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## Supporting implementation of IFRS S1 and IFRS S2

### Developing educational material on materiality

Date	21 February 2024
Project	Supporting implementation of IFRS S1 and IFRS S2
Topic	Developing educational material on materiality
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This paper has been prepared for discussion at a public meeting of the International Sustainability Standards Board (ISSB). This paper does not represent the views of the ISSB or any individual ISSB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Sustainability Disclosure Standards. The ISSB's technical decisions are made in public and are reported in the ISSB Update.

# Objective of session

## **Development of educational material**

The staff is developing targeted educational material to explain the application of the concept of materiality in the context of the requirements in IFRS Sustainability Disclosure Standards, and the scope of information to which the concept of materiality is applied. This educational material does not amend the requirements in IFRS S1 or IFRS S2.<sup>1</sup>

## **Purpose of the ISSB meeting**

Whilst an ISSB meeting is not required for the development of educational material, the staff believe it is important in this case:

- given this is a foundational topic for IFRS S1 and IFRS S2, and a key area of focus for ISSB stakeholders; and
- to ask ISSB members for input on the specific areas of focus that the staff plan to include in the educational material.

In addition, the public discussion is useful in preparation for the ISSB's decisions on its two-year work plan.

*Note: For simplicity, in some instances these slides use the term 'investor' to refer to primary users of an entity's general purpose financial reports—existing and potential investors, lenders and other creditors. Additionally, throughout these slides, the terms 'primary users' and 'users' are used interchangeably, with the same meaning.*

This is not a decision-making meeting

<sup>1</sup> In accordance with the IFRS Foundation Due Process Handbook, educational material is not part of the Standards and cannot add or change requirements in the Standards.

# Approach to discussion

The staff seek ISSB members' feedback on the materials presented. This discussion will inform the staff's ongoing work to develop educational material on materiality. The slides represent the areas the staff believe are important to cover in the context of the requirements in IFRS Sustainability Disclosure Standards.

## Focus areas for this discussion:

- 1 Using ISSB Standards to prepare sustainability-related financial disclosures
- 2 The definition of material information
- 3 Sustainability-related risks and opportunities
- 4 Information that is material might change over time

## What will *not* be discussed during this session:

- (1) How an entity might assess materiality (ie, making materiality judgements)
- (2) Anything beyond the requirements already set out in IFRS S1 and IFRS S2

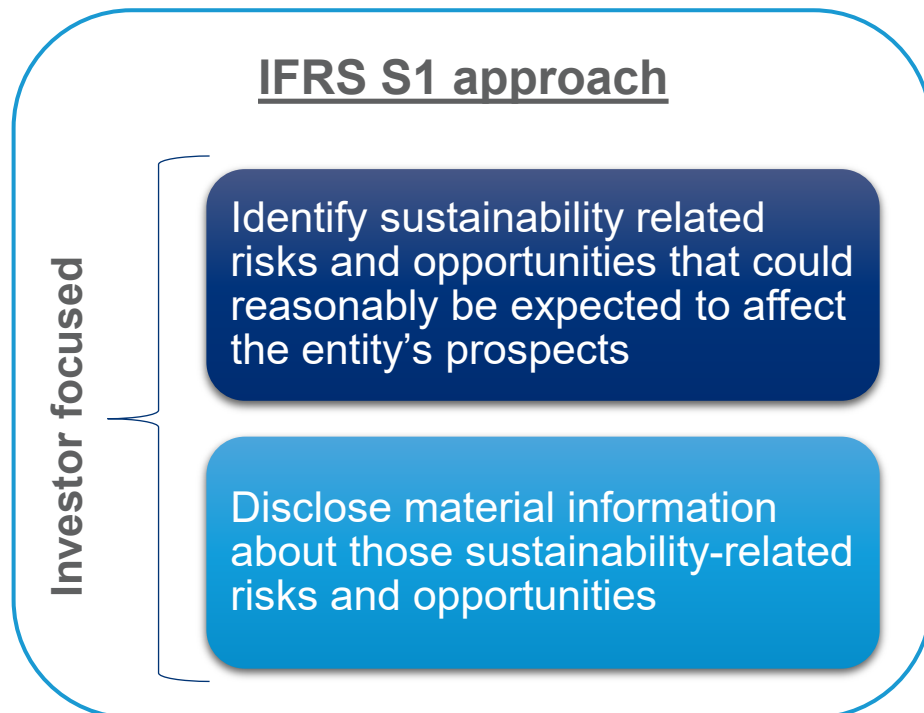
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# Using ISSB Standards to prepare sustainability- related financial disclosures



# Preparing sustainability-related financial disclosures

IFRS S1 requires entities to disclose material information about the sustainability-related risks and opportunities (SRROs) that could reasonably be expected to affect their cash flows, access to finance or cost of capital over the short, medium or long term (prospects)<sup>1</sup>.



## **Focus areas for educational material**

- The focus of the educational material under development is materiality. It's the staff view that materiality must be explained in the context of the identification of SRROs. Therefore, educational material will summarise IFRS S1's approach, which includes (1) the identification of sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects, and (2) requirements to disclose material information – this approach in IFRS S1 is consistent with the notion of 'investor materiality'.
- The educational material will also explain that IFRS S1 sets out sources of guidance to support application.
- A note on terminology: ISSB Standards refer to materiality in the context of material *information* about sustainability-related risks and opportunities. The ISSB Standards do not use the term *material risks and opportunities*.

<sup>1</sup>These risks and opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

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# The definition of material information



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## IFRS S1 definition of material information

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

# IFRS S1 definition of material information: primary users

ISSB Standards require entities to provide information that meets the needs of existing and potential investors, lenders and other creditors; collectively referred to as *primary users of general purpose financial reports*.

## IFRS S1 defines material information

... information is **material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users** of general purpose financial reports make on the basis of those reports...

## Focus areas for educational material

The educational material will focus on *who* primary users are, as well as their common information needs. Specifically, the educational material will explain:

- **Investor<sup>1</sup> focus:** the focus on primary users distinguishes the audience for sustainability-related financial disclosures from that intended for multi-stakeholder reporting.
- **Common information needs of users:** general purpose financial reports do not, and cannot, provide all the information that primary users need.
  - Sustainability-related financial disclosures:
    - are intended to meet **common information needs** of users of general purpose financial reports; and
    - do not aim to address specialised information needs—information needs that are unique to particular users.
  - Individual users may have different, and sometimes even conflicting, information needs and desires. Their needs might also evolve over time.

<sup>1</sup>Primary users of general purpose financial reports



# IFRS S1 definition of material information: the context

The ISSB and the IASB have aligned definitions of material information, but the aligned definition is applied to different information.

## IFRS S1 defines material information

In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information...

## Focus areas for educational material

The educational material will focus on how *materiality* is applied in the context of sustainability-related financial disclosures as compared to financial statements.

- **Purpose and scope:** entities will need to make different materiality judgements as sustainability-related financial disclosures serve a specific objective and provides different types of information about a reporting entity.
- **Time horizons:** entities will often have to consider financial implications over longer time periods than the time periods considered in preparing financial statements.
- **Value chain:** entities will need to consider interactions throughout the value chain.

The staff will also consider commenting on **interoperability** in the educational material.

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# Sustainability-related risks and opportunities



# Identifying sustainability-related risks and opportunities that can affect an entity’s prospects

ISSB Standards require an entity to disclose material information about these SRROs.

An entity’s ability to generate returns for **investors is inextricably** linked to:



## Focus areas for educational material

The educational material will focus on the description of SRROs, including those SRROs that could reasonably be expected to affect an entity’s prospects. Specifically, the educational material will explain:

- Interactions between an entity and its stakeholders, society, the economy and the natural environment throughout the entity’s value chain:
  - are **inextricably linked** to the entity’s ability to generate cash flows over the short, medium and long term,
  - can be **direct and indirect**,
  - result from operating the entity’s **business model** and from the **external environment** in which the entity operates,
  - take place within an **interdependent system** in which the entity both **depends on** and **affects resources and relationships** throughout its value chain.
- Resources and relationships can be **natural, manufactured, intellectual, human, social** or **financial**.
- An entity depends on and affects resources and relationships through its **activities** and **outputs**, which contributes to the **preservation, regeneration** and **development** or to the **degradation** and **depletion** of those resources and relationships.
- Those **dependencies** and **impacts** might give rise to SRROs that could reasonably be expected to affect an entity’s prospects.
- Information on both impacts and dependencies can be useful to users of general purpose financial reports in understanding the risks and opportunities to which the entity is exposed, and in making decisions relating to providing resources to the entity.

# SRROs related to financial resources and relationships, and the financing environment

IFRS S1 includes several requirements related to financial resources and relationships, the financing environment, and prospects.

## SRROs can arise from:

**financial resources and relationships** and within the **financing environment** throughout the value chain.

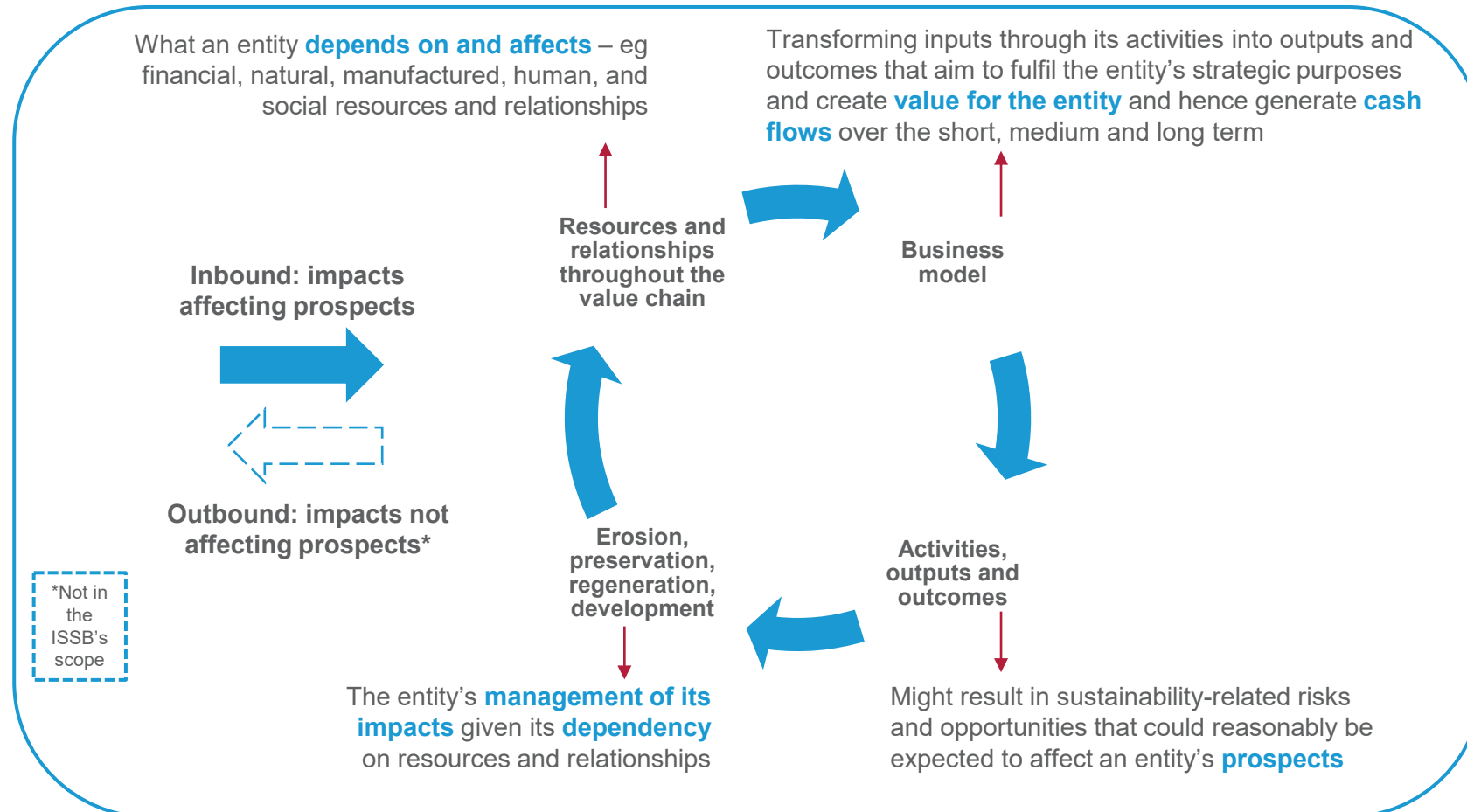
An entity is required to disclose material information about SRROs that could reasonably be expected to affect its prospects—which includes the entity's **cash flows, access to finance** and **cost of capital**—over the short, medium or long term.

## Focus areas for educational material

The educational material will focus on explaining the linkages between:

- Resources and relationships that an entity depends on and affects by its activities and outputs can take various forms, such as natural, manufactured, intellectual, human, social or **financial**.
- An entity's value chain encompasses interactions, resources and relationships within **financing environment**.
- The notion of an entity's prospects encompasses its **cash flows, access to finance and cost of capital** over the short, medium and long term.

# The link between a company's dependencies and impacts, SRROs, and its prospects



## Focus areas for educational material

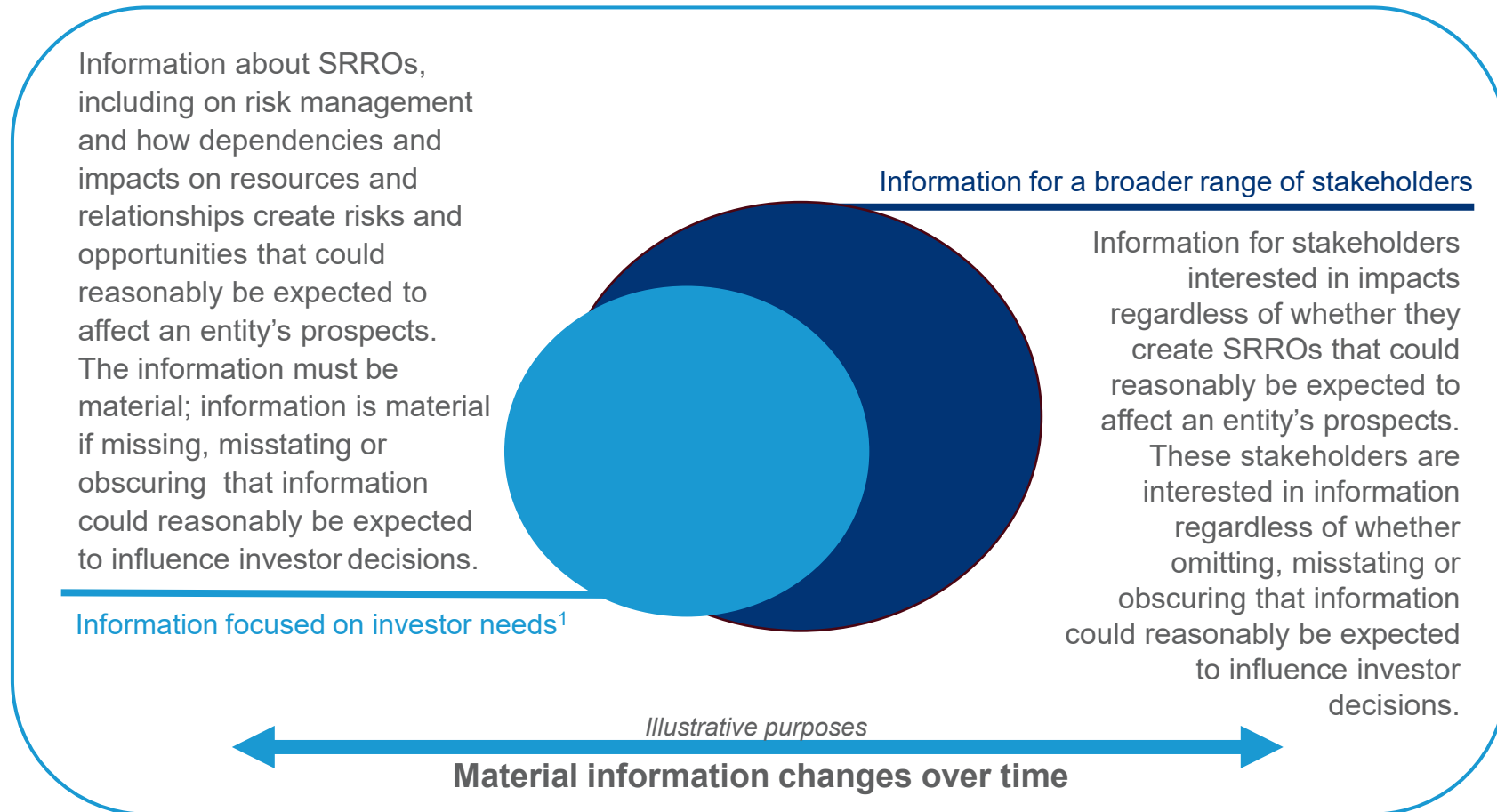
The staff are considering whether this graphic (or a similar graphic) could be helpful to show how an entity's dependences and impacts on resources and relationships are linked to its prospects.

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Information that is  
material might change  
over time



# Information that is material might change over time



## Focus areas for educational material

The staff are considering whether this graphic (or a similar graphic) could be helpful to illustrate how information that is material might change over time.

*Note: the size of the circles is not indicative of the overlap in the respective information.*

<sup>1</sup> We use the term 'investor' to refer to primary users of an entity's general purpose financial reports—existing and potential investors, lenders and other creditors

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# Questions for the ISSB





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## Questions for the ISSB

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Does the ISSB have any comments or questions on the areas of focus for this educational material?

2

Does the ISSB have any suggestions on areas that are not addressed in the slides, which should be addressed, as part of this educational material?

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