IFRS Sustainability

Staff paper

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Transition Implementation Group on IFRS S1 and IFRS S2

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Topic	**Application of paragraph 29(b)–(c) of IFRS S2, using ISSB Standards and related materials**
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Introduction

1. Since the International Sustainability Standards Board (ISSB) issued IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, the ISSB has received questions on how to apply particular disclosure requirements—and questions on the meaning of some undefined terms.

2. The staff notes that IFRS S1 and IFRS S2 are drafted in a manner such that they can be applied across all industries and business models, and elicit entity-specific disclosures. Therefore, the requirements in the Standards are intentionally designed to be capable of application for a range of companies, activities and facts and circumstances. As a result, particular disclosure requirements are not prescriptive.

3. To respond to these types of questions, the staff believes it could be helpful to explain how ISSB Standards (which includes 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.

4. This paper will be used to facilitate a discussion amongst members of the Transition Implementation Group on IFRS S1 and IFRS S2 (TIG) about how members would apply specific requirements in IFRS S2, using the Standards and related materials, in a manner that enables faithful representation and provides decision-useful information to investors.[1]

5. The considerations set out in this paper, as well as comments shared by TIG members, are intended to be useful in guiding stakeholders as they develop their understanding of specific requirements in IFRS S1 and IFRS S2, including requirements that use undefined terms and that require the application of judgement.

6. Neither this paper nor the TIG discussion will change or add requirements to the Standards.[2] TIG discussions are meant to be helpful to stakeholders and support application.

Question for this TIG meeting

7. 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.

8. The specific question submitted to the TIG—and considered in this paper—was what the terms ‘business activities’ and ‘vulnerable’ mean in the absence of a definition in

[1] Throughout this paper, the terms ‘primary users’, ‘users’ and ‘investors’ are used interchangeably, with the same meaning (ie existing and potential investors, lenders and other creditors).

[2] More information about the TIG can be found on the IFRS Foundation website at https://www.ifrs.org/groups/tig-ifrs-s1-and-ifrs-s2/. The purpose of the TIG is to:

(a) solicit, analyse and discuss stakeholder questions arising from the implementation of new Standards;

(b) inform the ISSB about those implementation questions to help the ISSB determine what, if any, action will be needed to address those questions; and

(c) provide a public forum for stakeholders to learn about the new Standards from others involved with implementation.

IFRS S2, and how can these terms be applied to meet the requirements of paragraph 29(b)–(c) of IFRS S2.

9. The ‘Background’ section of this paper explains the purpose of each component of the Standards and related materials, and how each can be used to understand specific disclosure requirements. Then, the section ‘Application of paragraph 29(b)–(c) of IFRS S2 using the Standards and related materials’ of this paper considers the specific question related to paragraph 29 of IFRS S2.

Background

10. In considering how to apply IFRS S2, entities need to consider the various components of the Standards and related materials, their purpose and how they can be used to understand specific disclosure requirements. Specifically, this paper considers:

    (a) IFRS S2;

    (b) Accompanying Guidance on IFRS S2;

    (c) Industry-based Guidance on implementing IFRS S2;

    (d) Basis for Conclusions on IFRS S2; and

    (e) IFRS S1.

IFRS S2

11. IFRS S2 includes 37 paragraphs and three appendices (Appendices A–C), and is structured as follows:

    (a) Paragraphs 1–37: these paragraphs are contained within three sections:

        (i) Objective (paragraphs 1–2 of IFRS S2)—referred to in this paper as ‘overall disclosure objective’ and is explained in paragraph 12 of this paper.

(ii) Scope (paragraphs 3–4 of IFRS S2)—this explains what IFRS S2 applies to.

(iii) Core content (paragraphs 5–37 of IFRS S2)—this is grouped into four sections, Governance, Strategy, Risk management, and Metrics and targets. Each section includes a specific disclosure objective and specific disclosure requirements. Specific disclosure objectives are explained in paragraph 13 of this paper. Specific disclosure requirements are explained in paragraph 14 of this paper.

(b) Appendices A–C: these have the same authority as the other parts of IFRS S2:

(i) Appendix A: Defined terms (defined terms are in *italics* the first time they appear in the Standard);

(ii) Appendix B: Application guidance (this is explained in paragraph 15 of this paper); and

(iii) Appendix C: Effective date and transition.

Overall disclosure objective

12. The overall disclosure objective (for example, paragraph 1 of IFRS S2) frames the overall purpose of the required disclosures. It provides context for an entity's materiality judgements and is intended to frame the manner in which an entity should apply the requirements in the Standard. The overall disclosure objective prompts an entity to consider whether it has applied the specific requirements in a manner that results in the provision of useful information for users of general purpose financial reports.

Specific disclosure objectives

13. IFRS S2 includes specific disclosure objectives (paragraphs 5, 8, 24 and 27 of IFRS S2, all are in **bold type**), which describe the detailed information needs of users of

general purpose financial reports that specific disclosure requirements are intended to meet. To comply with specific disclosure objectives, an entity will need to use its judgement to identify and disclose material information that satisfies those objectives.

Specific disclosure requirements

14. The specific disclosure requirements in IFRS S2 are items of information that are required to be provided and that are associated with satisfying the specific disclosure objective. The application of materiality could lead an entity to disclose some or all items of information specified in the Standards, or to disclose additional items of information not specified in the Standards, if those additional items are required to satisfy the specific disclosure objective.[3]

Appendix B: Application guidance

15. IFRS S2 includes Application guidance, which can be found in Appendix B of the Standard. This Application guidance is an integral part of the Standard and has the same authority as the other parts of the Standard. In other words, entities are required to apply the Application guidance because it is part of IFRS S2.

Accompanying Guidance on IFRS S2

16. The 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 (ie approaches other than those illustrated in the Accompanying Guidance could be used to comply with the Standard).

[3] If an entity determines that information is material, but the information is not explicitly required by an IFRS Sustainability Disclosure Standard, the entity is required to disclose this information (paragraph B26 of IFRS S1). If an entity determines that information required by an IFRS Sustainability Disclosure Standard is not material, the entity does not need to disclose this information (paragraph B25 of IFRS S1).

Industry-based Guidance on implementing IFRS S2

17. IFRS S2 requires an entity to *refer to and consider the applicability* of the topics and metrics in the Industry-based Guidance on implementing IFRS S2. This guidance for IFRS S2 is organised by industry, enabling a company to identify climate-related disclosure topics and metrics applicable to its business model and operations.

18. The Industry-based Guidance on implementing IFRS S2 is designed to be helpful to an entity in applying the requirements in IFRS S2. Specifically, an entity will consider the applicability of industry-based disclosure topics or metrics associated with disclosure topics in:

    (a) identifying the climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects (paragraph 12 of IFRS S2);

    (b) preparing disclosures to meet the requirements in paragraphs 13–22 of IFRS S2 (paragraph 23 of IFRS S2);

    (c) determining the industry-based metrics that the entity discloses (paragraph 32 of IFRS S2); and

    (d) identifying and disclosing the metrics used to set and monitor progress towards reaching a target (paragraph 37 of IFRS S2).

Basis for Conclusions on IFRS S2

19. The 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. This context can be useful to an entity when it applies the requirements in IFRS S2. 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. This means, for example, that the Basis for Conclusions cannot override requirements in

the Standard and it cannot introduce requirements that are not otherwise set out in the Standard.

IFRS S1

20. An entity applying IFRS S2 must also apply IFRS S1.[4] 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. Even when an entity is reporting only on climate-related risks and opportunities, the entity must apply both IFRS S1 and IFRS S2. For example, the definition of materiality that an entity must apply when using IFRS S2 is set out in IFRS S1. As another example, to obtain disclosure relief for information about climate-related opportunities on the basis of commercial sensitivity, an entity would need to apply the requirements set out in IFRS S1.

Application of paragraph 29(b)–(c) of IFRS S2 using the Standards and related materials

21. The ‘Background’ section of this paper provides an overview of various components of the Standards and related materials. This section sets out relevant extracts from the Standards and related materials, which may be helpful to consider in applying paragraph 29(b)–(c) of IFRS S2, which requires the 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.

[4] Paragraph 5 of IFRS S1 states: ‘an entity shall apply this Standard in preparing and reporting sustainability-related financial disclosures in accordance with IFRS Sustainability Disclosure Standards’.

Overall disclosure objective

22. Paragraph 1 of IFRS S2 sets out the overall disclosure objective of the Standard:

> **1** The objective of IFRS S2 Climate-related Disclosures is to require an entity to disclose information about its climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.

23. This is helpful context in applying IFRS S2 as it provides an anchor to apply judgement in determining the information that would meet this objective. In particular, the overall disclosure objective highlights that disclosures are required to provide information that is *useful* to the *decisions of primary users*. IFRS S1 is also relevant in informing an understanding of this objective, as it includes conceptual foundations related to useful information, defines primary users and explains the decisions that primary users make related to providing resources to an entity.

Useful information

24. Paragraph 10 of IFRS S1 explains that for sustainability-related financial information to be useful, it must be *relevant* and *faithfully represent* what it purports to represent.[5] The usefulness of sustainability-related financial information is enhanced if it is comparable, verifiable, timely and understandable (paragraph D16 of IFRS S1).

    (a) *Relevant* sustainability-related financial information is capable of making a difference in the decisions made by primary users (paragraph D4 of IFRS S1).

    (b) To be a *faithful representation*, a depiction would be complete, neutral and accurate (paragraph D10 of IFRS S1).

[5] Appendix D of IFRS S1 provides more information about qualitative characteristics of useful sustainability-related financial information.

25. Therefore, in determining information to disclose, an entity must ensure the information is useful, meaning it must be relevant and faithfully represent what it purports to represent. Relevant information is capable of making a difference in the decisions made by primary users.

Decisions of primary users

26. Appendix A of IFRS S1 defines ‘primary users of general purpose financial reports’ as ‘existing and potential investors, lenders and other creditors’. Paragraphs B14–B18 of IFRS S1 explain the decisions that primary users make related to providing resources to an entity.[6]

27. In particular, as described in paragraphs B14 and B15, the decisions of primary users relate to providing resources to an entity and involve decisions about:

    (a) buying, selling or holding equity and debt instruments;

    (b) providing or selling loans and other forms of credit; or

    (c) exercising rights to vote on, or otherwise influence, the entity’s management’s actions that affect the use of the entity’s economic resources.

28. These decisions depend on primary users’ expectations about returns. Those expectations depend on primary users’ assessment of the amount, timing and uncertainty of future net cash inflows to the entity and on their assessment of stewardship of the entity’s economic resources by the entity’s management and its governing body(s) or individual(s).

29. The objective in IFRS S2, to require the disclosure of information about climate-related risks and opportunities that is useful to users in making decisions relating to providing resources to the entity, is helpful for an entity to consider in applying IFRS S2. In particular, in applying the requirements in paragraph 29(b)–(c) of IFRS S2, the

[6] Refer to Appendix A of this paper for more information about primary users.

objective provides an anchor to apply judgement in determining the appropriate metrics to disclose.

Specific disclosure objective

30. IFRS S2 includes specific disclosure objectives, which complement the overall disclosure objective and set out the overarching disclosure requirements related to accompanying specific disclosure requirements. Each section of the Core content (Governance, Strategy, Risk management, and Metrics and targets) contains a specific disclosure objective relevant to that section of IFRS S2.

31. The specific disclosure objective relevant for the specific disclosure requirements in paragraph 29 of IFRS S2, is set out in paragraph 27 of IFRS S2:

> **27** The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reports to understand an entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.

32. Paragraph 28(a) of IFRS S2 further states, 'to achieve this objective, an entity shall disclose information relevant to the cross-industry metric categories'.[7]

33. Paragraphs BC73–BC74 of the Basis for Conclusions on IFRS S2 explains the ISSB's rationale related to the specific disclosure objective of the 'Metrics and targets' section. Those paragraphs explain that the requirements in the 'Metrics and targets' section of IFRS S2 represent information that the ISSB has identified as likely to be useful in assessing an entity's cash flows, its access to finance and cost of capital over the short, medium and long term. The intention of these requirements is to ensure that

[7] Paragraph 28 of IFRS S2 acts as a link from the specific disclosure objective in paragraph 27 of IFRS S2 to the specific disclosure requirements in paragraph 29 of IFRS S2.

users of general purpose financial reports have such information, not to prescribe how entities should manage their businesses.

34. The specific disclosure objective, together with the Basis for Conclusions on IFRS S2, can be useful to contextualise the requirements in paragraph 29 of IFRS S2, so that an entity can then apply judgement in identifying the information that would meet the objective. The specific disclosure objective is intended to ensure that disclosures are provided to help users to understand an entity's performance in relation to its climate-related risks and opportunities.

35. In other words, it is helpful to understand the specific disclosure objective—and the overall objective—as this can be used to guide the application of the requirements in paragraph 29(b)–(c) of IFRS S2.

Requirements in IFRS S2

36. Paragraph 29 of IFRS S2 requires an entity to disclose information relevant to several cross-industry metric categories, including the metric categories of (1) climate-related transition risks and (2) climate-related physical risks.

Cross-industry metric categories

37. Paragraph BC75 of the Basis for Conclusions on IFRS S2 explains that the cross-industry metric categories in paragraph 29 of IFRS S2 are intended to:

    (a) provide common information to allow users of general purpose financial reports to assess an entity's exposure to and management of climate-related risks and opportunities;

    (b) be indicative of key aspects and drivers of climate-related risks and opportunities; and

    (c) provide insight into the potential effects of climate change on the entity.

38. Paragraph BC77 of the Basis for Conclusions on IFRS S2 explains that the descriptions of the cross-industry metric categories in IFRS S2 are, in most cases, intentionally non-specific to enable an entity to identify appropriate metrics. The ISSB took this approach to allow for the likelihood that measurement methodologies and the availability and quality of underlying data might evolve over time.

39. The information provided in the Basis for Conclusions on IFRS S2 related to the cross-industry metric categories might be useful as it explains that the ISSB *intentionally* did not provide overly prescriptive descriptions for these cross-industry metric categories. The ISSB intended for these requirements to elicit information related to an entity's specific climate-related risks and opportunities; therefore, to enable an entity to identify appropriate metrics, the ISSB was intentionally non-specific.

40. This indicates that an entity is to identify the appropriate metrics that provide information that enables the entity to meet the specific objective of providing information about its performance in relation to climate-related risks.

Specific disclosure requirements

41. Paragraph 29(b)–(c) of IFRS S2—the requirements in question for this paper—requires the following items of information be disclosed:

    (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.

42. Paragraphs 30–31 of IFRS S2 set out additional requirements to meet the requirements in paragraph 29(b)–(c) of IFRS S2:

Para.	Requirement	How this may assist in application of paragraph 29 of IFRS S2
30	Required to use 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort'.[8] Paragraphs BC131-BC132 in the Basis for Conclusions on IFRS S2 explains that the ISSB introduced this concept in response to feedback from respondents that suggested entities might face challenges in calculating these metric categories, primarily due to the judgement required and measurement uncertainty involved.	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 or prepare the disclosures.
31	Paragraphs B64-B65 of IFRS S2 requires an entity to consider[9]: (a) information used and disclosed to apply specific requirements in IFRS S1 and IFRS S2. For example, a requirement when applying paragraph 29(b)–(c) of IFRS S2 is to consider where in the entity's business model and value chain climate-related risks are concentrated, as required by paragraph 13 of IFRS S2; and (b) connections with the information disclosed in the related financial statements. For example, when applying paragraph 29(b)–(c) of IFRS S2, an entity would consider whether the carrying amount of assets used is consistent with amounts included in the financial statements and it would explain the connections between information in these disclosures and amounts in the financial statements.	In considering information that is disclosed elsewhere in accordance with IFRS Sustainability Disclosure Standards, as well as the related financial statements, this can help to facilitate the provision of such information, as well as promote consistency and connectivity in reporting, while reducing duplication.

43. Additionally, paragraph 21(b)(i) of IFRS S1 requires disclosure of information in a manner that enables users to understand the connections between disclosures provided by the entity within its sustainability-related financial disclosures—such as connections between the disclosures in the Metrics and targets section and the disclosures in the other Core content sections (ie disclosures on Governance, strategy and Risk management).

[8] Refer to Appendix B of this paper for more information on the concept 'reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort'.

[9] Refer to Appendix C of this paper for more information on IFRS S2 Application Guidance: Cross-industry metric categories.

Accompanying Guidance

44. Paragraph IG1 of 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:

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

      (i) volume of real estate collaterals highly exposed to transition risk;

      (ii) concentration of credit exposure to carbon-related assets;

      (iii) percentage of revenue from coal mining;

      (iv) percentage of revenue passenger kilometres not covered by the Carbon Offsetting and Reduction Scheme for International Aviation;

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

      (i) proportion of property, infrastructure or other alternative asset portfolios in areas subject to flooding, heat stress or water stress;

      (ii) proportion of real assets exposed to climate-related hazards;

      (iii) number and value of mortgage loans in 100-year flood zones;

      (iv) wastewater treatment capacity located in 100-year flood zones; and

      (v) revenue associated with water withdrawn and consumed in regions of high or extremely high baseline water stress.

45. These examples can be useful in helping an entity identify the type of information that could enable it to meet the disclosure requirements. The breadth of metrics provided as examples highlights the various ways in which the disclosure requirements might be met, and highlights that disclosures are entity specific. The examples also provide a depiction of how information that may be relevant will depend on an entity’s business activities and assets, among other factors.

Industry-based Guidance on implementing IFRS S2

46. Paragraph 28(b) of IFRS S2 requires disclosure of industry-based metrics. In determining the metrics to disclose, paragraph 32 of IFRS S2 requires the entity to *refer to and consider the applicability* of the industry-based metrics described in the Industry-based Guidance on implementing IFRS S2. Said simply, an entity is not required to apply these particular metrics, rather an entity is required to consider these metrics.

47. The staff observes that the Industry-based Guidance on implementing IFRS S2 might be useful in considering metrics to disclose in accordance with paragraph 29(b)–(c) of IFRS S2. For example, an appliance manufacturer may disclose metric CG-AM-410a.1 'percentage of eligible products by revenue certified to an energy efficiency certification', as set out in Volume 2—*Appliance Manufacturing*.

Other considerations

48. In preparing disclosures to meet the requirements of paragraph 29(b)–(c) of IFRS S2, an entity will need to apply relevant requirements in IFRS S1 such as those related to materiality, judgements and estimates, specifically:

Topic	Para.	Excerpt from IFRS S1
Materiality	17–18	An entity shall disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. 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.
Judgements	75	In the process of preparing sustainability-related financial disclosures, an entity makes various judgements that can significantly affect the information reported in the entity's sustainability-related financial disclosures. For example, an entity makes judgements in identifying sustainability-related risks and opportunities that could be reasonably expected to affect the entity's prospects.
Estimates	79	The use of reasonable estimates is an essential part of preparing sustainability-related financial disclosures and does not undermine the usefulness of the information if the estimates are accurately described and explained.

49. Paragraphs 75 and 79 of IFRS S1 acknowledge that judgements and estimates will be a necessary part of preparing sustainability-related financial disclosures. This may be particularly useful to an entity applying the requirements in paragraph 29(b)–(c) of IFRS S2, as the entity will inevitably need to apply judgements and use estimates to prepare these disclosures.

50. Paragraph 17 of IFRS S1 requires information disclosed be material, and paragraph 18 of IFRS S1 explains what material information is. This may be useful, for example, as application of materiality will guide an entity's decisions on the information to disclose about:

    (a) assets 'vulnerable' to climate-related risks: information disclosed about the vulnerability of assets should be such that that the information is material to understand how climate-related risks may affect the entity's performance. For example, the nature of an entity's 'vulnerabilities' could vary greatly depending on the type of assets and how these assets relate to projected future cash flows. Therefore, an entity needs to consider the information to disclose in the context of what information is material.

(b) 'business activities': information disclosed about business activities should be such that that the information is material to understand how climate-related risks may affect the entity's performance. Depending on the entity, the nature of its business activities could vary greatly, for example, based on the entity's industry. Therefore, an entity should consider the information to disclose in the context of what information is material.

Implementation question

51. Paragraph 29(b)–(c) of IFRS S2, requires that an entity disclose information relevant to the cross-industry metric categories of:

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

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

52. IFRS S2 does not define the terms 'business activities' or 'vulnerable'. However, using the Standards and related materials in applying paragraph 29(b)–(c) of IFRS S2, the staff notes the following points may be useful in determining how to apply the requirements:

(a) The overall disclosure objective highlights that disclosures are required to provide information that is useful to the decisions of primary users:

(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 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 for:

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

(ii) the 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.

(d) The breadth of metrics provided as examples in the Accompanying Guidance on IFRS S2 highlights (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 may be relevant will depend on an entity's business activities and assets. For example, an entity might present 'business activities' using a metric based on 'percentage of revenue'.

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

(f) The concept 'all reasonable and supportable information that is available to the entity without undue cost or effort' may assist 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 or 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.

53. Finally, 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 may affect the entity’s performance. Information is material to the extent that omitting, misstating or obscuring that information could reasonably be expected to influence decisions of primary users.

Questions for the TIG

54. The staff presents the following questions for the TIG.

Questions for the TIG
1. Do TIG members have comments on the manner in which the Standards and related materials can be used in the application of specific disclosure requirements—particularly in an instance in which a specific disclosure requirement is not prescriptive (ie comments on the background provided in paragraphs 10–20 of this paper)?

Questions for the TIG
2. How would TIG members consider the terms ‘business activities’ and ‘vulnerable’ in applying the requirements in paragraph 29(b)–(c) of IFRS S2? Specifically, how would TIG members use the approach applying the requirements in paragraph 29(b)–(c) of IFRS S2 using the considerations outlined in paragraphs 21–53 of this paper?

Appendix A: primary users

A1. Paragraphs B14-B18 of IFRS S1 include information about primary users of general purpose financial reports:

> **B14** The decisions of primary users relate to providing resources to the entity and involve decisions about:
>
> (a) buying, selling or holding equity and debt instruments;
>
> (b) providing or selling loans and other forms of credit; or
>
> (c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources.
>
> **B15** The decisions described in paragraph B14 depend on primary users' expectations about returns, for example, dividends, principal and interest payments or market price increases. Those expectations depend on primary users' assessment of the amount, timing and uncertainty of future net cash inflows to the entity and on their assessment of stewardship of the entity's economic resources by the entity's management and its governing body(s) or individual(s).
>
> **B16** Assessing whether information could reasonably be expected to influence the decisions made by primary users requires consideration of the characteristics of those users and of the entity's own circumstances.
>
> **B17** Sustainability-related financial disclosures are prepared for primary users who have reasonable knowledge of business and economic activities and who review and analyse information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand sustainability-related financial information.

B18 Individual primary users may have different, and sometimes even conflicting, information needs and desires. Information needs of primary users may also evolve over time. Sustainability-related financial disclosures are intended to meet common information needs of primary users.

Appendix B: Reasonable and supportable…undue cost or effort

B1. The ISSB made several proportionality-related decisions intended to ease the burden of disclosure and assist entities in applying IFRS S1 and IFRS S2 (BC9 of IFRS S1). The concept 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' ('this concept') was introduced in specific instances in both IFRS S1 and IFRS S2 as a proportionality mechanism. Paragraph 30 of IFRS S2 requires an entity to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort in preparing disclosures to meet the requirements in paragraph 29(b)–(c).

B2. Paragraph BC12 of IFRS S1 provides information for an entity in determining what qualifies as reasonable and supportable information:

(a) considering all information that is reasonably available, including information it already has. An entity is prohibited from disregarding known information.

(b) having an appropriate basis for using the information, satisfying the requirement for information to be supportable.

(c) considering information that is available at the reporting date, such as historical, current or forward-looking information (including forecasts of future conditions).

B3. As stated in paragraph BC13 of IFRS S1, an entity is not required to carry out an exhaustive search for such information. The information should be available without undue cost or effort.[10]

B4. The ISSB decided this concept is beneficial to entities for requirements that involve a high level of judgement or uncertainty because the concept:

(a) establishes parameters for the type of information to consider, and establishes parameters around the effort required to obtain such information;

[10] As explained in paragraph BC 16 of the Basis for Conclusions on IFRS S1, referring to this concept does not introduce additional disclosure requirements. Nor does this reference exempt an entity from providing a disclosure.

(b) provides clarity about the information that an entity should use in the preparation of its sustainability-related financial disclosures; and

(c) emphasises that an entity is required to use relevant and appropriate information (BC15- BC16 of IFRS S1).

B5. Paragraph BC17 of IFRS S1 explains:

> **BC17** The ISSB decided that the concept of 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' will also assist those entities that would otherwise be unable to comply fully with the requirements in IFRS Sustainability Disclosure Standards. For example, an entity is permitted to carry out a less exhaustive search for information if the cost of obtaining particular information is proportionately higher for the entity than for other entities with more resources. Although an entity is still required to comply with the disclosure requirements, it is permitted to do so with information that is available without undue cost or effort determined based on its circumstances. The ISSB noted that an entity is prohibited from arguing that no effort is necessary, because information about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects is useful to users of general purpose financial reports. The greater the usefulness of information about a sustainability-related risk or opportunity for users, the greater the effort expected of an entity in obtaining that information. Overall, although the concept of 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' is intended to assist all entities in applying the requirements, it is particularly helpful to those entities

that would otherwise find the requirements in IFRS S1 and IFRS S2 challenging to apply.

B6. As it relates to the application of paragraphs 29(b)–(c) of IFRS S2, the Basis for Conclusions on IFRS S2 explains:

> **BC132** Respondents suggested that entities might face challenges in calculating these metric categories, primarily due to the judgement required and measurement uncertainty involved. In response, the ISSB clarified that an entity would be required to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort to meet these requirements. The ISSB observed that introducing this concept clarifies that:
>
> (a) undue cost or effort is not required to obtain the information or prepare the disclosures.
>
> (b) an entity is prohibited from overstating or understating assets or business activities aligned with climate-related opportunities (or, conversely, assets or business activities vulnerable to climate-related transition or climate-related physical risks) based on information that is unsupportable or unreasonable, because entities are required to have a sensible basis for information that supports disclosure.
>
> (c) in determining the appropriate information to consider, an entity would include information that is historical, current and forward-looking and is available at the reporting date. For example, consideration of past occurrences such as extreme weather events and their impact on assets may be included as part of the information considered, to the extent that such information is available at the reporting date without undue cost or effort.

Appendix C: Application guidance for cross-industry metric categories

C1. Paragraphs B64- B65 include application guidance for cross-industry metric categories:

> **B64** In addition to information about an entity's greenhouse gas emissions, the entity is required to disclose information relevant to the cross-industry metric categories set out in paragraph 29(b)–(g).
>
> **B65** In preparing disclosures to fulfil the requirements in paragraph 29(b)–(g), an entity shall:
>
> (a) consider the time horizons over which the effects of climate-related risks and opportunities could reasonably be expected to occur, described in accordance with paragraph 10.
>
> (b) consider where in the entity's business model and value chain climate-related risks and opportunities are concentrated (for example, geographical areas, facilities or types of assets) (see paragraph 13).
>
> (c) consider the information disclosed in accordance with paragraph 16(a)–(b) in relation to the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period.
>
> (d) consider whether industry-based metrics, as described in paragraph 32—including those defined in an applicable IFRS Sustainability Disclosure Standard or those that otherwise satisfy the requirements in IFRS S1—could be used to satisfy the requirements in whole or in part.

(e) consider the connections between the information disclosed to fulfil the requirements in paragraph 29(b)–(g) with the information disclosed in the related financial statements, in accordance with paragraph 21(b)(ii) of IFRS S1. These connections include consistency in the data and assumptions used—to the extent possible—and linkages between the amounts disclosed in accordance with paragraph 29(b)–(g) and the amounts recognised and disclosed in the financial statements. For example, an entity would consider whether the carrying amount of assets used is consistent with amounts included in the financial statements and would explain the connections between information in these disclosures and amounts in the financial statements.