Staff paper

Agenda reference: 3E and 4E

ISSB Meeting

Date	**January 2023**
Project	**General Sustainability-related Disclosures and Climate-related Disclosures**
Topic	**Current and anticipated financial effects and connected information**
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Objective

1. Following the ISSB discussion in November 2022, this agenda paper informs the ISSB's redeliberations of:

   (a) the proposed requirements in paragraph 22 of Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ([draft] S1) and equivalent requirements in paragraph 14 of Exposure Draft IFRS S2 *Climate-Related Disclosures* ([draft] S2) for an entity to disclose the effects of its 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. It was proposed that an entity shall disclose quantitative information, either single amounts or a range, unless it is unable to do so. If an entity is unable to provide quantitative information, it shall provide qualitative information. These proposed requirements are referred to as the 'current and anticipated financial effects requirements' in this paper.

   (b) the proposed requirements in paragraphs 42–44 of [draft] S1 for an entity to provide information that enables users of general-purpose financial reporting to assess the connections between various sustainability-related risks and opportunities, and to assess how information about these risks and opportunities is linked to information in the general-purpose financial statements. These proposed requirements are referred to as the 'connected information requirements' in this paper.

Summary of staff recommendations

2. The staff is seeking decisions from the ISSB on its recommendations summarised below.

   (a) **Staff recommendation 1**: clarify that when sustainability-related risks and opportunities have affected or are expected to affect the information in an entity's financial statements, the entity is required to explain the connections between those current and anticipated financial effects and the sustainability-related risks and opportunities. In explaining these connections, the entity is required to avoid unnecessary duplication and is permitted to provide information by cross-reference subject to the specified conditions. See paragraph 21 for the complete recommendation.

   (b) **Staff recommendation 2**: clarify that an entity is required to provide quantitative and qualitative information about the current and anticipated effects of sustainability-related risks and opportunities on the entity's financial position, performance and cash flows unless the entity is unable to provide quantitative information. In the specified circumstances when the entity is unable to provide quantitative information about the financial effects of a particular sustainability-related risk or opportunity the entity is required to provide qualitative information. See paragraphs 38–39 for the complete recommendation.

(c) **Staff recommendation 3**: use consistent language to refer to the reporting period for which sustainability-related financial disclosures are prepared and to refer to the related financial statements for that reporting period. Additionally, use the phrase 'short, medium and long term' rather than the term 'over time' consistently in IFRS S1 and IFRS S2. See paragraph 46 for the complete recommendation.

(d) **Staff recommendation 4**: clarify the relationship between resilience assessment requirements and the requirements to disclose current and anticipated financial effects by emphasising those requirements can be applied independently but the resilience assessment can inform the disclosures of current and anticipated financial effects. Furthermore, clarifying that there is no requirement for an entity to perform a resilience assessment to determine current and anticipated financial effects of sustainability-related risks and opportunities. See paragraph 56 for the complete recommendation.

Structure

3. The paper is structured as follows:

(a) Background (paragraphs 4–8);

(b) Summary of feedback received (paragraphs 9–11);

(c) Part 1: The objective of current and anticipated financial effects disclosure requirements (paragraphs 12–21);

(i) Staff analysis (paragraphs 15–20);

(ii) Staff recommendation 1 (paragraph 21);

(d) Part 2: Quantitative and qualitative information about current and anticipated financial effects (paragraphs 22–39);

(i) Staff analysis: quantitative and qualitative information (paragraphs 24–27);

(ii) Staff analysis: separately identifiability and measurement uncertainty (paragraphs 28–37);

(iii) Staff recommendation 2 (paragraph 38–39);

(e) Part 3: The use of terminology (paragraphs 40–46);

(i) Staff analysis (paragraphs 42–45);

(ii) Staff recommendation 3 (paragraph 46);

(f) Part 4: Interaction between the requirements on the current and anticipated financial effects and the requirements on resilience assessment (paragraphs 47–56);

(i) Staff analysis (paragraphs 50–55);

(ii) Staff recommendation 4 (paragraph 56); and

(g) Questions for the ISSB (paragraph 57).

Background

4. In September 2022, the ISSB decided to include the proposed requirements related to current and anticipated financial effects and connected information as part of its redeliberations on [draft] S1 and [draft] S2. Comments received in response to the exposure drafts were summarised at the September 2022 ISSB meeting in Agenda Paper General Sustainability-related Disclosures and Climate-related Disclosures— Summary of comments and Agenda Paper 4A *Climate-related Disclosures— Summary of comments*. Building on the these agenda papers, paragraphs 46–48 and 59–61 of September 2022 Agenda Paper 3B & 4B *General Sustainability-related Disclosures and Climate-related Disclosures—Plan for redeliberations* noted that '…the ISSB will need to consider whether further clarity can be provided including guidance and examples to support preparers in providing connected information…[and that] this [would] be considered as part of an ISSB paper alongside…current and financial effects, given the close relationship and interdependencies between these topics.'

5. In November 2022 the ISSB discussed a series of illustrative examples provided in Agenda paper 3A and 3B *General Sustainability-related Disclosures and Climate-related Disclosures—Current and anticipated financial effects and connected information*. This discussion helped inform this staff paper, including the staff recommendations contained in this paper. The feedback received from the ISSB members during the meeting noted:

(a) the importance that the requirements produce useful information for users of general purpose financial reporting;

(b) the need for the requirements to be clear and enforceable;

(c) illustrative examples should only be used to reinforce the requirements; and

(d) the use of the meaning of 'unable to do so' in paragraph 22 of [draft] IFRS S1 needs to be clarified, noting the decision on 'unable to do so' in the ISSB discussion on climate resilience in the November 2022 meeting (Agenda Paper 4 *Climate-related Disclosures—climate resilience*) that confirmed that an entity could state it is unable to do so based on its circumstances, such as size, access to resources, experience and expertise, to disclose information.

6. The proposed current and anticipated financial effects requirements in [draft] S2 are the same as in [draft] S1, in that [draft] S2 is an application of [draft] S1 but specific to climate-related risks and opportunities (paragraph 2 of [draft] S2). The staff has assumed that these proposed requirements (for both [draft] S1 and [draft] S2) can be redeliberated together and, unless noted otherwise, that the corresponding requirements should be aligned.

7. This paper has also been informed by the development of following January 2023 Agenda Paper 3B *General Sustainability-related Disclosures—Disclosure of judgements, assumptions and estimates* and Agenda Paper 3C and *General Sustainability-related Disclosures and Climate-related Disclosures—Reasonable and supportable information that is available at the reporting date without undue cost or effort* . These agenda papers are interrelated as noted below:

(a) Agenda Paper 3B addresses disclosure requirements related to judgments, assumptions and estimates used in the preparation of sustainability-related financial disclosures but also the associated high level of measurement and outcome uncertainty with respect to some requirements.

(b) Agenda Paper 3C and 4D proposes the introduction of the concept of reasonable and supportable information that is available without undue cost or effort. This concept is proposed to be applied to the current and anticipated financial effects requirements.

8. For this suite of agenda papers, the staff have considered concepts in IFRS Accounting Standards to provide further guidance to preparers. The staff think that utilising some specific concepts from IFRS Accounting Standards in a targeted manner will be helpful for the for the matters addressed in this paper and the application of IFRS Sustainability Disclosure Standards in relation to these matters.

Summary of feedback received

9. As detailed in the November 2022 Agenda Paper 3A and 3B *General Sustainability-related Disclosures and Climate-related Disclosures—Current and anticipated financial effects and connected information*, the invitation to comment for [draft] S1 included an overarching question on the core content of the proposal, which includes the proposed current and anticipated financial effects requirements. The invitation to comment for [draft] S2, however, included a specific question on the proposed current and anticipated financial effects requirements. Many responses were received on these proposed requirements and the staff has evaluated the feedback together, regardless of whether respondents were providing feedback on [draft] S1 and/or [draft] S2. The invitation to comment for [draft] S1 also included a specific question on the proposed connected information requirements.

10. Respondents' feedback to [draft] S1 and [draft] S2 regarding the proposed current and anticipated financial effects requirements and connected information requirements was generally supportive. However, respondents, including preparers, wanted greater clarity on when information should/can be quantified and when it should be disclosed qualitatively.

11. Most responses from investors supported quantitative disclosures but also acknowledged the importance of qualitative information to further contextualise this quantitative information.

Part 1: The objective of current and anticipated financial effects disclosure requirements

12. The proposed current and anticipated financial effects requirements are detailed in paragraphs 22 of [draft] S1 and paragraph 14 of [draft] S2. Quantitative information about the current and anticipated financial effects of sustainability-related risks and opportunities is required unless an entity is unable to provide that information. If an entity is unable to provide quantitative information, it is required to provide qualitative information. The proposed current and anticipated financial effects requirements are linked to the requirements for connected information, which require entities to assess and explain connections between sustainability-related risks and opportunities and information in the general purpose financial statements (paragraph 42-44 of [draft] S1).

13. To avoid unnecessary duplication in disclosures (including duplication between the current and anticipated financial effects disclosures and information included in the financial statements including the notes), paragraph 78 of [draft] S1 specifies that when IFRS Sustainability Disclosure Standards require the disclosure of common items of information, an entity is required to avoid unnecessary duplication (for example, information about governance of a specific sustainability-related risk shall be integrated with other information about governance of sustainability-related risks and opportunities).

14. The proposals in paragraph 75-77 of [draft] S1 allows information required by an IFRS Sustainability Disclosure Standard to be included by cross reference, provided that the specified conditions are met, including that:
    (a) 'the information is available to users of the general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced';
    (b) cross-referencing does not make the complete set of sustainability-related financial disclosures less understandable; and
    (c) if information required by an IFRS Sustainability Disclosure Standard is included by reference to information in another location, the cross-reference shall be to a precisely specified part of that location.

Staff analysis

15. Feedback from some respondents highlighted the risk of potential duplication between general purpose financial statements and sustainability-related financial disclosures. For example, a few preparers stated that there's a possibility that the current and anticipated financial effects requirements detailed in [draft] S1 and [draft] S2 could result in duplication of information in financial statements and sustainability-related financial disclosures because IFRS Accounting Standards (and other GAAPs) require information that is similar to the information detailed in those requirements. However, staff note that those requirements are designed to result in information that supplements or expands upon that provided in the financial statements because of the focus on identifying and explaining the connections between sustainability-related risks and opportunities and the information reported in the financial statements. The examples presented to the ISSB in the November 2022 Agenda Paper 3A and 3B *General Sustainability-related Disclosures and Climate-related Disclosures—Current and anticipated financial effects and connected information* illustrate (in the staff's view) how these connections may be explained with little duplication of information. In addition, as noted above in paragraph 14, [draft] S1 and [draft] S2 include requirements allowing for cross-reference to the related financial statements when the specified conditions are met which is intended to reduce the risk of duplication.

16. The staff note that the proposals require entities to disclose how sustainability-related risks and opportunities:
    (a) **have affected an entity's financial position, financial performance and cash flows**:

        whilst sustainability-related risks and opportunities, such as those related to climate change, are not covered explicitly by IFRS Accounting Standards, those Standards and other GAAP address issues that are related to those risks and opportunities to the extent that those risks and opportunities affect an entity's financial position, financial performance and cash flows (November 2020 IFRS Foundation Educational material: the effects of climate-related matters on financial statements prepared applying IFRS Standards). Paragraph 22(a) in [draft] S1 and paragraph 14(a) in [draft] S2 requires disclosure that explains how sustainability-related risks and opportunities affected the financial position, financial performance and cash flows reported in the financial statements. There may be circumstances when information in the notes in the financial statements may satisfy that requirement and an entity may consider providing that information in the sustainability-related financial disclosures by cross reference to the related financial statements (subject to the specified requirements being met).

(b) **present a significant risk of a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year**:

this mirrors IFRS Accounting Standards and other GAAPs that include requirements that may result in information that is relevant to understanding the anticipated financial effects of sustainability-related risks and opportunities. For example, paragraph 125 of IAS 1 *Presentation of Financial Statements* requires an entity to provide "…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 amount of assets and liabilities within the next financial year". Paragraph 22(b) in [draft] S1 and paragraph 14(b) in [draft] S2 do not require disclosure of new or different uncertainties, but an explanation of how sustainability-related risks and opportunities give rise to such uncertainty and as a means to connect information about sustainability-related risks and opportunities and information in the financial statements. Furthermore, an entity is permitted to provide information by cross reference to financial statements which includes information provided in the notes (subject to the specified requirements being met).

(c) **are expected to affect an entity's financial position and financial performance over time, given its strategy to address sustainability-related risks and opportunities** :

paragraph 22(c) and (d) of [draft] S1 and paragraph 14(c) and (d) of [draft] S2 require information about anticipated changes to an entity's financial position and financial performance given the entity's strategy to address significant sustainability-related risks and opportunities. In the case of an entity's financial position, this is required to reflect current and committed investment plans, (for example, capital expenditure, major acquisitions and disposals) and planned sources of funding to implement the strategy. This disclosure is requiring an explanation of how the entity's strategy for addressing sustainability-related risks and opportunities relates or will be connected to the entity's financial position and financial performance over time. As set out in paragraph 6(b) of [draft] S1, information about sustainability-related risks and opportunities could include information about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements.

17. The link between sustainability-related financial disclosures and financial statements was highlighted by many respondents to the exposure drafts. Some respondents highlighted that by reporting sustainability-related financial information on *anticipated* changes to specific items in the financial statements (for example, a carrying amount of an asset or liability), the entity will therefore provide information that is broader than the information reported in the financial statements because these effects have not yet been recognised in the financial statements (as per paragraph 6(b) in [draft] S1). This is reinforced by specifically requiring information on anticipated changes in addition to those reflected in the current financial statements. For users of general purpose financial reporting to consider this information in their decision-making, it is important for them to be able to see how, or the extent to which, the effects of sustainability-related risks and opportunities are or may be reflected in the financial statements in the future.

18. In relation to the concerns on potential duplication of information, staff note that the requirements are designed for entities to explain connections between items of information as opposed to duplicate information (as mentioned in paragraph 13). Furthermore, an entity is permitted to provide information by cross reference provided that the information is available

to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced and as long as the use of cross references does not make sustainability-related financial disclosures less understandable (consistent with paragraph 75 in [draft] S1). It is specifically noted that this could include cross-referencing to the related financial statements.

19. As highlighted by a few respondents, staff note a need to clarify that the disclosure of connections between sustainability-related financial information and financial statements does not replace the need for adequate reflection of sustainability-related risks and opportunities in financial statements when the recognition and measurement criteria are met.

20. Finally, the staff note that IFRS Sustainability Disclosure Standards do not interpret or affect the application of IFRS Accounting Standards, or other GAAPs, although they can be informed by each other. For example, when an entity is considering impairment indicators the analysis of sustainability-related risks and opportunities that the entity undertakes in applying IFRS Sustainability Disclosure Standards could be relevant for impairment considerations.

Staff recommendation 1

21. The staff recommend clarifying that when sustainability-related risks and opportunities have affected or are expected to affect the information in an entity's financial statements, the entity is required to explain in its sustainability-related financial disclosures the connections between those current and anticipated financial effects and the sustainability-related risks and opportunities. In explaining these connections, the entity:

    (a) is required to avoid unnecessary duplication; and

    (b) is permitted to provide information by cross-reference if the conditions specified in paragraphs 75-77 of [draft] S1 are met.

Part 2: Quantitative and qualitative information about current and anticipated financial effects

22. Quantitative information about the current and anticipated financial effects of sustainability-related risks and opportunities in [draft] S1 and [draft] S2 is required unless an entity is unable to provide that information, in which case the entity is required provide qualitative information.

23. The proposals relating to current and anticipated financial effects requirements built upon the Taskforce for Climate Related Financial (TCFD) Framework. The TCFD Framework states that '…financial executives will likely recognise that the Task Force's disclosure recommendations should result in more quantitative financial disclosures, particularly disclosure of metrics, about the financial impact that climate-related risks have or could have on an organization'.

Staff analysis: quantitative and qualitative information

24. Respondents, including many investors, supported the requirement to provide information on current and anticipated financial effects, with some suggesting that a combination of both quantitative information and qualitative context is most useful for making investment decisions. This was also acknowledged by ISSB members at the November 2022 meeting, when it was emphasised that a combination of qualitative and quantitative disclosures would provide useful information for investors. Furthermore, third party research set out in the UK Financial Reporting Council's (FRC) 29 July 2022 report and TCFD Status Report 2021 shows evidence of how entities reflect sustainability-related financial information in their financial statements. The FRC report examined 25 UK premium listed companies, of which

'…[a] smaller proportion of companies disclosed the impact of climate change on amounts recognised in the financial statements. Several companies quantified and discussed changes in climate-related assumptions in relation to accounting estimates in their value in use calculations for impairment testing. In a small number of cases this resulted in the recognition of an impairment loss which was partially linked to climate-related assumptions'. These findings provide some evidence of companies providing quantitative information (and qualitative context) in the financial statements about climate.

25. However, some respondents also noted that:

(a) clarity is required on the criteria for when quantitative information is required and when an entity would only disclose qualitative information because the entity is unable to provide quantitative information;

(b) an entity's circumstances (such as skills, capabilities and resources available to the entity) could prevent it from disclosing information in relation to anticipated financial effects of sustainability-related risks and opportunities; and

(c) illustrative examples would be useful to help entities assess whether they have met the requirements (these comments were reported in September 2022 Agenda Paper 3A *General Sustainability-related Disclosures—Summary of comments*).

26. In addition, many respondents highlighted that even when the effects of a climate-related risk or opportunity (or another sustainability-related risk or opportunity) cannot be quantified, qualitative information about those effects will still be material for users of general purpose financial reporting.

27. The proposals would require an entity to disclose quantitative information unless the entity is unable to do so. That wording might imply that *either* quantitative information is provided *or* qualitative. However, quantitative and qualitative information are not mutually exclusive. For example, an entity that has decided to shut down a division could explain the reasons for the decision and describe how the entity expects that decision to affect particular product lines or the business as a whole. If the entity is able to quantify the anticipated financial effects of that decision, understanding the context (in a qualitative sense) is also relevant and potentially material information – in which case that quantitative information should be disclosed together with the qualitative information and not instead of it.

Staff analysis: separately identifiable and measurement uncertainty

28. Some respondents noted that it is not always possible for preparers to identify the current and anticipated financial effects of individual sustainability-related risks and opportunities. This is because financial effects may arise from multiple risks or opportunities and affect multiple items in the financial statements. Financial effects cannot therefore always be attributed to an individual sustainability-related risk or opportunity. To consider these specific concerns staff analysed IFRS Accounting literature with respect to criteria for when an entity can isolate risks.

29. Separate identifiability is used in IFRS Accounting literature to describe the characteristic of an item when it is able to be isolated (IAS 2 *Inventories*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 9 *Financial Instruments*, IFRS 11 *Joint Arrangements*, IFRS 15 *Revenue from Contracts with Customers*, IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine).* These standards refer, for example, to a separately identifiable financial structure or legal entity, financial instrument, or specific item within a contract. Paragraph 27 of IFRS 15 elaborates on the meaning of separately identifiable in the context of revenue from contracts with customers:

> 'A good or service that is promised to a customer is distinct if both of the following criteria are met: (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (ie the good or service is capable of being distinct); and (b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (ie the promise to transfer the good or service is distinct within the context of the contract)'.

30. To illustrate, a company that sells a car with a maintenance package included would need to determine if the maintenance package is separately identifiable from the sale of the car. If the maintenance package can be purchased separately from the car and the customer can benefit from it on its own, it would be considered separately identifiable and the revenue from the sale of the maintenance package would need to be recognised separately from the revenue from the sale of the car.

31. In some cases, IFRS Accounting Standards require an entity to consider the level of measurement uncertainty in determining what information to provide in financial statements. For example, in designating hedged items, IFRS 9 requires an entity to consider whether a risk component is separately identifiable and reliably measurable.

32. To illustrate the interaction of the level measurement uncertainty with the concept of 'separately identifiable' in the context of sustainability-related financial disclosures, consider the following example: an entity's revenue from selling diesel vehicles has fallen. The entity knows that a factor is consumer preference but the entity cannot separately identify the effects of that change in consumer preference from other factors that are affecting revenue and cannot quantify the effects on revenue of the changes in the consumer preference because the level of measurement uncertainty is very high. The staff note that a few simple illustrative examples could be used to illustrate these considerations, similar to example 10 from the November 2022 Agenda Paper 3B and 4B *General Sustainability-related Disclosures and Climate-related Disclosures—Current and anticipated financial effects and connected information* *and* similar to those in IFRS 10 *Consolidated Financial Statements* and IFRS 15*.*

33. With respect to measurement uncertainties, staff note paragraphs 5.18-5.22 of the IASB's *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) which describes limited circumstances in which the level of measurement uncertainty is so high that an entity would not recognise an asset or liability, even if the recognised amount were accompanied by a description of the estimates made in producing it. Paragraph 5.20 of the IASB's *Conceptual Framework* also notes that "the level of uncertainty involved in estimating a measure of an asset or liability may be so high that it may be questionable whether the estimate would provide a sufficiently faithful representation of that asset or liability and of any resulting income, expenses or changes in equity."

34. The staff also believe that the determination on whether quantitative anticipated financial effects are required should be commensurate with its skills, capabilities and resources. This is similar to the January 2022 Agenda Paper 4A *Climate-related Disclosures—Using scenario analysis to assess climate resilience*, where an entity's skills, capabilities and resources is proposed to be one consideration to help inform the approach on climate-related scenario analysis that an entity uses. The staff believes that such consideration provides a scalability or proportionality mechanism. Agenda Paper 4A provides a more detailed explanation of this consideration.

35. Furthermore, the staff note that the concerns about both measurement and outcome uncertainties were raised by respondents to [draft] S1 and [draft] S2 (see January 2023

Agenda Paper 3C and 4D *General Sustainability-related Disclosures and Climate-related Disclosures— Reasonable and supportable information that is available at the reporting date without undue cost or effort*). In the light of that feedback, that paper recommends introducing the concept of 'reasonable and supportable information that is available at the reporting date without undue cost or effort'—which is used in some IFRS Accounting Standards—as a mechanism to facilitate application of particular requirements of IFRS S1 and IFRS S2, including the determination of anticipated financial effects on an entity's financial performance, financial position and cash flows. The staff think that that recommendation would help further address concerns about proportionality and scalability because undue cost and effort will be assessed in the context of an entity's specific circumstances.

36. Furthermore, the staff think that the requirements from IFRS Accounting Standards and the concepts from the IASB's *Conceptual Framework* could be adapted to clarify that an entity will be considered unable to quantify current and anticipated financial effects when the effects of individual sustainability-related risks and opportunities cannot be separately identified or when their quantification would involve a high level of measurement or outcome uncertainty. However, the staff think that when an entity is unable to provide quantitative information for individual sustainability-related risks and opportunities, the entity should be required to provide that information at a higher level of aggregation if the entity is able to do so. Furthermore, if an entity is unable to provide quantitative information for individual sustainability-related risks and opportunities, it should be required to provide qualitative information, consistent with the proposal in paragraph 22 of [draft] S1 and paragraph 14 of [draft] S2.

37. Lastly, the staff notes that IFRS Accounting Standards do not explicitly require the effects of sustainability-related risks and opportunities to be identified, however many respondents highlighted that the requirement to identify affected line items in the financial statements is useful information for users of general purpose financial reporting. The context of these proposed requirements is enhancing the understanding of how financial statements are currently affected by or are anticipated to be affected by sustainability-related risks and opportunities. As a result, the staff think that a requirement to identify affected line items, subtotal and totals in financial statements could be useful in situations when an entity cannot provide quantitative information about financial effects of individual sustainability-related risks and opportunities. This would highlight which area within the financial statements an entity believes is most likely to have been or will be affected by the sustainability-related risk or opportunity.

Staff recommendation 2

38. The staff note that January 2023 Agenda Paper 3C and 4D *General Sustainability-related Disclosures and Climate-related Disclosures—Reasonable and supportable information that is available at the reporting date without undue cost or effort* recommends clarifying that the determination of *anticipated* financial effects of sustainability-related risks and opportunities is based on reasonable and supportable information that is available at the reporting date without undue cost or effort (emphasis added). Voting on that recommendation will be undertaken as part of the associated discussion. Agenda Paper 3C and 4D:

    (a) explains the meaning of the concept of 'reasonable and supportable information that is available at the reporting date without undue cost or effort'.

    (b) emphasises that the concept does not exempt an entity from providing required information. Rather, it addresses the information that entities would use in preparing the disclosures.

39. In this paper, the staff recommend clarifying that:

(a) an entity is required to provide quantitative and qualitative information about the current and anticipated effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows unless the entity is unable to provide quantitative information. As noted in paragraph 38, determination of anticipated financial effects is required to be based on reasonable and supportable information that is available at the reporting date without undue cost or effort (subject to the ISSB's decisions on the January 2023 Agenda Paper 3C and 4D).

(b) an entity determines whether it is able to provide quantitative information about the financial effects of a particular sustainability-related risk or opportunity taking into consideration:

(i) whether the financial effects of that sustainability-related risk or opportunity are separately identifiable;

(ii) whether a high level of outcome or measurement uncertainty is involved in quantifying the financial effects of that sustainability-related risk or opportunity;

(iii) in case of the anticipated financial effects only, whether the entity has the skills, capabilities and resources to provide quantitative information about those effects (addressing the need for scalability and proportionality).

(c) if an entity is unable to provide quantitative information about the financial effects of a particular sustainability-related risk or opportunity, the entity is required to:

(i) explain why it is unable to provide quantitative information about the financial effects of that sustainability-related risk or opportunity;

(ii) provide qualitative information about the financial effects of that sustainability-related risk or opportunity, including identifying line items, totals and subtotals within financial statements that are likely to be affected by that sustainability-related risk or opportunity; and

(iii) provide quantitative information about sustainability-related risks and opportunities—including that particular sustainability related risk or opportunity—at the lowest possible level of aggregation at which the entity is able to provide that information.

Part 3: The use of terminology

40. [Draft] S1 and [draft] S2 propose a requirement for entities to disclose how sustainability-related risks and opportunities, including climate-related risks and opportunities, are reflected in their financial statements. [Draft] S1 and [draft] S2 use the terms 'current' and 'its most recently reported' financial position, performance and cash flows interchangeably (see paragraph 42).

41. Paragraphs 22(c) and (d) of [draft] S1 and paragraphs 14(c) and (d) [draft] S2 require an entity to disclose how it expects its financial position and performance to change 'over time'. At the same time, the objective of these disclosures set out in paragraph 22 of [draft] S1 and paragraph 14 of [draft] S2 is to enable users of general purpose financial reporting to understand how the sustainability-related risks and opportunities and the decisions made by the entity are anticipated to affect the financial statements 'over the short, medium and long term' (see paragraph 44).

Staff analysis

References to the financial statements and the reporting period

42. Respondents pointed out that [draft] S1 and [draft] S2 use a variety of terms to refer to the financial statements for the reporting period. For example:

(a) paragraph 20 of [draft] S1 requires an entity to disclose information that enables users of general purpose financial reporting to understand its assessment of the *current* and anticipated effects of sustainability-related risks and opportunities on its business model, including on its value chain;

(b) paragraph 22 of [draft] S1 requires an entity to disclose information that enables users to understand the effects of sustainability related risks and opportunities on its financial position, financial performance and cash flows *for the reporting period*;

(c) paragraph 22(a) of [draft] S1 requires an entity to disclose how sustainability-related risks and opportunities have affected *its most recently reported* financial position, performance and cash flows;

(d) paragraph 22(b) of [draft] S2 refers to the relationship between cross-industry metrics and amounts recognised and disclosed in the *accompanying financial statements;* and

(e) paragraph 66 of [draft] S1 requires an entity to report sustainability-related financial disclosures at the same time as its *related financial statements*.

43. The staff thinks that IFRS S1 and IFRS S2 should use consistent terminology to refer to the reporting period for which sustainability-related financial disclosures are prepared and to refer to an entity's financial statements for that reporting period. The staff will consider in drafting which terminology is most appropriate and will use that terminology consistently in IFRS S1 and IFRS S2.

The use of the term 'over time'

44. Some respondents have asked for more clarity about the meaning of the phrase 'over time' and whether it is intended to be different from the term 'over short, medium and long term' used in the following proposed requirements in [draft] S1 and [draft] S2:

(a) the proposed requirement to provide information about current and anticipated financial effects of sustainability-related risks and opportunities over the *short, medium and long-term*; and

(b) the proposed requirement in [draft] S1 paragraph 16(b) for an entity to disclose how it defines *short, medium and long term*.

45. Although few respondents commented on the use of this terminology, the staff think that inconsistent terminology could create confusion in applying the requirements. The staff think that there was no intention for the difference and suggest the use of the more specific term short, medium and long term.

Staff recommendation 3

46. The staff recommend:

(a) using consistent language to refer to the reporting period for which sustainability-related financial disclosures are prepared and to refer to the related financial statements for that reporting period. The staff will consider in drafting which terminology is most appropriate and will use that terminology consistently in IFRS S1 and IFRS S2.

(b) using the phrase ‘short, medium and long term’ rather than the term ‘over time’ consistently in IFRS S1 and IFRS S2.

Part 4: Interaction between the current and anticipated financial effects requirements and the requirements on resilience assessment

47. Paragraph15(e) of [draft] S1 requires disclosure of information about resilience of an entity’s strategy (including its business model) to sustainability-related risks and opportunities and paragraph 23 requires an entity to disclose information about the resilience of its strategy and its cash flows to sustainability-related risks and opportunities.

48. Paragraph 15 of [draft] S2 requires an entity to disclose information about resilience of its strategy (including its business model) to climate-related changes and requires the use of a scenario analysis. The resilience assessment via scenario analysis is a tool used by preparers to assess resilience to specific sustainability-related risks, such as climate-related changes, over a range of scenarios.

49. Paragraph 43 of [draft] S1 requires an entity to describe the relationships between different pieces of information, which in doing so could require connecting narrative information on governance, strategy and risk management to related metrics and targets.

Staff analysis

50. Although few respondents made specific comments to this effect, there is evidence respondents require greater clarity on:

    (a) the distinctions and connections between the requirements for disclosure of information on the current and anticipated financial effects and the requirements for disclosure of an assessment of an entity’s resilience to various sustainability-related risks, including climate-related risks; and

    (b) whether and how scenario analysis could or should be used to inform the disclosure of anticipated financial effects of climate-related risks and opportunities.

51. In particular, we heard from a few respondents that climate scenario analysis will be needed to determine the anticipated financial effects of climate-related risks and opportunities. That feedback demonstrates the need for greater clarity on the relationship between the requirements on current and anticipated financial effects and the requirements on climate resilience in [draft] S2 as well as the general requirements on resilience of the entity’s strategy (including business model) to sustainability-related risks and opportunities in [draft] S1. In the staff’s view, this feedback indicates that the relationship between the current and anticipated financial effects requirements and the resilience requirements, including resilience to climate-related risks, is not sufficiently clear.

52. The staff note that resilience requirements are distinct from the current and anticipated financial effects requirements and are intended to serve different information needs. The former is intended to inform users of general purpose financial reporting about the ability of an entity to cope with and withstand the effects of sustainability-related risks and uncertainties in different scenarios. The latter is intended to inform users about the current and anticipated

financial effects of sustainability-related risks and opportunities, including climate-related risks and opportunities, on an entity's financial performance, financial position and cash flows.

53. The staff note that while there is a distinction between the resilience requirements and the current and anticipated financial effect requirements (for example, an entity is not required to complete scenario analysis or resilience assessment to determine its current and anticipated financial effects), there is also a connection between those requirements. For example, [draft] S2 requires an entity to explain how a resilience assessment influences the entity's business strategy, and the assessment of anticipated financial effects requires an entity to consider its strategy for addressing climate-related risks and opportunities.

54. We note that in accordance with the requirements on connected information in paragraph 43 of [draft] S1, an entity's sustainability-related financial disclosures should enable users of general purpose financial reporting to understand any relationships between the resilience assessment and the current and anticipated financial effects information.

55. To conclude, the staff note that resilience assessment is used by an entity to determine how robust its strategy (including business model) and hence its prospects for cash flows are in the face of sustainability-related risks and uncertainties, including climate-related risks. The entity could then use its resilience assessment to inform its strategy. Likewise, the resilience assessment could also inform the determination of current and anticipated financial effects of sustainability-related risks and opportunities. However, there is no requirement for an entity to perform scenario analysis to determine current and anticipated financial effects of sustainability-related risks and opportunities.

Staff recommendation 4

56. Staff recommend clarifying the relationship between resilience assessment requirements and the requirements to disclose current and anticipated financial effects. The clarification would emphasise that:

(a) resilience assessment requirements and the current and anticipated financial effects requirements can be applied independently. However, the resilience assessment can inform the disclosures of current and anticipated financial effects.

(b) the resilience assessment requirements, including the requirements for scenario analysis for climate-related risks, focus on an entity's strategy (including its business model). While there is a connection between those requirements and the current and anticipated financial effects requirements, there is no requirement for an entity to perform resilience assessment to determine current and anticipated financial effects of sustainability-related risks and opportunities.

Questions for the ISSB

57. The staff presents these questions for the ISSB.

Questions for the ISSB	
1.	Does the ISSB have any questions or comments about the matters described in this paper?
2.	Part 1: Does the ISSB agree with the staff's recommendation to clarify that when sustainability-related risks and opportunities have affected or are expected to affect

the information in an entity's financial statements, the entity is required to explain in its sustainability-related financial disclosures the connections between those current and anticipated financial effects and the sustainability-related risks and opportunities. In explaining these connections, the entity:

(a) is required to avoid unnecessary duplication; and

(b) is permitted to provide information by cross-reference if the conditions specified in paragraphs 75-77 of [draft] S1 are met?

3. Part 2: Does the ISSB agree with the staff's recommendation to clarify that:

(a) an entity is required to provide quantitative and qualitative information about the current and anticipated effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows unless the entity is unable to provide quantitative information. As noted in paragraph 38, determination of anticipated financial effects is required to be based on reasonable and supportable information that is available at the reporting date without undue cost or effort (subject to the ISSB's decisions on the January 2023 Agenda Paper 3C and 4D)?

(b) an entity determines whether it is able to provide quantitative information about the financial effects of a particular sustainability-related risk or opportunity taking into consideration:

(i) whether the financial effects of that sustainability-related risk or opportunity are separately identifiable;

(ii) whether a high level of outcome or measurement uncertainty is involved in quantifying the financial effects of that sustainability-related risk or opportunity; and

(iii) in case of the anticipated financial effects only, whether the entity has the skills, capabilities and resources to provide quantitative information about those effects (addressing the need for scalability and proportionality)?

(c) if an entity is unable to provide quantitative information about the financial effects of a particular sustainability-related risk or opportunity, the entity is required to:

(i) explain why it is unable to provide quantitative information about the financial effects of that sustainability-related risk or opportunity;

(ii) provide qualitative information about the financial effects of that sustainability-related risk or opportunity, including identifying line items, totals and subtotals within financial statements that are likely to be affected by that sustainability-related risk or opportunity; and

(iii) provide quantitative information about sustainability-related risks and opportunities—including that particular sustainability related risk or opportunity—at the lowest possible level of aggregation at which the entity is able to provide that information?

4. Part 3: Does the ISSB agree with the staff recommendation to:

   (a) use consistent language to refer to the reporting period for which sustainability-related financial disclosures are prepared and to refer to the related financial statements for that reporting period. The staff will consider in drafting which terminology is most appropriate and will use that terminology consistently in IFRS S1 and IFRS S2?

   (b) use the phrase ‘short, medium and long term’ rather than the term ‘over time’ consistently in IFRS S1 and IFRS S2?

5. Part 4: Does the ISSB agree with the staff recommendation to clarify the relationship between resilience assessment requirements and the requirements to disclose current and anticipated financial effects. The clarification would emphasise that:

   (a) resilience assessment requirements and the current and anticipated financial effects requirements can be applied independently. However, the resilience assessment can inform the disclosures of current and anticipated financial effects?

   (b) the resilience assessment requirements, including the requirements for scenario analysis for climate-related risks, focus on an entity’s strategy (including its business model). While there is a connection between those requirements and the current and anticipated financial effects requirements, there is no requirement for an entity to perform resilience assessment to determine current and anticipated financial effects of sustainability-related risks and opportunities?