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Staff paper

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Sustainability Consultative Committee (SCC) meeting

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Project **Supporting Implementation of IFRS S1 and IFRS S2; Nature-related Disclosures; and Enhancing SASB Standards**

Topic **Proportionality mechanisms in ISSB materials**

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Purpose of this session

- Provide an overview of:
  - proportionality mechanisms in IFRS S1 and IFRS S2;
  - proposals related to proportionality mechanisms in the Nature-related Disclosures Exposure Draft; and
  - recent decisions related to proportionality for the SASB Standards.
- Seek:
  - feedback on preparer experience in applying the proportionality mechanisms in IFRS S1 and IFRS S2; and
  - strategic advice on ongoing work related to proportionality for the Nature-related Disclosures and Enhancement of SASB Standards projects.

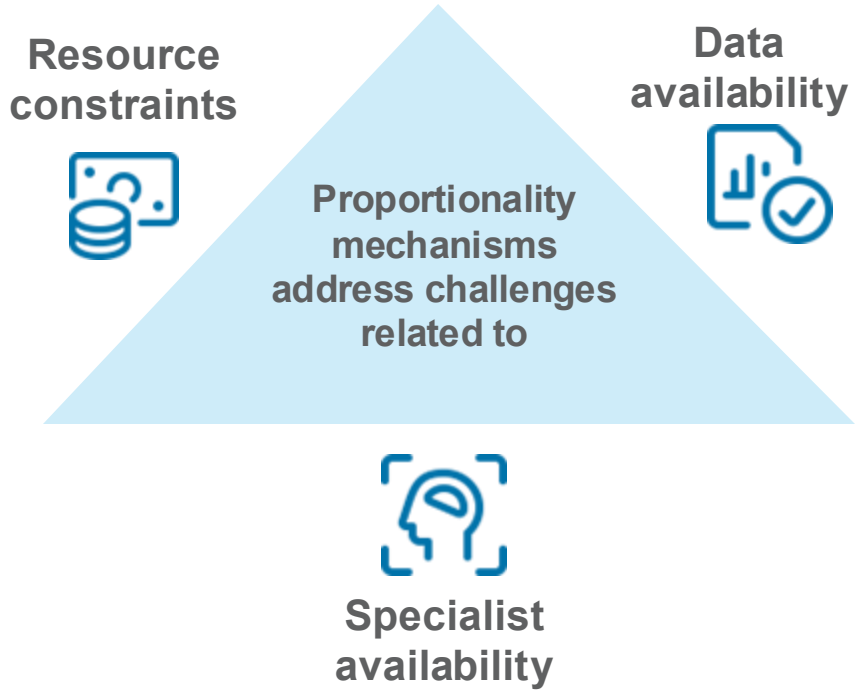
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Proportionality mechanisms in IFRS S1 and IFRS S2



Background

Proportionality mechanisms are designed to help companies with different **levels of capability and preparedness** to apply the ISSB Standards



- Designed to be **helpful** for companies that would find **some requirements** in IFRS S1 and IFRS S2 challenging to apply.
- **Do not introduce** additional disclosure requirements nor do they **exempt** companies from providing disclosures.[1]

1. Notwithstanding in some cases the proportionality mechanisms applied to anticipated financial effects requirements adjusts the information required to be disclosed. See the Appendix.

What do the proportionality mechanisms require?

Use all reasonable and supportable information that is available to the company at the reporting date without undue cost or effort

Supports companies in providing disclosures for specific requirements where there may be a ***high level of judgement or uncertainty***.

In preparing disclosures, it establishes ***parameters*** for:

- the type of information to consider and
- the effort required.

Commensurate with the skills, capabilities and resources that are available to the company

Supports companies in applying the requirements in a way that is ***proportionate to their circumstances***.

Applied in two ways to specific requirements (see Appendix):

Application 1

Requires the use of an *approach* that is commensurate with the **skills, capabilities and resources** that are available to the company.

Application 2

Adjusts the information required to be provided *if* the company does not have the **skills, capabilities or resources** to provide particular information.

What is considered 1) reasonable and supportable information […] without undue cost or effort and 2) skills, capabilities and resources available to the company is a company-specific assessment.

Which requirements include proportionality mechanisms?

	Reasonable and supportable information available […] without undue costs or effort	Commensurate with skills, capabilities, and resources that are available…
IFRS S1 requirements[2]		
Identification of sustainability-related risks and opportunities	✓	
Scope of the value chain	✓	
Anticipated financial effects	✓	✓
IFRS S2 requirements		
Approach to climate-related scenario analysis	✓	✓
Measurement of Scope 3 GHG emissions	✓	
Some metrics in cross-industry metric categories[3]	✓	

2. Also applies to IFRS S2
3. Amount and percentage of assets or business activities (1) vulnerable to climate-related transition risks (2) vulnerable to climate-related physical risks and (3) aligned with climate-related opportunities

Educational materials

Educational materials focused on proportionality mechanisms	Educational materials that prominently feature proportionality mechanisms
• Webcast series: Proportionality mechanisms in IFRS Sustainability Disclosure Standards • Factsheet: Proportionality digest	• Guide: Disclosing information about anticipated financial effects applying ISSB Standards • Webcast and factsheet: Climate resilience and climate-related scenario analysis requirements in IFRS S2 • Webcast series and guide: Sustainability-related risks and opportunities and the disclosure of material information[4]



4. The educational material includes proportionality mechanisms applicable to a) identifying sustainability-related risks and opportunities and b) determining the scope of the value chain.

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Ongoing work related to proportionality mechanisms



Proportionality mechanisms for nature-related disclosures

A company applying the proposed Practice Statement together with ISSB Standards **can use the proportionality mechanisms** available in those Standards.

The ISSB decided that proportionality mechanisms from IFRS S2, which apply to climate-related disclosures, should be made available for nature-related disclosures, **particularly where the proposed Practice Statement asks for information that is similar** to information asked for in IFRS S2.

Where it is specified	Requirements for which proportionality mechanisms are available	Reasonable and supportable information available […] without undue costs or effort	Commensurate with skills, capabilities, and resources that are available…
IFRS S1	Identification of risks and opportunities	✓	
IFRS S1	Anticipated financial effects	✓	✓
IFRS S1	Determining the scope of the value chain	✓	
Proposals	Nature-related scenario analysis[5]	✓	✓
Proposals	Vulnerability to nature-related risks and alignment with nature-related opportunities[5]	✓	

5. Consistent with similar requirements in IFRS S2.

Proportionality mechanisms for SASB Standards

The ISSB tentatively decided[6] to specify that the proportionality mechanism of using 'all **reasonable and supportable information** available […] **without undue cost or effort**' is available to an entity when **applying the SASB Standards** to prepare disclosures in **accordance with ISSB Standards**.

Also, **proportionality mechanisms in IFRS S1** (e.g. for determining the scope of the value chain) **apply** for an entity using the SASB Standards to prepare disclosures in accordance with ISSB Standards.

Responds to stakeholder feedback seeking such mechanisms, including for some nature-related metrics in the SASB Standards.

The ISSB will **continue its deliberations**, including:

- whether to add a "**skills, capabilities and resources**" proportionality mechanism for particular SASB metrics; and
- whether similar proportionality mechanisms should apply when the SASB Standards are used **stand-alone**, without the ISSB Standards.

6. ISSB Update, October 2026.

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Questions



Questions for the SCC (1/2)

1. In practice, what have you heard about companies':
   a. **experiences** in using the proportionality mechanisms in IFRS S1 and IFRS S2?
   b. **awareness** of the educational materials to support use of these proportionality mechanisms?

2. What steps could we take to **increase awareness of the proportionality mechanisms** in IFRS S1 and IFRS S2 and the related educational materials? What further educational materials could be helpful to support **understanding and use** of the proportionality mechanisms?

Questions for the SCC (2/2)

3. For **nature-related disclosures**, do the proposed proportionality mechanisms address the requirements in which preparers would need the most support? Are there any other disclosure areas in which you expect companies may face challenges and need similar support?

4. What **feedback** do you have on the ISSB's decision to make the '…reasonable and supportable…' proportionality mechanism available for **SASB metrics** when applying ISSB Standards? Are there key considerations the ISSB should include in its deliberations on:
   a. introducing an additional proportionality mechanism on '…skills, capabilities and resources…' for particular SASB metrics?
   b. whether similar proportionality mechanisms should apply when entities are applying SASB Standards on a standalone basis without the ISSB Standards?

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Appendix—Proportionality mechanisms in IFRS S1 and IFRS S2



‘all reasonable and supportable information … without undue cost or effort’

What is considered to be ‘all reasonable and supportable information available at the reporting date’?

A company is required to:

- consider **all information that is reasonably available**, including information the company already has. An entity is prohibited from disregarding known information
- have an **appropriate basis** for using the information
- use information that is **available at the reporting** date, such as historical, current or forward-looking information (including forecasts of future conditions)

A company may use various sources of **internal or external data** such as:

- risk management processes
- industry and peer group experience
- reports and statistics
- external ratings

Assessing ‘undue cost or effort’

The assessment of undue cost or effort includes:

- considering the **company’s specific circumstances**; and
- applying a balanced consideration of:
  - the **costs and efforts** in **applying** the requirements; and
  - the **benefits** of resulting **information** for primary users.

This means a company is not required to undertake an exhaustive search**.**

This **company-specific assessment** can change over time as circumstances change**.**

What information is considered to be ‘available without undue cost or effort’?

Information used by a company in preparing its financial statements, operating its business model, setting its strategy and managing its risks and opportunities.

‘commensurate with skills, capabilities and resources …’

A company may consider its available skills, capabilities and resources in preparing some disclosures required by ISSB Standards.

- The available skills, capabilities and resources to consider include both internal and external.
- The **company’s circumstances** are likely to **change** over time, and so will its **assessment** of them. For example, a company is expected to develop its skills and capabilities over time and strengthen its disclosures through a process of learning and iteration.

Application to anticipated financial effects requirements

Application 1: In preparing disclosures, it **requires** the use of an **approach** that is **commensurate** with the skills, capabilities and resources that are available to the company.

Application 2: It **adjusts** the information required to be disclosed **if** the company does not have the skills, capabilities or resources to provide **particular** information.

- Relief from providing quantitative information about the anticipated financial effects of a **particular** sustainability-related risk or opportunity **subject to other disclosure requirements**.
- Additional information is required if relief used, including **qualitative information** and explaining why quantitative information is not provided.

Application to climate-related scenario analysis requirements

A company is required to use an approach to climate-related scenario analysis that is commensurate with its circumstances, to assess its climate resilience.

To assess its circumstances, a company is required to consider:

- its **exposure** to climate-related risks and opportunities
- its available **skills, capabilities and resources**.

Examples of simpler versus more advanced approaches include the choice between using qualitative and quantitative scenario analysis.

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