IFRS Foundation

2023

World Standard-setters Conference

#WSS2023

Better information for better decisions

Proportionality and application of IFRS S1 and IFRS S2

Breakout session 3

Presenters

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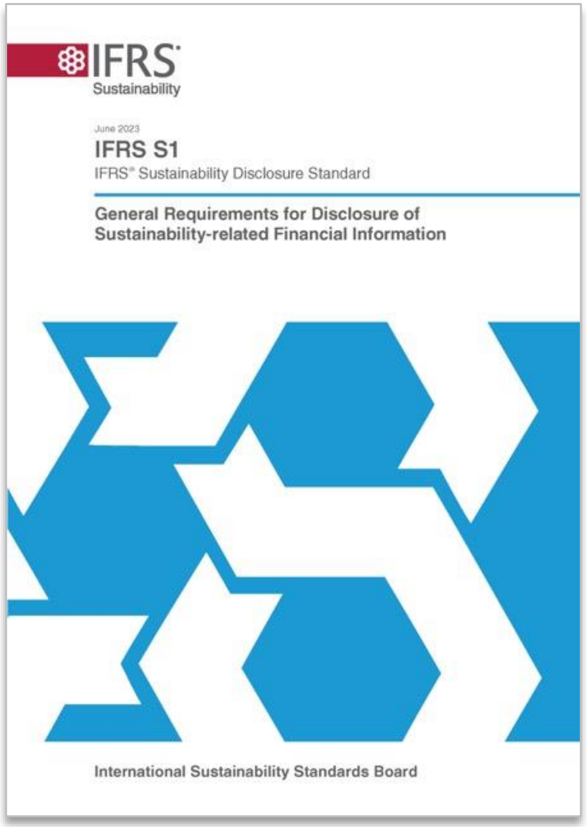
Agenda

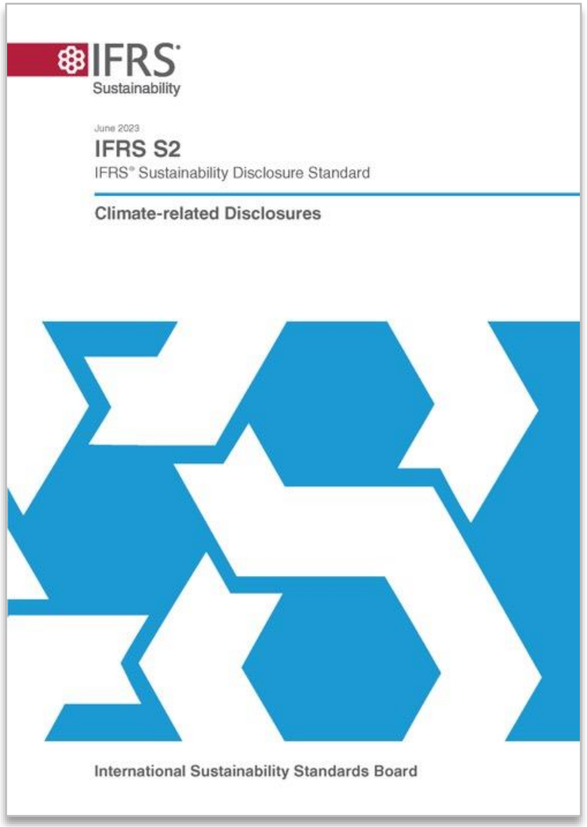
Introduction

IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information



- Asks for disclosure of **material information** about **sustainability-related risks and opportunities** with the financial statements, to meet investor information needs
- Applies **TCFD architecture** whenever providing information about sustainability
- Requires **industry-specific disclosures**
- For matters other than climate (IFRS S2) refers to **sources to help companies** identify sustainability-related risks and opportunities and information
- Can be used in conjunction with **any accounting requirements (GAAP)**

IFRS S2: Climate-related Disclosures



- Incorporates the **TCFD recommendations**
- To meet investor information needs, IFRS S2:
  - is used in accordance with **IFRS S1**
  - requires disclosure of **material information about climate-related risks and opportunities**, including physical and transition risks
  - requires **industry-specific disclosures**, which are supported by accompanying guidance built on SASB Standards

Proportionality mechanisms built in IFRS S1 and IFRS S2

Mechanisms that address proportionality

		Reasonable and supportable information that is available at the reporting date without undue cost or effort	Consideration of skills, capabilities, and resources
1	Determination of anticipated financial effects	●	●
2	Climate-related scenario analysis	●	●
3	Measurement of Scope 3 GHG emissions	●	
4	Identification of risks and opportunities	●	
5	Determination of the scope of the value chain	●	
6	Calculation of metrics in particular cross-industry metric categories	●	

IFRS Sustainability

1

Current and anticipated financial effects

The effects of sustainability-related risks and opportunities on a company’s current and anticipated financial performance, financial position and cash flows

- A company is required to disclose both quantitative (a single amount or a range) and qualitative information.

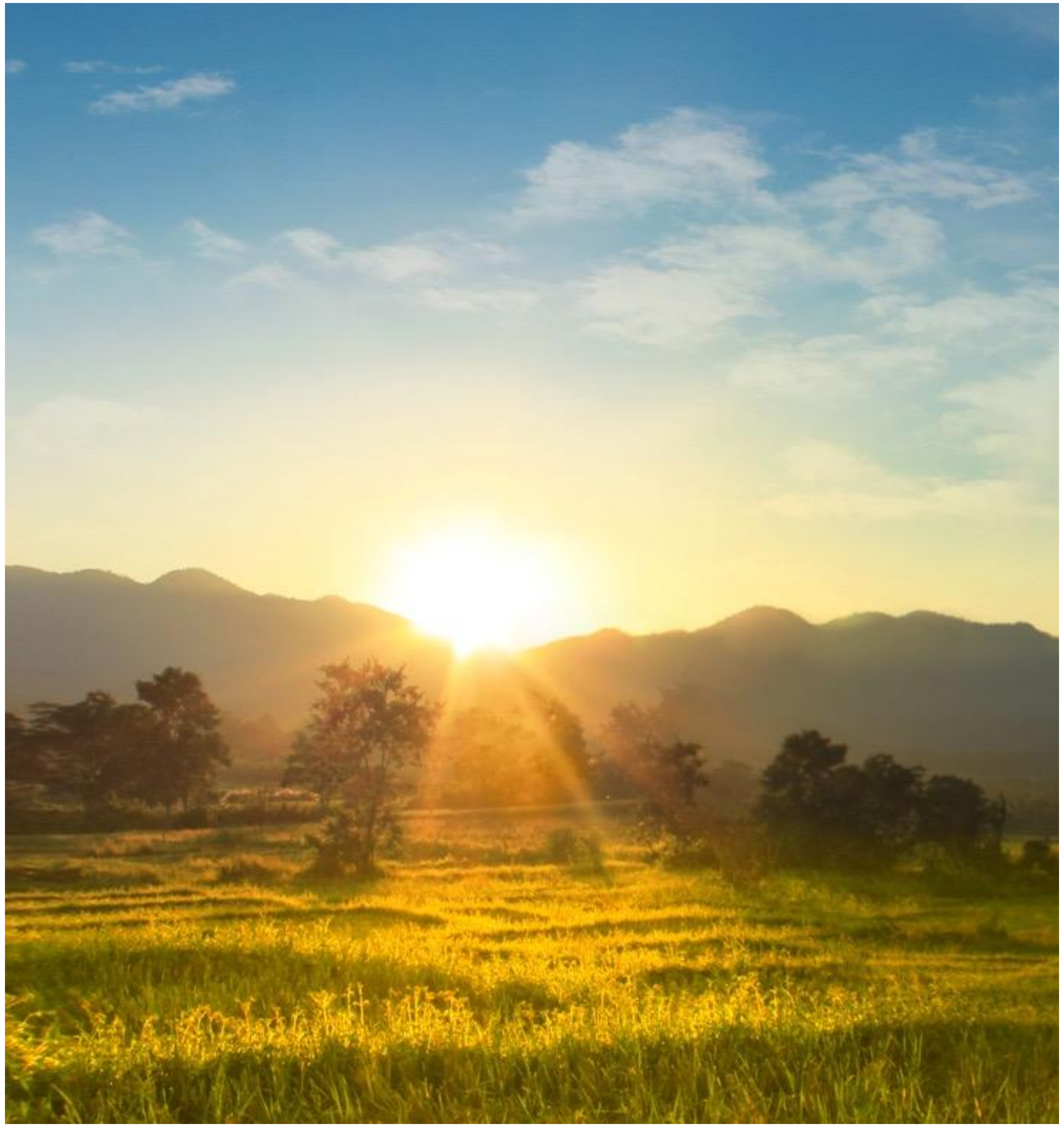
- A company can provide qualitative rather than quantitative information when:
  - not separately identifiable
  - there is a high level of measurement uncertainty
  - for anticipated effects, this is not commensurate with the company's skills, expertise and resources

1

Anticipated financial effects

- the use of all reasonable and supportable information available to the company without undue cost or effort
- the use of an approach that is commensurate with its available skills, capabilities and resources

A company does not need to provide quantitative information on anticipated financial effects if it lacks the skills, capabilities or resources to do so. Instead, they are asked to provide qualitative information



Climate resilience: scenario analysis

Companies need to use climate-related scenario analysis when reporting on climate resilience

IFRS S2 includes application guidance on how to apply scenario analysis

Building on TCFD materials

The guidance requires:

- a method of climate-related scenario analysis **commensurate** with a company’s circumstances
- the use of **all reasonable and supportable information** that is available to a company at the reporting date without **undue cost or effort**

IFRS Sustainability

2

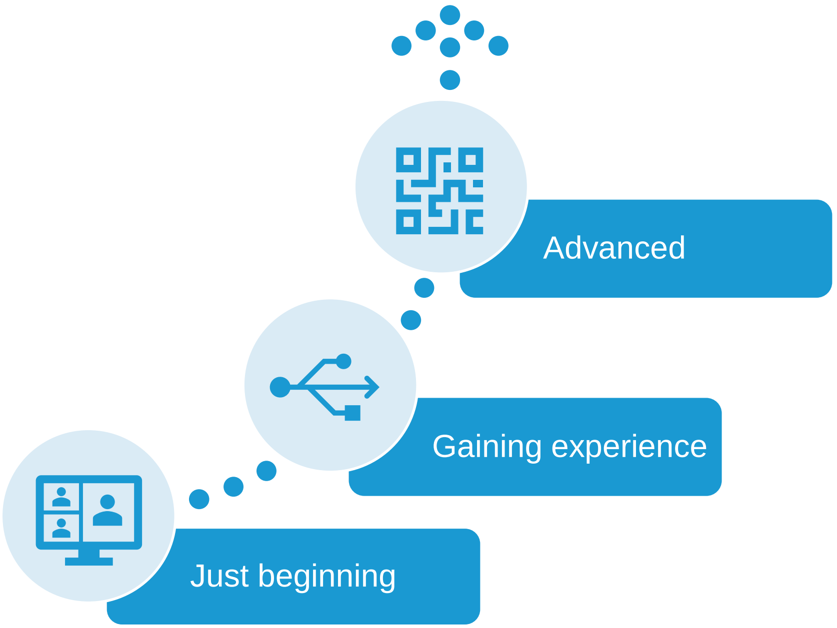
Commensurate approach to scenario analysis

The ISSB's application guidance draws on the range of practice outlined in documents published by the TCFD

Designed to help companies:

- ✓ identify the appropriate stage to use
- ✓ navigate toward a more robust resilience assessment and related disclosures over time

TCFD's stages of progression



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GHG emissions

Disclose a company’s absolute gross Scope1, Scope 2 and Scope 3 GHG emissions

- **Scope 1:** direct emissions
- **Scope 2:** indirect emissions from the generation of purchased energy consumed by the company
- **Scope 3:** other indirect emissions that occur in the company’s value chain

Measured in accordance with the GHG Protocol Corporate Standard

Disclosure of how and why a company has used specific inputs, assumptions and estimation techniques to measure its GHG emissions, including any changes to these

3 5

Scope 3 GHG emissions

Support:
Use of reasonable and supportable information available without undue cost or effort

Relief:
No reassessment of the scope of a company's value chain and the categories included in the measurement of the company's Scope 3 GHG emissions, unless a significant event or change of circumstances occurs

Relief:
Permission to include information obtained from companies in the value chain with a different reporting cycle

IFRS Sustainability

Transition reliefs

IFRS Sustainability

Reliefs for first year of application

1 Can limit disclosures to climate-related information

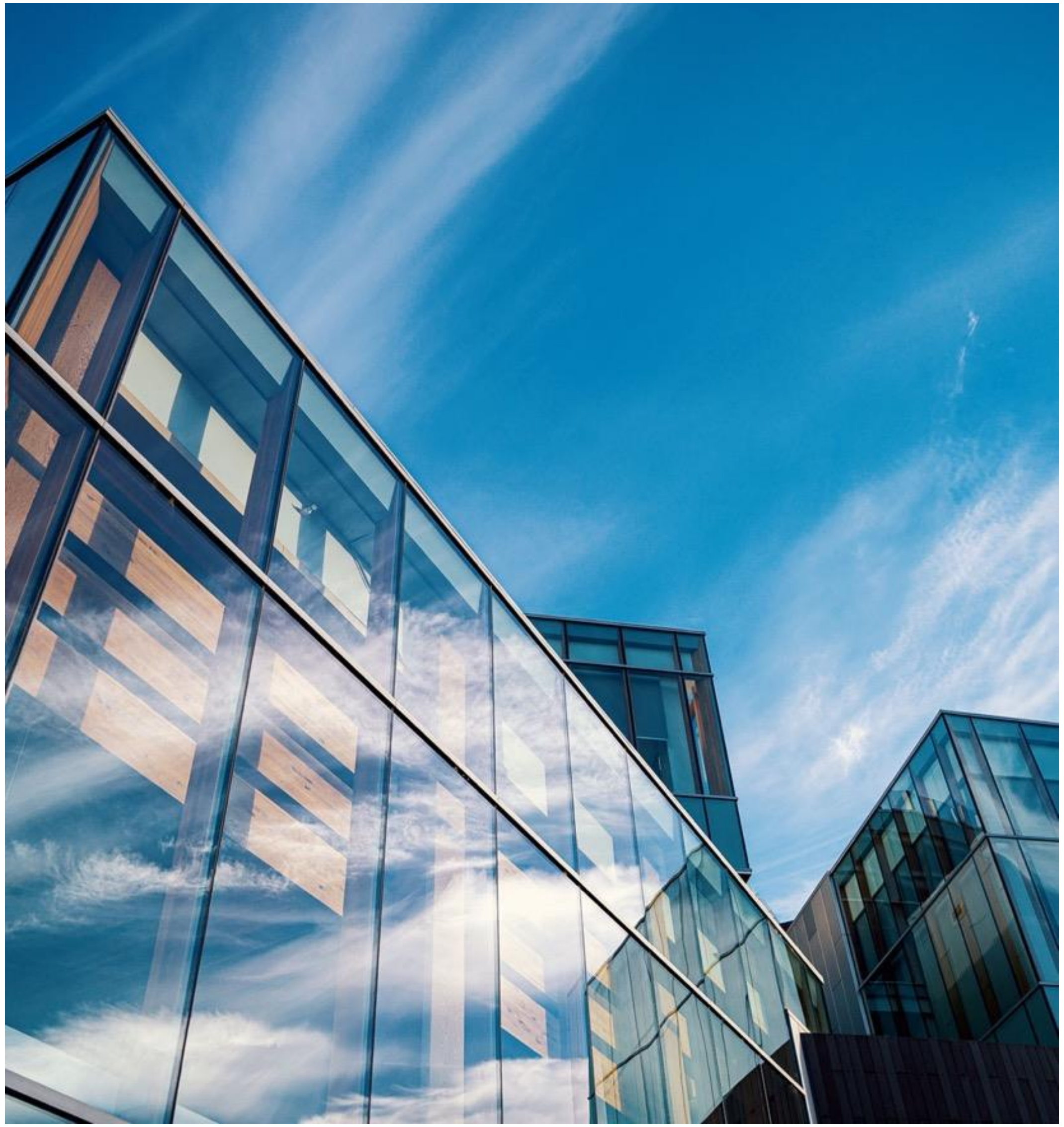
Do not need to provide comparative information*

2 Later reporting allowed - annual information can be provided with half year reporting

3 Scope 3 disclosure not required

Do not need to apply Greenhouse Gas Protocol if already using a different measurement approach

**companies that limit disclosures to climate-related information in the first year do not need to provide comparative information about their sustainability-related risks and opportunities beyond climate in their second year.*



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Prioritise climate-related disclosures

In the first year of reporting using the ISSB Standards,
companies can choose to limit disclosures to climate-related information

Companies using this relief:

- **focus** initial efforts on ensuring they meet investor **information needs around climate change**
- **prioritise** putting in place reporting practices and structures to provide high-quality, decision-useful information about **climate-related risks and opportunities**
- provide full reporting on sustainability-related risks and opportunities, **beyond climate**, from the second year
- use their first year of reporting to **get familiar with concepts and requirements** within the ISSB Standards—undertaking important exercises to get their systems in place—using climate first, before reporting on other sustainability-related risks and opportunities

1

Companies providing climate disclosures still need IFRS S1

Answers provided by IFRS S1		
Who reports (reporting entity)	Timing of reporting (with financial statements)	Value chain concepts
Describes sustainability	Location of reporting (in general purpose financial report)	Materiality – meaning and assessment
Connections in information (including with financial statements)	Relief from disclosing commercially sensitive opportunities	Quality of information (eg relevant and representationally faithful)
What to do with changes in estimates and errors	When disaggregation is needed	Comparative information
Interactions with law and regulation	Disclosures about key judgements	Assertion using ISSB Standards

Overarching requirements in IFRS S1 necessary for *any disclosures*

This is why if a company only reports on climate it still must use IFRS S1

2

When to report?

Annual sustainability-related financial disclosures will need to be published at the same time as annual financial statements. However, **transition relief is available** for the first year of reporting:

	Annual sustainability-related financial disclosures to be provided…	For example, for a company with a 31 December year-end, this could mean the sustainability-related financial disclosures are published in…
Companies required to do H1/Q2 earnings reporting…	… at the same time as the next H1/Q2 earnings reporting	July 2025
Companies voluntarily doing H1/Q2 earnings reporting…	… at the same time as the next H1/Q2 earnings reporting, but no later than 9 months after the end of the annual reporting period	30 September 2025 at the latest
Companies that do not do H1/Q2 earnings reporting…	… no later than 9 months after the end of the annual reporting period	30 September 2025 at the latest

3

Scope 3 GHG emissions

Transition reliefs

Relief:
Exemption from this disclosure in first year applying IFRS S2

Relief:
No need to apply Greenhouse Gas Protocol if already using a different measurement approach

Other mechanisms to support implementation of IFRS S1 and IFRS S2

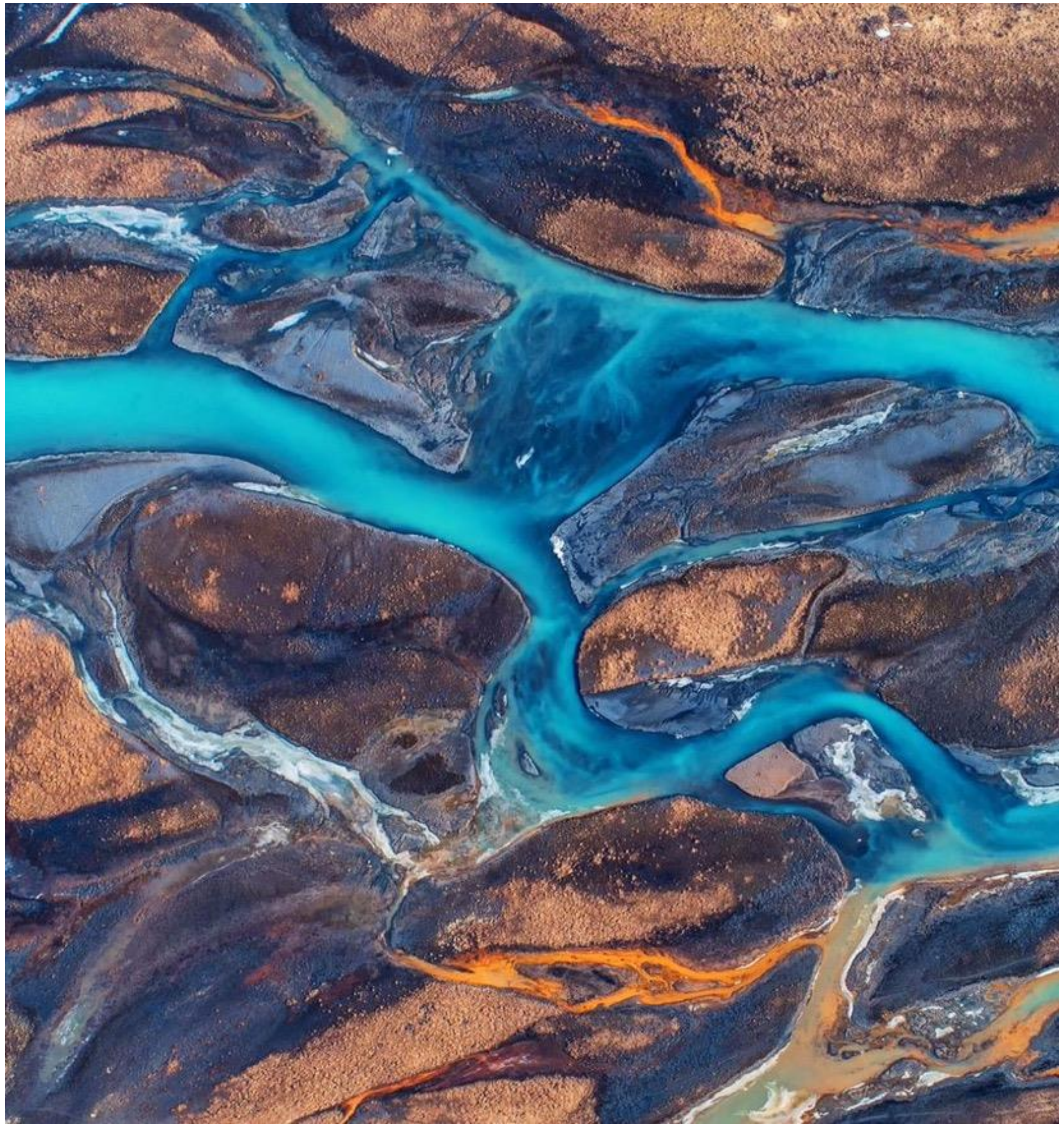
Implementation support and education

Capacity building initiative

- Development of general educational materials for all stakeholders (including investors)
- Development of specific educational materials for stakeholders in emerging and developing economies as well as smaller companies

Support implementation by companies

- Transition Implementation Group - a public forum for stakeholders to follow the discussion of questions raised on implementation by those applying the Standards



Transition Implementation Group - objective

- Will provide a public forum for any stakeholder to share implementation questions with the ISSB and to follow the discussion of those questions
- Consistent with previous IASB (and FASB) groups, will not issue any authoritative guidance, but the IFRS Foundation will publish summaries and recordings from the meetings on its website
- Discussions will help the ISSB determine what, if any, action will be needed to address the implementation questions (eg providing webinars, case studies and other educational material)

Any stakeholder can submit a potential implementation question, if the question:

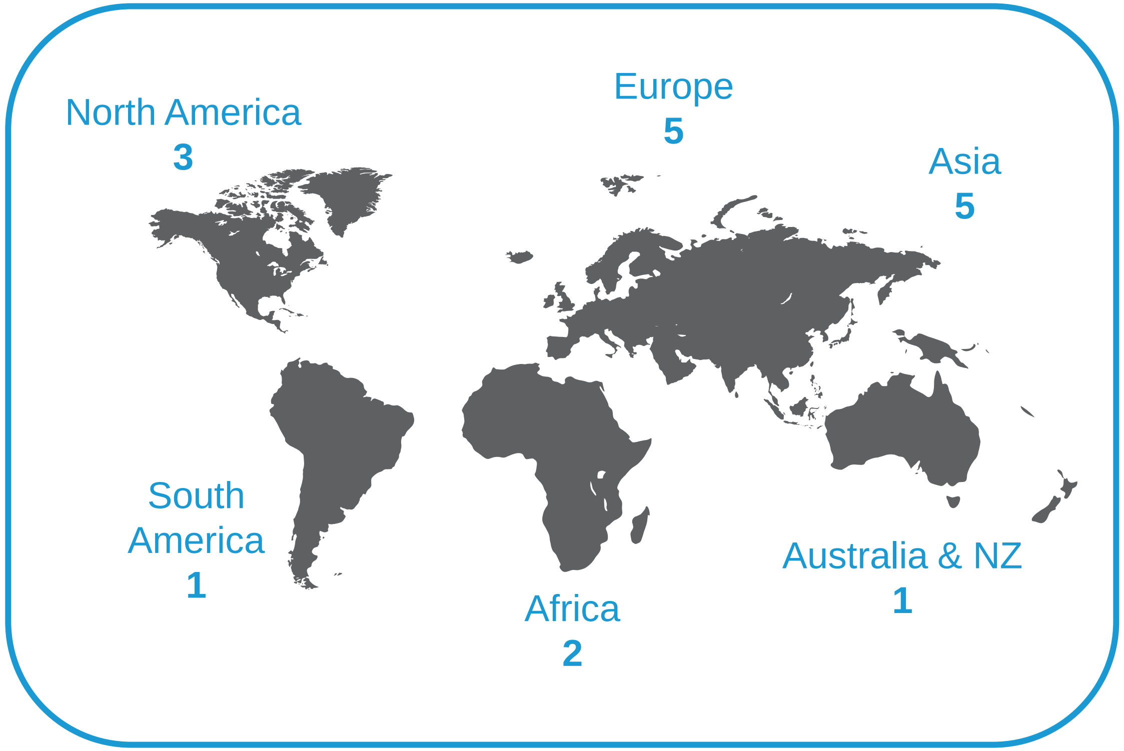
- is related to the implementation of IFRS S1 or IFRS S2
- indicates that IFRS S1 or IFRS S2 can be applied in different ways resulting in diversity in practice
- is expected to be pervasive

A submission log, including a summary of the questions received and their status, will be provided periodically

Submission guidelines are available on the IFRS Foundation website

Transition Implementation Group - composition

- 17 members, of which 13 preparers and 4 assurance providers
- 3 official observers
- Representation from: Australia, Belgium, Brazil, Canada, China, Finland, Germany, Hong Kong SAR, Japan, Malaysia, Nigeria, South Africa, South Korea, UK and US
- Meetings will be chaired by the ISSB Vice-Chair – a total of 5 ISSB members will officially participate in the meetings



Other resources

IFRS S2 guidance

Application Guidance

- Applying scenario analysis to assess climate resilience
- Measuring Scope 1-3, plus a framework for measuring Scope 3
- Disclosing information:
  - relevant to financed emissions
  - relevant to cross-industry metric categories
  - about climate-related targets

Accompanying Guidance

- Metrics that could be disclosed relevant to cross-industry metric categories
- Examples of disclosing GHG emissions information applying the principles in IFRS S1 for aggregation and disaggregation
- Industry-based guidance on identifying appropriate disclosures associated with common business models and activities in a particular industry

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