Transition Implementation Group on IFRS S1 and IFRS S2

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Topic	**Summary of Transition Implementation Group on IFRS S1 and IFRS S2 meeting held on 15 March 2024**
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This paper has been prepared to summarise a public meeting of the Transition Implementation Group on IFRS S1 and IFRS S2. It does not purport to represent the views of any individual member of the International Sustainability Standards Board or staff. Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards.

Summary of the Transition Implementation Group on IFRS S1 and IFRS S2 (TIG) meeting held on 15 March 2024

1. The TIG held its second meeting on 15 March 2024 in Frankfurt, Germany. These notes summarise the discussions.

2. Agenda Paper 9 for the May 2024 meeting of the International Sustainability Standards Board (ISSB) provides the ISSB with a copy of this summary.

3. The discussions at the TIG meetings are based on agenda papers that provide an analysis of implementation questions received. These agenda papers provide a basis for TIG members, as industry experts involved in the implementation of IFRS S1 and IFRS S2, to understand the implementation questions and share their views on the analysis.

4. TIG members discussed topics in staff papers Agenda Paper 1 *Application of paragraph 29(b)–(c) of IFRS S2, using ISSB Standards and related materials* and Agenda Paper 2 *Revision of preceding period estimated amounts*.

5. TIG members also received a copy of the submissions log, which includes all questions submitted to the TIG.[1]

[1] TIG Agenda Papers and the submissions log can be found on the IFRS Foundation website: IFRS - Transition Implementation Group on IFRS S1 and IFRS S2

Agenda Paper 1 *Application of paragraph 29(b)–(c) of IFRS S2, using ISSB Standards and related materials*

6. Agenda Paper 1 explains how ISSB Standards (which include the Appendices to the Standards), the Basis for Conclusions and the Accompanying Guidance—in this paper, collectively referred to as 'the Standards and related materials'—can be used to inform an understanding of specific disclosure requirements; particularly in an instance in which a specific disclosure requirement is not prescriptive.

7. Agenda Paper 1 then addresses a submission that asks what the terms 'business activities' and 'vulnerable' mean in the absence of a definition in IFRS S2, and how these terms can be applied to meet the requirements of paragraph 29(b)–(c) of IFRS S2. Agenda Paper 1 uses this submission as an example of how to use the Standards and related materials in an instance in which a specific disclosure requirement is not prescriptive.

8. Paragraph 29(b)–(c) of IFRS S2 requires disclosure of:

   (a) the amount and percentage of assets or business activities vulnerable to climate-related transition risks; and

   (b) the amount and percentage of assets or business activities vulnerable to climate-related physical risks.

9. Agenda Paper 1 presented two questions for the TIG members to discuss:

   (a) question one: do TIG members have comments on how the Standards and related materials can be used in the application of specific disclosure requirements—particularly when a specific disclosure requirement is not prescriptive; and

   (b) question two: how would TIG members consider the terms 'business activities' and 'vulnerable' in applying the requirements in paragraph 29(b)–(c) of IFRS S2.

TIG member discussion on question one

10. TIG members discussed paragraphs 10–20 of Agenda Paper 1, which explain the various components of the Standards and related materials, their purpose and how they can be used to understand specific disclosure requirements. Many TIG members expressed agreement that

paragraphs 10–20 of Agenda Paper 1 provide a useful explanation of how to read and use the Standards and related materials. These TIG members encouraged the ISSB staff to use Agenda Paper 1 as the basis for future educational material.

11. In summary, paragraphs 10–20 of Agenda Paper explained the following components of the Standards and related materials:

(a) *IFRS S2* includes the overall disclosure objective, specific disclosure objectives, the Scope of application of IFRS S2, Core content, and specific disclosure requirements. The Core content is grouped into four sections: Governance, Strategy, Risk management and Metrics and targets. IFRS S2 also includes Appendices A–C, which set out Defined terms, Application guidance and the Effective date and transition. The Appendices are an integral part of the Standard and have the same authority as the other parts of the Standard. For example, the Application guidance includes disclosure requirements that are required to be applied. So, in other words, entities are required to apply these appendices because they are part of IFRS S2.

(b) *Accompanying Guidance on IFRS S2* accompanies, but is not part of, the Standard. It illustrates aspects of the Standard but is not intended to provide interpretative guidance. For the avoidance of doubt, an entity is not required to apply such guidance when it applies IFRS S2 as long as the entity otherwise satisfies the requirements in the Standard.

(c) *Industry-based Guidance on implementing IFRS S2* is required to be referred to and considered when applying IFRS S2. This guidance is organised by industry, enabling a company to identify climate-related disclosure topics and metrics applicable to its business model and operations.

(d) *Basis for Conclusions on IFRS S2* accompanies, but is not part of, IFRS S2. It summarises the considerations of the ISSB and explains the rationale for the decisions the ISSB reached in developing the Standard. For the avoidance of doubt, the Basis for Conclusions provides context and can be useful to understand the requirements in the Standard, but the Basis for Conclusions does not in itself set out requirements.

(e) *IFRS S1* must also be applied when applying IFRS S2. IFRS S1 contains the general requirements for the disclosure of sustainability-related financial information. This includes requirements related to conceptual foundations as well as requirements related to judgements, measurement uncertainty and errors in addition to other matters.

12. Specifically, TIG members commented that paragraphs 10–20 of Agenda Paper 1 are helpful in:

    (a) providing 'an introduction to IFRS Standards', in particular, providing an overview of IFRS Sustainability Disclosure Standards and the materials published with the Standards.

    (b) emphasising that IFRS S1 and IFRS S2 must be applied together. Linkages between the two Standards, such as applying the requirements in IFRS S1 related to judgements and materiality, are necessary when applying IFRS S2.

    (c) explaining the role of the Industry-based Guidance on implementing IFRS S2 (ie an entity is not required to apply this guidance, rather an entity is required to *refer to and consider* the applicability of these industry-based disclosure topics and associated metrics).

13. TIG members also shared practical insights regarding their approach to reading and using the Standards and related materials, including suggestions such as:

    (a) thoroughly reviewing both IFRS S1 and IFRS S2;

    (b) consistently referring back to IFRS S1, which contains the conceptual foundations as well as requirements related to judgements, materiality, among other requirements, that apply when using IFRS S2;

    (c) reviewing the Basis for Conclusions to better understand the ISSB's rationale behind the language used to set out the requirements in a Standard;

    (d) using the Industry-based Guidance on implementing IFRS S2 to gain industry-specific insight into what could be appropriate information to disclose when preparing relevant and decision-useful sustainability-related financial disclosures; and

(e) undertaking a comprehensive gap analysis to assess current availability of information and related disclosures, thereby facilitating the identification of priority areas of focus for implementation.

TIG member discussion on question two

14. The TIG members discussed what the terms 'business activities' and 'vulnerable' mean in the absence of a definition in IFRS S2, and how these terms can be applied to meet the requirements of paragraph 29(b)–(c) of IFRS S2.

15. TIG members agreed with the considerations outlined in paragraphs 21–53 of Agenda Paper 1, which can be used to support an analysis of the Standards and related materials in understanding what the terms 'business activities' and 'vulnerable' mean in the absence of a definition in IFRS S2. In summary, paragraphs 21–53 of Agenda Paper 1 include the following considerations:

(a) The overall disclosure objective in IFRS S2 highlights that disclosures are required to provide information that is useful to the decisions of primary users relating to providing resources to the entity:

(i) This provides an anchor to apply judgement in determining the information to disclose that would meet this objective.

(ii) In determining information to disclose in relation to business activities (or assets) that are vulnerable to climate-related risk, an entity should ensure the information disclosed is useful to primary users in making decisions relating to providing resources to the entity. The information must be relevant and faithfully represent what it purports to represent.

(b) The specific disclosure objective is intended to ensure that disclosures are provided to help users of general purpose financial reports to understand an entity's performance in relation to the entity's climate-related risks and opportunities.

(c) The descriptions of the cross-industry metric categories in IFRS S2 are in most cases intentionally non-specific. The ISSB intended:

(i) these requirements to elicit information related to an entity's specific climate-related risks and opportunities; and

(ii) an entity to identify appropriate metrics that provide information about its business in a manner that enables the entity to meet the specific objective of providing information about its performance and exposure in relation to climate-related risks and opportunities.

(d) The breadth of metrics provided as examples in the Accompanying Guidance on IFRS S2 highlight (1) the various ways in which the disclosure requirement might be met, and (2) that disclosures are entity specific. The examples also show that the information that is relevant will depend on an entity's business activities and assets.

(e) The Industry-based Guidance on implementing IFRS S2 can be useful in identifying metrics to disclose in accordance with paragraph 29 of IFRS S2.

(f) The concept of 'all reasonable and supportable information that is available to the entity without undue cost or effort' assists in the application of the requirements in paragraph 29(b)–(c) of IFRS S2 as it clarifies that entities are required to have a sensible basis for information that supports disclosure, and that undue cost or effort is not required to obtain the information to prepare the disclosures.

(g) In considering information that is disclosed elsewhere in accordance with IFRS Sustainability Disclosure Standards, as well as the related financial statements, the Application Guidance in IFRS S2 can help to facilitate the provision of such information, as well as promote consistency and connectivity in reporting, while reducing duplication.

(h) The information disclosed in applying paragraph 29(b)–(c) of IFRS S2 will be subject to the requirements in IFRS S1, including on materiality, judgements, and estimates. Depending on the entity, the nature of its business activities and its associated vulnerabilities could vary greatly; and depending on the entity, its types of assets and therefore the nature of vulnerabilities could vary greatly. This is why the ISSB does not prescribe specific metrics in paragraph 29 of IFRS S2, but instead requires an entity to disclose material information such that the information disclosed would be material to understand how climate-related risks might affect the entity's prospects.

Information is material to the extent that omitting, misstating or obscuring that information could reasonably be expected to influence decisions of primary users.

16. TIG members shared general observations that could be useful in applying the requirement in paragraphs 29(b)–(c) of IFRS S2. These observations included:

(a) The information that is required to be disclosed is that which is reasonably expected to influence an investor decision, and therefore materiality judgements are critical in determining the information to provide. For example, as the Standards do not state specific requirements on the granularity of information to disclose when determining 'business activities', consideration of materiality is especially important to ensure that the information provided is at the level of detail necessary to be decision-useful for users.

(b) The specific disclosure objective relevant to paragraph 29(b)–(c) of IFRS S2 is to 'provide information that will enable users of general purpose financial reports to understand an entity's performance in relation to its climate-related risks and opportunities'. It is important that the information disclosed aligns with this specific disclosure objective, rather than taking a compliance approach to meet the requirements by providing the minimum disclosure. When applying specific disclosure requirements, the overall and specific disclosure objectives in IFRS S2 should be used as an anchor to apply judgement in determining what to disclose.

(c) The Accompanying Guidance on IFRS S2 includes examples of metrics that illustrate information that may be relevant to meet the requirements in paragraph 29(b)–(c) of IFRS S2. This is helpful in considering the different ways in which business activities and vulnerabilities could be analysed and expressed in different measurement units. The use of the word 'may' in paragraph 44 of Agenda Paper 1 ('…the Accompanying Guidance on IFRS S2 includes examples of metrics that illustrate information that *may* be relevant…') is helpful as the metrics are only examples, and there may be different metrics an entity will use. This emphasises the need for preparers to use judgement, including materiality judgements, to determine the metrics appropriate for disclosure.

(d) In applying the requirements in paragraph 29(b)–(c) of IFRS S2, entities must apply the requirements related to connected information. For example, entities might assess business activities, vulnerabilities or other related terms for other reporting purposes, and therefore the requirements in paragraph 21 of IFRS S1 should be applied, to ensure that information is provided in a manner that enables users to understand different types of connections, including:

  (i) the connections between the items to which the information relates—such as connections between various sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects; and

  (ii) the connections between disclosures provided by the entity within its sustainability-related financial disclosures, and across its sustainability-related financial disclosures and other general purpose financial reports published by the entity (which includes the financial statements).

(e) The importance of preparing sustainability-related financial disclosures using data and assumptions that are consistent—to the extent possible considering the requirements of IFRS Accounting Standards or other applicable GAAP—with the corresponding data and assumptions used in preparing the related financial statements (as required by paragraph 23 of IFRS S1). For example, key estimates and assumptions might be used to perform an asset impairment analysis for the purposes of disclosure in the financial statements. The same estimates and assumptions might also apply for the purposes of sustainability-related financial disclosure, especially if the asset impairment was triggered by the identification of a sustainability-related risk.

(f) The principles of aggregation and disaggregation must also be applied, and will be important to consider in ensuring that material information is not obscured (as required by paragraphs B29 and B30 of IFRS S1). This is especially important to ensure clear and understandable disclosure, following the identification of material information.

17. TIG members shared specific observations that could be useful in considering the term 'business activities'. These observations included:

(a) Entities should consider the specific disclosure objectives relevant to paragraph 29(b)–(c) of IFRS S2 and specifically the reference to an 'entity's performance' when performing an assessment of 'business activities'. This might result in entities considering the impact of climate-related risks on their operations and future performance.

(b) Entities might consider different factors to identify business activities for the purposes of this disclosure, such as the types of activities involved in revenue generation or costs incurred, or activities based on the various types of operations within the business. Determining what to base business activities on, will require judgement including considering the disclosure that would provide the most decision-useful information to users of general purpose financial reports.

(c) The Standards require entities to disclose separately the business activities vulnerable to climate-related physical risks and climate-related transition risks. Physical risks can be event-driven or arise from longer-terms shifts in climatic patterns, while transition risks are those associated with efforts to transition to a lower-carbon economy. These types of risks might materialise over different time horizons so this aspect should be considered when determining the types of business activities impacted by physical or transition risks.

18. TIG members shared specific observations that could be useful in considering the term 'vulnerable'. These observations included:

(a) an entity's 'exposure' to a risk is a helpful way to think about what is meant by its 'vulnerability' to a risk.

(b) an assessment of the value chain, including its breadth and composition, is relevant in identifying potential vulnerabilities across the business as a result of climate-related risks.

(c) the Industry-based Guidance on implementing IFRS S2 might support in entities in identifying the relevant types of vulnerabilities based on their business.

(d) as entities are required to use scenario analysis to assess climate resilience, this can be used to provide insights into the entity's exposure to climate-related risks and therefore, the resulting vulnerabilities.

(e) entities might consider the inputs for an asset impairment test for financial statement preparation purposes, as part of an assessment of vulnerabilities across assets for sustainability-related financial disclosures.

19. Finally, TIG members shared practical insights that could be useful in applying the requirements in paragraphs 29(b)–(c) of IFRS S2, including:

(a) emphasising the importance of assembling the appropriate internal teams with the right skillsets and involving existing financial statement auditors in the process; and

(b) highlighting the value of consulting with peers to enhance understanding and inform judgments regarding the necessary disclosures.

Agenda Paper 2 *Revision of preceding period estimated amounts*

20. Agenda Paper 2 addresses the submission on whether the requirement in paragraph B50 of IFRS S1 to revise preceding period estimated amounts, when new information is identified and the new information provides evidence of circumstance that existed in the preceding period, applies to:

(a) *only estimated amounts disclosed for metrics;* or

(b) *all estimated amounts disclosed*, including those disclosed for metrics.

21. Agenda Paper 2 summarises the reasons the submitter of the question believes the scope of items, to which the requirement to revise preceding period estimated amounts applies, may include all amounts disclosed rather than only estimated amounts that are metrics.

22. Agenda Paper 2 also provides the staff view that IFRS S1 requires the revision, in the relevant circumstances, of estimated amounts disclosed in the preceding period when those amounts are metrics, rather than requiring revision of all estimated amounts.

23. TIG members discussed the analysis in Agenda Paper 2 and aligned with the staff view that the requirement to revise preceding period estimated amounts, in the relevant circumstances, applies only to amounts disclosed that are metrics.

24. TIG members shared general observations that could be useful in applying the requirements to revise preceding period estimated amount that are metrics. Specifically, TIG members observed:

(a) The requirements in IFRS S1 and IFRS S2 do not change the requirements in the IFRS Accounting Standards or other generally accepted accounting principles or practices (GAAP) for adjustments of comparative amounts. However, it is important to ensure that connections with the financial statements are considered when revising preceding period estimated amounts that are metrics. So for example, it may be necessary to explain the relationship between prior period amounts that are adjusted in accordance with IFRS S1 and IFRS S2 and related information in the accompanying financial statements that are unadjusted. (Paragraph 21 of IFRS S1 is relevant in this regard).

(b) As a result of revising preceding period estimated amounts that are metrics, in the relevant circumstances, there may be consequential effects to consider in relation to narrative or descriptive disclosures. Paragraph BC152 in the Basis for Conclusions on IFRS S1 explains that entities are not required to revise narrative or descriptive disclosures. However, entities are required to disclose material information that is useful to primary users of general purpose financial reports. Entities must therefore apply judgement to determine whether revisions to narrative or descriptive disclosures should be made or additional explanations provided to improve understandability.

(c) Judgement will be required to assess whether an estimated amount is a metric. The term metric is not defined in IFRS S1 or IFRS S2, however in determining whether an amount is a metric, it was noted that paragraphs 22–26 of IFRS S1 and paragraph 28 of IFRS S2 set out requirements for disclosing metrics.

(d) With reference to the discussion in Agenda Paper 1, it was noted that although the requirements to revise preceding period estimated amounts, in the relevant circumstances is included in the Application Guidance, it has the same authority as the other parts of the Standard and must be applied by entities accordingly.

(e) The requirement to revise preceding period estimated amounts that are metrics does not apply to errors. IFRS S1 contains specific requirements for errors. Paragraph 83 of IFRS S1 sets out the requirements to correct material prior period errors by restating the comparative amounts for prior period(s) unless it is impracticable to do so.

25. TIG members shared practical insights that could be useful in applying the requirements to revise preceding period estimated amounts, in the relevant circumstances, including:

(a) Although not required by IFRS S1, after making revisions to metrics, entities should consider the impact of such revisions to other related information, such as narrative disclosures or targets that are based on the revised metrics. In doing so, entities should consider whether the information remains understandable and meets the requirements in IFRS S1 regarding usefulness of information for users of general purpose financial reports.

(b) Entities might consider clearly and consistently listing out what their metrics are, as part of their sustainability-related financial disclosures. This will allow entities to better scope the implications of the requirements to revise preceding period estimated amounts.

(c) When assessing the level of estimation within metrics, data quality scoring could be useful.

Next steps

26. The next meeting of the TIG is scheduled to be held on 13-14 June 2024. Submissions of implementation questions received after 10 May 2024 are unlikely to be discussed at the meeting.