as this will depend on how market practice/norms develop over time. In the future, if the ISSB decides such relief is no longer necessary it could propose amendments to IFRS S1 and IFRS S2 to remove these reliefs at a later date.

Recommendation

92. The staff recommends that the ISSB make the following reliefs available in the first annual reporting period in which an entity applies IFRS S1 and IFRS S2 (ie transitional relief would be provided for one year):

(a) the relief from the requirement to report sustainability-related financial disclosures at the same time as the related financial statements (in accordance with paragraph 78 above);

(b) the relief from the requirement to measure Scope 1, Scope 2 and Scope 3 GHG emissions in accordance with the *GHG Protocol Corporate Standard* for entities that have used a different measurement basis; and

(c) the relief from the requirement to disclose Scope 3 GHG emissions.

93. The staff notes the availability of these transitional reliefs for first-time adopters of IFRS S1 and IFRS S2 may need to be time-limited, as explained in paragraph 91, but that this is not a decision that the ISSB needs to make at this stage.

94. The staff also notes that the reliefs summarised in 92(b) and (c) would be available for an entity to apply in any interim periods that end during the entity's first annual reporting period (if the entity provides interim sustainability-related financial disclosures), in addition to being available for the entity's first annual reporting period. However, we note that the relief summarised in 92(a) is not relevant for interim reporting as it relates to the timing of the sustainability-related financial disclosures for the first annual reporting period. As the IFRS Sustainability Disclosures Standards do not require interim sustainability-related financial reporting, the timing of such interim reporting is not for the ISSB to decide.

Questions for the ISSB

95. The staff presents the following questions for the ISSB:

Questions for the ISSB

1. Does the ISSB have any questions or comments about the matters discussed in the paper?
2. Does the ISSB agree with the staff recommendations on effective date to:

    (a) require that both IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after 1 January 2024 (meaning an entity would report its first sustainability-related disclosures in 2025);

    (b) confirm that early application of IFRS S1 and IFRS S2 is permitted;

    (c) permit early application only if an entity applies both IFRS S1 and IFRS S2 at the same time; and

    (d) confirm that if an entity applies IFRS S1 and IFRS S2 early, it is required to disclose that fact?

3. Does the ISSB agree with the staff recommendations on transitional reliefs to:

   (a) permit an entity, in applying short term transitional relief, to report its sustainability-related financial disclosures:

      (i) at the same time as its next second quarter or half-year interim report if the entity is **required** to provide such an interim report;

      (ii) at the same time as its next second quarter or half-year interim report, but no later than nine months after the end of its annual reporting period, if the entity **voluntarily** provides such an interim report;

      (iii) no later than nine months after the end of its annual reporting period, if the entity is **not required and does not voluntarily** provide an interim report;

   (b) make the following reliefs available in the first annual reporting period in which an entity applies IFRS S1 and IFRS S2 (ie transitional relief would be provided for one year):

      (i) the relief from the requirement to report sustainability-related financial disclosures at the same time as the related financial statements (in accordance with paragraph 5(a) above);

      (ii) the relief from the requirement to measure Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions in accordance with the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (GHG Protocol Corporate Standard) for entities that have previously used a different measurement basis; and

      (iii) the relief from the requirement to disclose Scope 3 GHG emissions per [draft] S2?