Staff paper

Agenda reference: 2

Transition Implementation Group on IFRS S1 and IFRS S2

Date	**March 2024**
Topic	**Revision of preceding period estimated amounts**
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Introduction

1. We have received a submission on whether the requirement in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* to revise preceding period estimated amounts, in the relevant circumstances, should apply only to estimated amounts that are metrics or to all estimated amounts that are disclosed.

2. The objective of this paper is to provide background and analysis to support discussion by the Transition Implementation Group on IFRS S1 and IFRS S2 (TIG).

3. This paper:

   (a) sets out the relevant requirements in IFRS S1;

   (b) summarises the implementation question raised by the submitter;

   (c) outlines the staff's analysis related to the implementation question; and

   (d) asks the members of the TIG for their views on the question raised.

Relevant requirements

4. The following paragraphs set out the key requirements in IFRS S1 related to the implementation question. Appendix A includes excerpts from IFRS S1, IFRS S2

Climate-related Disclosures and the Basis for Conclusions on IFRS S1 that have been referenced in this paper.

5. Paragraphs 46 and 48 of IFRS S1 outline the requirements related to the disclosure of metrics:

> **46 An entity shall disclose, for each sustainability-related risk and opportunity that could reasonably be expected to affect the entity's prospects:**
>
> **(a) metrics required by an applicable IFRS Sustainability Disclosure Standard; and**
>
> **(b) metrics the entity uses to measure and monitor:**
>
> **(i) that sustainability-related risk or opportunity; and**
>
> **(ii) its performance in relation to that sustainability-related risk or opportunity, including progress towards any targets the entity has set, and any targets it is required to meet by law or regulation.**
>
> **48 Metrics disclosed by an entity applying paragraphs 45–46 shall include metrics associated with particular business models, activities or other common features that characterise participation in an industry.**

6. Paragraph 28 of IFRS S2 also requires the following disclosures in relation to metrics:

> 28 To achieve this objective, an entity shall disclose:
>
> (a) information relevant to the cross-industry metric categories (see paragraphs 29–31);
>
> (b) industry-based metrics that are associated with particular business models, activities or other common features that

characterise participation in an industry (see paragraph 32); and

(c) targets set by the entity, and any targets it is required to meet by law or regulation, to mitigate or adapt to climate-related risks or take advantage of climate-related opportunities, including metrics used by the governance body or management to measure progress towards these targets (see paragraphs 33–37).

7. Paragraphs 70–71 of IFRS S1 outline the requirements for reporting comparative information:

> **70 Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise, an entity shall disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period. If such information would be useful for an understanding of the sustainability-related financial disclosures for the reporting period, the entity shall also disclose comparative information for narrative and descriptive sustainability-related financial information (see paragraphs B49–B59).**
>
> 71 Amounts reported in sustainability-related financial disclosures might relate, for example, to metrics and targets or to current and anticipated financial effects of sustainability-related risks and opportunities.

8. Paragraph B50 of IFRS S1 requires an entity to revise an estimated amount disclosed in the preceding period if new information is identified and the new information provides evidence of circumstances that existed in the preceding period:

> B50 In some cases, the amount disclosed for a metric is an estimate. Except as specified in paragraph B51, if an entity identifies new information in relation to the estimated amount

> disclosed in the preceding period and the new information provides evidence of circumstances that existed in that period, the entity shall:
>
> (a) disclose a revised comparative amount that reflects that new information;
>
> (b) disclose the difference between the amount disclosed in the preceding period and the revised comparative amount; and
>
> (c) explain the reasons for revising the comparative amount.

9. Paragraph B51 of IFRS S1 explains when an entity need not disclose a revised comparative amount:

> B51 In applying the requirement in paragraph B50, an entity need not disclose a revised comparative amount:
>
> (a) if it is impracticable to do so (see paragraph B54).
>
> (b) if the metric is forward-looking. Forward-looking metrics relate to possible future transactions, events and other conditions. The entity is permitted to revise a comparative amount for a forward-looking metric if doing so does not involve the use of hindsight.

10. Basis for Conclusions accompany but are not part of IFRS Sustainability Disclosure Standards. The Basis for Conclusions summarise the considerations of the ISSB in developing Standards and thus provide useful context to understand the requirements in Standards, but do not in themselves establish requirements.

11. Paragraph BC152 of the Basis for Conclusions on IFRS S1 explains the requirement to revise preceding period estimated amounts and the extent to which it applies:

> BC152 An entity is required to revise the estimated amount disclosed for a metric, but is not required to revise narrative or

descriptive disclosures. This requirement applies only if information about a change is material and if updating the estimate is not impracticable.

12. This paper focuses on the requirement to revise estimated amounts disclosed, as entities are not required to revise narrative or descriptive disclosures, as explained in paragraph BC152 of the Basis for Conclusions on IFRS S1. IFRS S1 does not define amounts. However, paragraph 71 of IFRS S1 notes that amounts might relate, for example, to metrics and targets or to current and anticipated financial effects of sustainability-related risks and opportunities. IFRS S1 and IFRS S2 do not define metrics, however paragraphs 46 and 48 of IFRS S1 and paragraph 28 of IFRS S2 set out requirements for disclosing metrics. These disclosures accordingly include, for example, cross-industry-metrics and industry-specific metrics.

Implementation question received

13. This submission questions which estimated amounts disclosed in a preceding period are required to be revised when new information is identified and the new information provides evidence of circumstances that existed in the preceding period. Specifically, the submission asks whether the requirement to revise preceding period estimated amounts applies to:

    (a) only estimated amounts disclosed for metrics; or

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

14. Paragraphs 15–21 below summarise the submitter's reasons for why they believe 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.

The requirement to revise preceding period estimates uses both the word ‘metrics’ and ‘amounts’

15. The first sentence of paragraph B50 of IFRS S1 states ‘In some cases, the amount disclosed for a <u>metric</u> is an estimate’ [emphasis added]. However, the following sentence refers to ‘amounts’ when explaining the requirement to revise preceding period estimated amounts. No further reference is made to ‘metrics’. Therefore, the submitter asks whether the requirement also applies to estimated amounts disclosed that are not metrics, given the use of ‘amounts’ and not ‘metrics’ in the rest of paragraph B50. The submitter notes that paragraph 71 of IFRS S1 is clear that amounts are not limited to metrics.

The rationale for the requirement to revise preceding period estimates uses both the word ‘metrics’ and ‘estimates’

16. Paragraph BC150 of the Basis for Conclusions on IFRS S1 explains the ISSB’s reasoning for requiring comparative information to be revised. This differs from the approach taken in IFRS Accounting Standards to changes in estimates. As part of the explanation in paragraph BC150, reference is made to ‘estimates <u>and</u> metrics’ [emphasis added]. The use of ‘and’ suggests that the requirement to revise preceding period estimated amounts applies to estimated amounts including but not limited to metrics. The submitter also notes that the final sentence of BC150, which provides another reason to require comparative information to be revised, only refers to estimates and not to metrics.

17. Paragraph BC151 of the Basis for Conclusions on IFRS S1 explains that the ISSB decided that it would provide ‘more useful information if an entity revised comparatives to reflect changes in estimates that relate to the preceding period rather than changing reporting period information’ but is not specific on what comparative information. The submitter notes that this rationale could be equally relevant to amounts that are not metrics.

The absence of an explanation in the Basis for Conclusions which explains why amounts that are not metrics do not need to be revised

18. The submitter notes that IFRS S1 does not explicitly state that amounts disclosed that are not metrics are not required to be revised for changes in estimates.

19. Paragraph BC152 of the Basis for Conclusions on IFRS S1 explains that entities are required to revise estimated amounts disclosed for metrics but are not required to revise narrative or descriptive disclosures.

20. Similarly, paragraph BC154 of the Basis for Conclusions on IFRS S1 states that the ISSB excluded forward-looking metrics that involve the use of hindsight from this requirement, in accordance with the requirement in paragraph B51(b) of IFRS S1.

21. Other than confirming in paragraph BC147 of the Basis for Conclusions on IFRS S1 that the ISSB clarified that amounts might include current and anticipated financial effects or metrics and targets, the Basis for Conclusions does not include any discussion on distinguishing between amounts generally and metrics in any context, including in relation to the revision of preceding period estimated amounts.

Staff analysis

22. In considering the submitters question the staff reiterate the following points from paragraph 12:

    (a) the requirement in paragraph B50 of IFRS S1 to revise estimates applies to estimated amounts disclosed. IFRS S1 does not require revision of narrative or descriptive disclosures, as confirmed in paragraph BC152;

    (b) IFRS S1 does not define amounts, however paragraph 71 of IFRS S1 provides examples of amounts disclosed, including metrics and targets, and current and anticipated financial effects of sustainability-related risks and opportunities; and

(c) IFRS S1 and IFRS S2 do not define metrics, however paragraphs 46 and 48 of IFRS S1 and paragraph 28 of IFRS S2 set out requirements for disclosing metrics, including cross-industry metrics and industry-specific metrics.

23. The staff make the following points for the consideration of the TIG's discussion on the submitters question on whether the requirement in IFRS S1 to revise preceding period estimated amounts, should apply only to estimated amounts that are metrics or to all estimated amounts that are disclosed.

The requirement to revise preceding period estimates uses both the word 'metrics' and 'amounts'

24. The reference to the word 'amounts' in paragraph B50 of IFRS S1 does not in itself mean that the requirement applies to all amounts. The first sentence of paragraph B50 explains that 'in some cases, the amount disclosed for a metric is an estimate.' The following sentence of paragraph B50 then refers to 'the estimated amount disclosed in the preceding period' [emphasis added] in introducing the requirement to revise preceding period estimated amounts. The use of 'the' implies that the requirement is referring to the specific 'amount disclosed' referred to in the first sentence of the paragraph ie 'amount disclosed for a metric'.

The rationale for the requirement to revise preceding period estimates uses both the word 'metrics' and 'estimates'

25. The Basis for Conclusion on IFRS S1 accompanies IFRS S1, but is not part of IFRS S1 and so provides useful context, but does not establish requirements. Paragraphs BC147–BC155 of the Basis for Conclusion on IFRS 1 summarises the considerations of the ISSB in relation to the requirements in IFRS S1 on comparative information. The staff note that there is nothing in these paragraphs which explicitly discusses whether the requirement to revise estimated preceding period amounts disclosed applies to all amounts or only amounts that are metrics. Where the Basis for Conclusion on IFRS S1 does explain the specific scope of items to which the

requirement to revise preceding period estimated amounts applies, it does so in reference to ‘metrics’. For example:

(a) Paragraph BC150 of the Basis for Conclusions on IFRS S1 states ‘which is a reason behind the ISSB’s decision that IFRS S1 should require an entity to revise comparatives for sustainability-related metrics.’

(b) Paragraph BC151 states ‘The nature of some sustainability-related metrics necessitates a significant element of estimation’.

(c) Paragraph BC152 states ‘An entity is required to revise the estimated amount disclosed for a metric’.

(d) Paragraph BC153 refers to ‘amount disclosed for a metric’ twice as well as ‘revised comparative amount for the metric’.

The absence of an explanation in the Basis for Conclusions which explains why amounts that are not metrics do not need to be revised

26. The staff note that the absence of an explanation in the Basis for Conclusions on IFRS S1, as to why estimated preceding period amounts that are not metrics do not need to be revised, does not in itself support the assertion that the requirement applies to all estimated preceding period amounts disclosed.

Staff view

27. For the reasons outlined in paragraphs 22–26, the staff view is 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. IFRS S1 and IFRS S2 do not define metrics, however paragraphs 46 and 48 of IFRS S1 and paragraph 28 of IFRS S2 set out requirements for disclosing metrics.

Question for the TIG

28. The staff present the following question for the TIG.

Question for TIG members
1. What are your views on the question presented above?

Appendix A

A1. Excerpts from IFRS S1 that have been referenced in this paper can be found below.

> **46 An entity shall disclose, for each sustainability-related risk and opportunity that could reasonably be expected to affect the entity's prospects:**
>
> **(a) metrics required by an applicable IFRS Sustainability Disclosure Standard; and**
>
> **(b) metrics the entity uses to measure and monitor:**
>
> **(i) that sustainability-related risk or opportunity; and**
>
> **(ii) its performance in relation to that sustainability-related risk or opportunity, including progress towards any targets the entity has set, and any targets it is required to meet by law or regulation.**

> **48 Metrics disclosed by an entity applying paragraphs 45–46 shall include metrics associated with particular business models, activities or other common features that characterise participation in an industry.**

> **70 Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise, an entity shall disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period. If such information would be useful for an understanding of the sustainability-related financial disclosures for the reporting period, the entity shall also disclose comparative information for narrative and descriptive sustainability-related financial information (see paragraphs B49–B59).**

71 Amounts reported in sustainability-related financial disclosures might relate, for example, to metrics and targets or to current and anticipated financial effects of sustainability-related risks and opportunities.

B50 In some cases, the amount disclosed for a metric is an estimate. Except as specified in paragraph B51, if an entity identifies new information in relation to the estimated amount disclosed in the preceding period and the new information provides evidence of circumstances that existed in that period, the entity shall:

(a) disclose a revised comparative amount that reflects that new information;

(b) disclose the difference between the amount disclosed in the preceding period and the revised comparative amount; and

(c) explain the reasons for revising the comparative amount.

B51 In applying the requirement in paragraph B50, an entity need not disclose a revised comparative amount:

(a) if it is impracticable to do so (see paragraph B54).

(b) if the metric is forward-looking. Forward-looking metrics relate to possible future transactions, events and other conditions. The entity is permitted to revise a comparative amount for a forward-looking metric if doing so does not involve the use of hindsight.

A2. Excerpts from IFRS S2 that have been referenced in this paper can be found below.

28 To achieve this objective, an entity shall disclose:

(a) information relevant to the cross-industry metric categories (see paragraphs 29–31);

(b) industry-based metrics that are associated with particular business models, activities or other common features that characterise participation in an industry (see paragraph 32); and

(c) targets set by the entity, and any targets it is required to meet by law or regulation, to mitigate or adapt to climate-related risks or take advantage of climate-related opportunities, including metrics used by the governance body or management to measure progress towards these targets (see paragraphs 33–37).

A3. Excerpts from the Basis for Conclusion on IFRS S1 that have been referenced in this paper are found below. The Basis for Conclusion on IFRS S1 accompanies IFRS S1, but is not part of IFRS S1 and so provides useful context, but does not establish requirements. The Basis for Conclusion on IFRS S1 summarises the considerations of the ISSB in developing IFRS S1.

> BC147 IFRS S1 requires an entity to disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period. The wording used was adapted from and follows requirements in paragraph 38 of IAS 1. The Exposure Draft proposed that an entity disclose comparative information for all metrics. However, the ISSB noted that it would be more useful to users of general purpose financial reports for IFRS S1 to require the disclosure for 'all amounts' rather than limiting the disclosure to metrics. The ISSB clarified that amounts reported in sustainability-related financial disclosures might relate, for example, to the current and anticipated financial effects of sustainability-related risks and opportunities or to metrics and targets.

BC148 If the information would be useful for an understanding of the reporting period's disclosures, an entity is also required to disclose comparative information for narrative and descriptive sustainability-related financial disclosures. As a transition relief, comparative information is not required to be disclosed in the first annual reporting period in which an entity applies IFRS S1 (see paragraph E3 of IFRS S1).

BC149 Most respondents agreed with the principle of providing comparative information. However, they gave mixed feedback on the proposals that an entity be required to disclose comparative information that reflects updated estimates. Most users of general purpose financial reports who provided comments agreed with the proposal to require entities to disclose comparative information that reflects updated estimates. However, many other respondents, including preparers, audit firms and accounting standard-setters, raised concerns about the proposed requirement. Some of their concerns were that:

(a) the proposed requirement was inconsistent with the approach to changes in estimates set out in IAS 8—this inconsistency might lead to challenges in connecting sustainability-related financial disclosures with the financial statements;

(b) the costs and complexity associated with updating estimates might outweigh the benefits in some situations;

(c) the potential challenges for the assurance process; and

(d) the proposals are unclear about whether and how to distinguish the requirements for revising comparative information to reflect updated estimates and correction of errors, respectively.

BC150 The requirement to revise comparative information differs from the approach to changes in estimates in financial statements established in IFRS Accounting Standards. Changes in estimates are recognised in the current and future periods affected by the change according to the requirements in IFRS Accounting Standards—that is, in the period of the change. Under this approach, the comparative information is not changed and the change in estimate is reflected in the reporting period profit or loss. This practice is followed, for example, for changes in estimates of the useful life of an asset, fair value, and expected credit losses. Changes in such estimates are also reflected in reported equity because they are part of a double-entry model. In sustainability-related financial disclosures, however, estimates and metrics cannot affect equity—for example, a change in a Scope 3 greenhouse gas emissions estimate affects only the estimate itself—which is a reason behind the ISSB's decision that IFRS S1 should require an entity to revise comparatives for sustainability-related metrics. Another reason for requiring that an entity revise comparatives to reflect updated estimates is so the entity provides users of general purpose financial reports with the best information possible about trends.

BC151 The nature of some sustainability-related metrics necessitates a significant element of estimation, including estimation related to the entity's value chain. The ISSB decided that an entity would provide more useful information if the entity revised comparatives to reflect changes in estimates that relate to the preceding period rather than changing reporting period information.

BC152 An entity is required to revise the estimated amount disclosed for a metric, but is not required to revise narrative or descriptive disclosures. This requirement applies only if information about a change is material and if updating the estimate is not impracticable. To clarify the meaning of ‘impracticable’, the ISSB decided to base the definition of ‘impracticable’ in IFRS S1 on the definition in IAS 1, confirming that the term is used in a manner consistent with IFRS Accounting Standards. Accordingly, IFRS S1 sets a high threshold for how an entity determines whether it is ‘impracticable’ to meet the requirements. Applying the requirement is ‘impracticable’ if the entity cannot do so after making every reasonable effort to do so. For the avoidance of doubt, this threshold is higher than a cost-benefit threshold.

BC153 In response to the feedback, the ISSB decided to clarify the requirements for revising comparative information. It decided that if an entity identifies new information in relation to the estimated amount disclosed for a metric in the preceding period and that information provides evidence of circumstances that existed in the preceding period, the entity is required to disclose a revised comparative amount for the metric taking into account the new information. In doing so, the entity is also required to disclose the difference between the amount disclosed for the metric in the preceding period and the revised comparative amount, and to explain why the comparative amount has been revised.

BC154 The ISSB decided to exclude forward-looking metrics from the requirement to revise comparative information to reflect updated estimates. However, an entity is permitted to revise a comparative amount disclosed for a forward-looking metric if doing so does not involve hindsight.