Staff paper

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Project	**General Sustainability-related Disclosures**
Topic	**Disclosure of judgements, assumptions and estimates**
Contacts	**Tim Kasim** (tkasim@ifrs.org) **Sundip Jadeja** (sjadeja@ifrs.org)

Objective

1. This paper presents the staff analysis and recommendations on disclosures of the judgements, assumptions and estimates that an entity has made in applying IFRS Sustainability Disclosure Standards.

2. This paper seeks to comprehensively address a topic that arose several times during the ISSB's redeliberation of the Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ([draft] S1) on an entity's use of judgements, assumptions and estimates—and addresses the need for greater transparency about the entity's use of judgements, assumptions and estimates in applying IFRS Sustainability Disclosure Standards.

3. This paper addresses the following matters:

   (a) the requirements for an entity to disclose judgments, assumptions and estimates made in preparing and disclosing its sustainability-related financial information; and

   (b) the requirement for an entity to use consistent financial data and assumptions, to the extent possible (paragraph 80 of [draft] S1).

4. The purpose of this paper is to:

   (a) discuss the staff analysis and recommendations on matters described in paragraph 3; and

   (b) seek decisions from the ISSB on the staff recommendations.

Summary of recommendations

5. The staff recommends that the ISSB:

Disclosure of judgements, assumptions and estimates that an entity made in applying IFRS Sustainability Disclosure Standards

   (a) introduce a requirement for an entity to disclose judgements that the entity has made in the process of preparing and disclosing its sustainability-related financial information that have the most significant effect on the information provided in those disclosures;

   (b) amend paragraph 55 of [draft] S1 to require an entity to identify the sources that have been applied in preparing the entity's sustainability-related financial disclosures, including the industry or industries specified in IFRS Sustainability Disclosure Standards, SASB Standards or other industry-based sources of guidance; and

(c) clarify that the disclosure requirements related to estimation uncertainty (paragraph 79 of [draft] S1) are also applicable to the requirements on current and anticipated financial effects (paragraph 22 of [draft] S1), including estimation uncertainty that has a significant risk of resulting in a material adjustment within the next financial year to the carrying amounts of assets and liabilities reported in the financial statements.

Consistent use of financial data and assumptions to the extent possible

(d) to clarify that the words 'to the extent possible' mean 'to the extent possible taking into consideration the requirements of IFRS Accounting Standards (or other relevant GAAP)';

(e) to require an entity to explain significant differences in the financial data and assumptions that the entity has used in preparing its sustainability-related financial disclosures, in comparison to those that the entity has used in preparing its financial statements; and

Supporting preparers to disclose judgements, assumptions and estimates made in preparing and presenting sustainability-related financial disclosures

(f) provide guidance to illustrate how to disclose the judgements, assumptions and estimates made in applying IFRS Sustainability Disclosure Standards.

Structure of the paper

6. This paper is structured as follows:

    (a) Background (paragraphs 7–15);

    (b) Staff analysis and recommendations (paragraphs 16–50):

        (i) Disclosures of judgements, assumptions and estimates that an entity made in applying IFRS Sustainability Disclosure Standards;

        (ii) Consistent use of financial data and assumptions to the extent possible;

        (iii) Guidance on how to present disclosures of judgements, assumptions and estimates made in preparing and presenting sustainability-related financial disclosures; and

    (c) Questions for the ISSB (paragraph 51).

Background

7. Entities will need to use judgements, assumptions and estimates in applying IFRS Sustainability Disclosures Standards, including in applying the requirements proposed in [draft] S1 and the Exposure Draft IFRS S2 *Climate-related Disclosures* ([draft] S2). An entity will need to apply its judgements and apply assumptions and estimates particular to its circumstances in preparing its sustainability-related financial disclosures. Disclosure of such entity specific information will be useful for users of general purpose financial reporting.

8. The requirements in [draft] S1 that relate to an entity's use of judgements, assumptions and estimates were adapted from, and are consistent with, the IASB's *Conceptual Framework for Financial Reporting*, IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Paragraphs 17–22 provides a summary of the proposed requirements on the use of and the disclosure of judgements, assumptions and estimates in [draft] S1.

9. On several occasions during the redeliberation of [draft] S1, the ISSB discussed the requirements proposed in [draft] S1 that relate to an entity's use of judgements, assumptions and estimates and the

need for greater transparency on these matters. Previous ISSB's discussions and decisions on these matters are summarised in paragraphs 10–15.

Fundamental concepts

10. In October 2022, the ISSB discussed whether it should introduce a new requirement for an entity to disclose judgements that an entity has made in identifying sustainability-related risks and opportunities and the disclosures about those risk and opportunities, and the judgements made in determining the materiality of information about those risks and opportunities (see paragraphs 68–71 of Agenda Paper 3B *Fundamental concepts* for the October 2022 ISSB meeting). The ISSB was not asked to make a decision on this matter.

11. In a November 2022 supplementary meeting, the ISSB discussed the requirement for an entity to apply judgements in considering the sources of guidance identified in [draft] S1 (see paragraphs 69–71 of Agenda Paper 3 *Sources of guidance to identify sustainability-related risks and opportunities and disclosures* for the November 2022 ISSB supplementary meeting).

    (a) The ISSB decided to confirm the requirements in paragraphs 51 and 53 of [draft] S1 for an entity to consider the SASB Standards ('shall consider') and amend the requirements so that an entity may consider the CDSB Framework application guidance, but is not required to do so ('may consider'). Therefore, an entity would be required to consider the SASB Standards (not a free choice), although ultimately the entity would need to determine whether it should apply the requirements in the SASB Standards to meet the objective of [draft] S1 and the requirements of paragraph 53 of [draft] S1.

    (b) The ISSB discussed but was not asked to make decisions on the status of the open-ended references to other sources of guidance identified in [draft] S1, including whether to refer to the Global Reporting Initiative (GRI) Standards and the European Sustainability Reporting Standards (ESRS) (see Agenda Paper 3 *Sources of guidance to identify sustainability-related risks and opportunities and disclosures* for the November 2022 ISSB supplementary meeting). The staff note this matter will be further considered at a future ISSB meeting when the ISSB will be asked to make a decision on this matter.

12. Additionally, in October 2022, the ISSB discussed the industry-based requirements in Appendix B of [draft] S2 which were derived from the SASB Standards. The ISSB decided that the content of Appendix B of [draft] S2 would be issued as illustrative examples accompanying [draft] S2, with the intention to make Appendix B mandatory in the future, subject to further consultation (see Agenda Paper 6 *Industry-based Materials* for the ISSB October 2022 meeting).[1]

Current and anticipated financial effects and connected information

13. In November 2022, the ISSB discussed respondent feedback on the proposed requirements in [draft] S1 and [draft] S2 relating to the current and anticipated financial effects and connected information. Most respondents agreed with the requirement on connected information (see paragraphs 35–38 of Agenda Paper 3A & 4B *Current and anticipated financial effects and connected information* for the November 2022 ISSB meeting). However, some respondents asked for greater clarity on the proposed requirement for entities to use consistent financial data and assumptions. Those respondents asked the ISSB to clarify the meaning of 'to the extent possible' used in paragraph 80 of [draft] S1 (see paragraph 115 of Agenda Paper 3A *Summary of comments* for the September 2022 ISSB meeting).

[1] The ISSB decided to confirm the proposed disclosure requirements for financed emissions for three industries—Asset Management & Custody Activities, Commercial Banks and Insurance—and to move these requirements from Appendix B to become part of the draft S2 application guidance (see ISSB Update December 2022).

Comparative information and updated estimates

14. In November 2022, the ISSB discussed the requirement proposed in [draft] S1 that an entity disclose comparative information that reflects updated estimates. As part of that discussion, it was noted that some users of general purpose financial reporting said that disclosure of information about the assumptions and estimates used in preparing sustainability-related financial disclosures would be useful (see paragraphs 36 of Agenda Paper 3B *Comparative information and updated estimates* for the November 2022 ISSB meeting).

15. Additionally, in December 2022, the ISSB decided to introduce a requirement for an entity to disclose information that would enable users of general purpose financial reporting to understand how and why the entity has used specific inputs, assumptions and estimation techniques to measure its greenhouse gas emissions (see Agenda Paper 4A *Greenhouse gas emissions* for the ISSB December 2022 meeting).

Staff analysis and recommendations

Disclosures of judgements, assumptions and estimates that an entity made in applying IFRS Sustainability Disclosure Standards

Summary of the proposed requirements in [draft] S1

16. The below summarises the requirements proposed in [draft] S1 for when an entity would be required to use judgements, assumptions and estimates and the corresponding requirements for the entity to disclose its use of those judgements, assumptions and estimates.

An entity's use of judgements, assumptions and estimates

17. [Draft] S1 requires an entity to apply judgement:

    (a) in identifying disclosures that are relevant to the decision-making needs of users of general purpose financial reporting and faithfully represent the entity's sustainability-related risks and opportunities, in the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk or opportunity (paragraphs 50–55 of [draft] S1); and

    (b) in identifying material sustainability-related financial information (paragraphs 56–62 of [draft] S1).

18. [Draft] S1 requires an entity to consider whether information about possible future events that have uncertain outcomes is material and consider all relevant facts and circumstances, including information about low-probability and high-impact outcomes, which when aggregated, could be material (paragraphs 81–82 of [draft] S1).

19. [Draft] S1 notes that when metrics cannot be measured directly and can only be estimated, measurement uncertainty arises, and using reasonable estimates is an essential part of preparing sustainability-related metrics (paragraph 79 of [draft] S1).

Disclosure of an entity's use of judgements, assumptions and estimates

20. [Draft] S1 requires an entity to disclose information about the assumptions it makes about the future and other sources of significant outcome uncertainty related to the information it discloses about the possible effects of sustainability-related risks or opportunities (paragraph 83 of [draft] S1).

21. [Draft] S1 requires an entity to identify sustainability-related metrics that have significant estimation uncertainty and disclose the sources and nature of estimation uncertainties and the factors affecting the uncertainties (paragraph 79 of [draft] S1).

22. [Draft] S1 requires an entity to disclose information about the sustainability-related risks and opportunities for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year (paragraph 22(b) of [draft] S1).

Staff analysis

23. Some respondents asked the ISSB to introduce a requirement for an entity to disclose judgements, assumptions, and estimates that the entity made in preparing and presenting its sustainability-related financial disclosures. These respondents said:

    (a) it is important for users of general purpose financial reporting to understand judgements that an entity has made in preparing and presenting its sustainability-related financial disclosures that have the most significant effect on the information provided in those disclosures;

    (b) it is important for users to understand significant judgements that an entity has made when the entity applies requirements from the sources of guidance identified in [draft] S1 (ie paragraphs 51-54);

    (c) it is important for users to understand significant assumptions and estimates used in preparing an entity's sustainability-related financial disclosures (including sustainability-related metrics and also other aspects, such as disclosures about current and anticipated financial effects of sustainability-related risks and opportunities); and

    (d) the disclosures of (a), (b) and (c) are important to enable assurance providers to assure the entity's sustainability-related financial disclosures and for regulators to enforce the compliance of the entity's sustainability-related financial disclosures with IFRS Sustainability Disclosure Standards.

24. [Draft] S1 does not explicitly require an entity to disclose the judgements that the entity has made in preparing and presenting its sustainability-related financial disclosures. Following the respondents' feedback, the staff has identified a requirement in IAS 1 on the disclosure of judgements that the staff thinks could be adapted into [draft] S1—paragraphs 122–124 of IAS 1 which set an overarching requirement for an entity to disclose judgements, that have been made in applying its accounting policies, that have the most significant effects on the amounts recognised in the entity's financial statements (see paragraph B1 of Appendix B).

25. The staff thinks the principle behind the requirement in paragraphs 122–124 of IAS 1 could be appropriately adapted in the context of sustainability-related financial disclosures, because an entity would make various judgements in the process of preparing and disclosing its sustainability-related financial information. For example, in the preparation and disclosure of sustainability-related financial information an entity would make judgements in:

    (a) identifying sustainability-related risks and opportunities to which the entity is exposed;

    (b) considering and applying the sources of guidance identified in [draft] S1 to identify which sustainability-related risks and opportunities to provide information about and to disclose information about the entity's sustainability-related risks and opportunities that are relevant and faithfully represent the entity's risks and opportunities;

    (c) identifying the relevant industry or industries specified in the IFRS Sustainability Disclosure Standards, SASB Standards or other industry-based sources of guidance in applying the requirements in paragraphs 51 and 53 of [draft] S1; and

(d) determining the materiality of information about sustainability-related risks and opportunities to which the entity is exposed, which is particularly relevant in the context of sustainability-related financial disclosures.

26. The staff believes that introducing a requirement for an entity to disclose judgements that it has made that have the most significant effect on the information provided in the entity's sustainability-related financial disclosures would support users' understanding of the information presented in the entity's sustainability-related financial disclosures. Such a requirement would set an overarching requirement for an entity to disclose significant judgements that it has made, in the absence of specific disclosure requirement in other IFRS Sustainability Disclosure Standard. The staff thinks such a requirement would complement existing requirements in [draft] S1 on the disclosures of assumptions and estimates that an entity has made in preparing its sustainability-related financial disclosures (see paragraphs 21–22).

27. Additionally, the staff thinks that such a requirement would complement paragraph 55 of [draft] S1 which would require an entity to disclose the industry or industries specified in the relevant IFRS Sustainability Disclosure Standard or industry-based SASB Standards that it has used when applying the requirement in paragraphs 51 and 53 of [draft] S1. The staff thinks the requirement in paragraph 55 of [draft] S1 would need to be updated given the ISSB's decisions, described in paragraphs 11–12: an entity shall consider the SASB Standards and may consider other guidance, but is not required to apply these sources. Therefore the existing requirement in paragraph 55 of [draft] S1 to disclose industry or industries specified in the relevant IFRS Sustainability Disclosure Standard or industry-based SASB Standards would not necessarily be applicable. The staff recommends retaining the principle behind the requirement in paragraph 55 of [draft] S1, whilst making it applicable more generally.

28. [Draft] S1 requires an entity to disclose information about the entity's use of assumptions about possible future events that have uncertain outcomes (outcome uncertainty) which relate to the entity's sustainability-related financial disclosures (paragraph 83 of [draft] S1). These requirements were adapted from and are consistent with similar requirements in in paragraph 125 of IAS 1 (see paragraph B2 of Appendix B).

29. [Draft] S1 also requires an entity to identify sustainability-related metrics that have significant estimation uncertainty and disclose the sources and nature of estimation uncertainties and the factors affecting the uncertainties (paragraph 79 of [draft] S1). These requirements were adapted from and are consistent with similar requirements in in paragraph 125 of IAS 1 (see paragraph B2 of Appendix B).

30. However, following feedback from respondents, the staff recognise that estimation uncertainty may not solely arise when metrics cannot be measured directly and can only be estimated. Estimation uncertainty may also arise when an entity discloses information that enables users of general purpose financial reporting to understand the effects of significant sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term ('current and anticipated financial effects') per paragraph 22 of [draft] S1. For example:

(a) An entity may have identified a sustainability-related opportunity and as part of its disclosures relating to current and anticipated financial effects has quantified that by a future date this opportunity will be worth $x million in annual revenues. Although forward looking information is often based on assumptions and estimates, if there is a high level of uncertainty in estimating this anticipated financial effect, users of general purpose financial reporting would want to understand this, including the nature of the uncertainty and the factors that affect it.

(b) Some of the assets of an entity are increasingly at risk from climate-related forest fire events and so has been considered as part of the impairment analysis and measurement of those assets. However, as there is currently significant uncertainty in the frequency and severity of these fires, users would expect the disclosure of information relating to this uncertainty and that there is a significant risk of material adjustment within the next financial year to the carrying amounts of these assets.

31. Therefore, the staff think that disclosure requirements per paragraph 79 of relating to estimation uncertainty should not be limited to only metrics, but should cover the requirements relating to current and anticipated financial effects.

32. The staff note that paragraph 22(b) of [draft] S1 requires an entity to disclose information about the sustainability-related risks and opportunities for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year. The staff expects, in applying the requirement in paragraph 22(b) of [draft] S1, an entity would disclose information about estimation uncertainty associated with the entity's disclosures of current and anticipated financial effects, including identifying the amounts that have significant estimation uncertainty and the sources and nature of the estimation uncertainties and the factors affecting the uncertainties (as suggested in the example found in paragraph 30(b)). This notion of disclosure of information estimation uncertainty that has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is consistent leverages the same concept found in paragraph 125 of IAS 1 and so builds on and complements that notion in the context of sustainability-related financial reporting.

Staff recommendations

33. The staff recommends that the ISSB:

(a) introduce a requirement for an entity to disclose judgements that the entity has made in the process of preparing and disclosing its sustainability-related financial information that have the most significant effect on the information provided in those disclosures;

(b) amend paragraph 55 of [draft] S1 to require an entity to identify the sources that have been applied in preparing the entity's sustainability-related financial disclosures, including the industry or industries specified in IFRS Sustainability Disclosure Standards, SASB Standards or other industry-based sources of guidance; and

(c) clarify that the disclosure requirements related to estimation uncertainty (paragraph 79 of [draft] S1) are also applicable to the requirements on current and anticipated financial effects (paragraph 22 of [draft] S1), including estimation uncertainty that has a significant risk of resulting in a material adjustment within the next financial year to the carrying amounts of assets and liabilities reported in the financial statements.

34. The staff recommendation in paragraph 33(a) is intended to introduce an overarching requirement for an entity to disclose judgements that the entity has made that have the most significant effect on the information provided in the entity's sustainability-related financial disclosures. The staff recommends providing non-exhaustive examples of the types of judgements that would be disclosed to provide clarity on how to apply the recommended approach – this is an aspect of the recommendation on guidance per paragraph 49. The staff also note that some of the disclosures made in accordance with this recommended approach would be required by other IFRS Sustainability Disclosure Standards and this proposed recommendation would not therefore override specific disclosures relating to judgement that may be required by other IFRS Sustainability Disclosure Standards. This is also the case for IAS 1 which explicitly acknowledges this. For example, IAS 1.124 states:

> Some of the disclosures made in accordance with paragraph 122 are required by other IFRSs. For example, IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose the judgements it has made in determining whether it controls another entity. IAS 40 *Investment Property* requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

The staff recommends that an equivalent acknowledgement be included in S1.

35. The staff recommendation in paragraph 33(b) is intended to update the requirement in paragraph 55 of [draft] S1 to reflect the ISSB's decisions, described in paragraphs 11–12. The recommended approach would require an entity to identify the sources of guidance that the entity has applied to meet the requirements in paragraphs 51 and 53 of [draft] S1. The recommended approach would also require an entity to identify the industry or industries specified when the entity applies industry-based requirements in IFRS Sustainability Disclosure Standards, SASB Standards, or other sources of guidance.

36. As part of the staff's recommendation per paragraph 33(c), we acknowledge that estimation uncertainty may be a reason that there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year and so there is connection with the requirement in paragraph 22(b) of [draft] S1.

37. In the staff's view, the staff recommendations in paragraph 33 would complement existing requirements in [draft] S1 and would result in the disclosure of information that would support users' understanding of how an entity has applied the requirements in IFRS Sustainability Disclosure Standards, including importantly the requirements proposed in paragraphs 51 and 53 of [draft] S1. Such disclosures would also support users' understanding of how an entity applies the concept of 'reasonable and supportable information that is available without undue costs or effort' in preparing its sustainability-related financial disclosures (see Agenda Paper 3C & 4D *Reasonable and supportable information that is available at the reporting date without undue cost or effort* for the January 2023 ISSB meeting).

Consistent use of financial data and assumptions to the extent possible

Summary of the proposed requirements in [draft] S1

38. Paragraph 80 of [draft] S1 would require an entity to use consistent financial data and assumptions. It states:

> When sustainability-related financial disclosures include financial data and assumptions, such financial data and assumptions shall be consistent with the corresponding financial data and assumptions in the entity's financial statements, to the extent possible.

Staff analysis

39. The requirement proposed in paragraph 80 of [draft] S1 is intended to promote connectivity between sustainability-related financial information and information included in an entity's general purpose financial statements.

40. Most respondents agreed with the proposal in paragraph 80 of [draft] S1 (see paragraph 115 of Agenda Paper 3A *Summary of comments* for the September 2022 ISSB meeting). However, some respondents raised concerns about how to connect information when an entity uses different financial data and assumptions to prepare its sustainability-related financial disclosures compared to those the entity uses to prepare its financial statements. Respondents supported the wording 'to the extent possible' but they asked the ISSB to clarify what that wording means:

    (a) some preparers said that applying the requirements in paragraph 80 of [draft] S1 would result in conflicts with the requirements of IFRS Accounting Standards (or other relevant GAAP) that an entity must apply in preparing its financial statements; and

    (b) some users of general purpose financial reporting said it would be useful to understand the significant assumptions an entity uses to prepare its sustainability-related financial disclosures and when the entity does not use consistent financial data and assumptions in its sustainability-related financial disclosures and financial statements.

41. The term ‘to the extent possible’ in paragraph 80 of [draft] S1 was intended to acknowledge that an entity would be required to use consistent financial data and assumptions in its sustainability-related financial disclosures and financial statements, whilst taking into consideration the requirements of IFRS Accounting Standards (or other relevant GAAP). It was intended to acknowledge that in some cases it would not be possible or appropriate to use consistent information including because this would be inconsistent with the requirements of IFRS Accounting Standards or other relevant GAAP. However, the staff agrees that greater clarity is needed to articulate the meaning of the wording ‘to the extent possible’ in paragraph 80 of [draft] S1.

42. The staff thinks that an entity should ideally use consistent financial data and assumptions given that those financial data and assumptions would represent management’s view about the entity and so should not differ in the preparation and disclosure of its sustainability-related financial information and financial statements. However, an entity’s financial statements must also reflect specific the recognition criteria and other specific requirements in IFRS Accounting Standards (or other relevant GAAP). As a consequence, it is not possible to impose the use of consistent financial data and assumptions without attaching a condition to acknowledge relevant accounting requirements. This is why paragraph 80 of [draft] S1 proposed that an entity be required to use consistent financial data and assumptions, *to the extent possible*. For example:

(a) the useful life of an entity’s assets as disclosed in its financial statements should be consistent with the planed use of its as assets as reflected in its disclosure of its climate transition plan;

(b) an entity’s disclosures about financial data and assumptions about the entity’s restructuring plan in the entity’s sustainability-related financial disclosures, may not be consistent with the information provided in its financial statements because the entity’s restructuring plan does not give rise to a constructive obligation, based on the requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets;* and

(c) an entity may use a set of financial data and assumptions in preparing disclosures about the entity’s climate resilience reflecting various climate scenarios, applying the requirements in [draft] S2,but use only a subset of those financial data and assumptions for the purpose of testing specific assets for impairment, based on the requirements in IAS 36 *Impairment of Assets*.

43. In the staff’s view, the fact that an entity may need to use different financial data and assumptions does not undermine the connection between sustainability-related financial information and information included in the entity’s general purpose financial statements. However, the staff agrees with suggestions made by respondents that requiring an entity to explain the differences in the financial data and assumptions used by the entity would enable users to better understand the extent to which those financial data and assumptions have been applied consistently in the entity’s sustainability-related financial disclosures and financial statements and the reasons why differences may arise. The staff notes that this is consistent with the proposed requirements in paragraph 42 of [draft] S1.

Staff recommendations

44. The staff recommends that the ISSB amend to the requirement proposed in paragraph 80 of [draft] S1. Specifically:

(a) to clarify the words ‘to the extent possible’ mean ‘to the extent possible taking into consideration the requirements of IFRS Accounting Standards (or other relevant GAAP)’; and

(b) to require an entity to explain significant differences in the financial data and assumptions that the entity has used in its sustainability-related financial disclosures, in comparison to those that the entity has used in its financial statements.

45. The staff recommendation in paragraph 44(a) seeks to provide greater clarity to the requirement proposed in paragraph 80 of [draft] S1. The staff recommends providing examples to illustrate the application of the recommended approach and these examples could be included as part of the guidance recommended in paragraph 49.

46. The staff recommendation in paragraph 44(b) seeks to support users' understanding of the connection between sustainability-related financial information and information included in the entity's general purpose financial statements. The staff notes that [draft] S1 allows an entity to cross-reference information included in other parts of its general purpose financial reporting, including the financial statements as long as it does not make the complete set of sustainability-related financial disclosures less understandable. (paragraphs 75–77 of [draft] S1). In applying the recommendation set out in paragraph 44(b), the staff expects that entities may cross-refer to information included in its financial statements if an explanation is already provided, for example, in the notes to the financial statements.

Supporting preparers to disclose judgements, assumptions and estimates made in preparing and presenting sustainability-related financial disclosures

Staff analysis

47. Some respondents, including users of general purpose financial reporting, asked the ISSB to require an entity to disclose the basis on which an entity's sustainability-related financial disclosures has been prepared, ie information about the judgements, assumptions and estimations made by the entity in preparing its sustainability-related financial disclosures. These respondents said that disclosures of such information would help them to understand information in an entity's sustainability-related financial disclosures.

48. In the staff's view, the existing requirements proposed in [draft] S1 summarised in paragraphs 17–22), together with the staff recommendation in paragraphs 33 and 44 would result in a comprehensive package of disclosures which provide information about the judgements, assumptions and estimates that an entity uses in preparing its sustainability-related financial disclosures. Appendix A illustrates the types of information that may be disclosed when an entity applies the requirements in [draft] S1 and the recommended approaches described in paragraphs 33 and 44.

Staff recommendations

49. The staff recommends that the ISSB provide guidance to illustrate how to disclose the judgements, assumptions and estimates made in applying IFRS Sustainability Disclosure Standards.

50. The staff recommendation in paragraph 49 is intended to support preparers in disclosing the judgements, assumptions and estimates made in preparing and presenting sustainability-related financial disclosures. Appendix A provides an indication as to the type of content that might be provided to illustrate the types of judgements, assumptions and estimates made in applying IFRS Sustainability Disclosure Standards. The staff notes that this is indicative of the possible content in the guidance, and this will be further developed subject to the ISSB's decision. We do not ask the ISSB to vote on this recommendation on the basis of the content found in Appendix A.

Questions for the ISSB

51. The staff present the following questions for the ISSB.

Questions for the ISSB

1. Does the ISSB have any questions or comments about the matters discussed in this paper?
2. Does the ISSB agree with the staff recommendations, as summarised in paragraph 5?

Appendix A–Illustrative example of disclosure of judgements, assumptions and estimates

A1. The below provides an illustration of the judgements, assumptions and estimates that might be made and related disclosures per the existing requirements in [draft] S1 and the staff's recommendations included in this paper.

Example 1: Disclosures of judgements, assumptions and estimates that an entity made in applying IFRS Sustainability Disclosure Standards
Judgements, assumptions and estimates an entity might make in the preparation and disclosure of sustainability-related financial information An entity may make judgements in applying the requirements in [draft] S2 to disclose information about the climate-related risks and opportunities to which it is exposed. The entity may also make judgements in considering the SASB Standards to identify other sustainability-related risks and opportunities to which it is exposed and in applying the industry-based requirements in the SASB Standards to disclose information about its sustainability-related risks and opportunities. The entity may also decide to apply some requirements in the CDSB Framework application guidance in disclosing information about its sustainability-related risks and opportunities. The entity may also make assumptions about the future in determining the anticipated financial effects of sustainability-related opportunities, which is subject to significant outcome uncertainty. In preparing some of its sustainability-related metrics, the entity may also use assumptions that are subject to significant estimation uncertainty. The carrying amount of certain assets may also be subject to measurement uncertainty that arise due to sustainability-related risks that could result in a material adjustment to the carrying amounts of its assets within the next financial year.
Disclosures of judgements, assumptions and estimates made by the entity In this example the entity may disclose: (a) the judgements made in applying the requirements in [draft] S2 that have the most significant effect on the information provided by the entity; (b) the judgements made in considering the SASB Standards to identify sustainability-related risk and opportunities that have the most significant effect on the information provided by the entity (eg significant judgements in identifying the relevant industry or industries specified in the SASB Standard) and determining whether or not apply the SASB Standards, or any other guidance; (c) disclose which requirements it has applied in the SASB Standards, including which SASB Standards have been applied, and what aspects of the CDSB Framework application guidance it has applied to meet the objective of [draft] S1; (d) the assumptions that the entity has made about possible future events that have uncertain outcomes where there is significant outcome uncertainty; and (e) the metrics and the carrying amounts of assets that have significant estimation uncertainty, including the sources and nature of estimation uncertainty and the factors affecting the uncertainty.

Appendix B–Excerpt from IAS 1 Presentation of Financial Statements

B1. IAS 1 sets out the requirement for an entity to disclose an entity's judgements in the process of applying the entity's accounting policies along with material accounting policy information or other notes. Paragraph 122–124 of IAS 1 states:

> 122. An entity shall disclose, along with material accounting policy information or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
>
> 123. In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:
> (a) [deleted]
> (b) when substantially all the significant risks and rewards of ownership of financial assets and, for lessors, assets subject to leases are transferred to other entities;
> (c) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and
> (d) whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
>
> 124. Some of the disclosures made in accordance with paragraph 122 are required by other IFRSs. For example, IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose the judgements it has made in determining whether it controls another entity. IAS 40 *Investment Property* requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

B2. IAS 1 also sets out the requirement for an entity to disclose information about estimation uncertainty and the assumptions it makes about the future (outcome uncertainty). Paragraph 125 of IAS 1 states:

> 125. An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:
> (a) their nature, and
> (b) their carrying amount as at the end of the reporting period.