



Climate resilience and climate-related scenario analysis requirements in IFRS S2

Before we start

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Illustrations of the application of the requirements in IFRS S2

The illustrations in this webcast portray hypothetical situations and explain and illustrate how an entity might apply some of the requirements in IFRS S2 but are not intended to provide interpretative guidance. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific industries illustrated. The examples are illustrative and use fact patterns that are intentionally simple. Although some aspects of the examples may be present in actual fact patterns, an entity would need to evaluate all relevant facts and specific circumstances of a particular fact pattern when applying IFRS S2.

Overview of the webcast

1

Disclosing information about **climate resilience**

2

Using climate-related **scenario analysis** (hereafter ‘scenario analysis’) to assess climate resilience

Disclosing information about climate resilience



Climate resilience disclosure requirements



IFRS S2 requires an entity to disclose information that enables **investors¹ to understand the resilience of its strategy and business model** to climate-related changes, developments and uncertainties, taking into consideration its identified climate-related risks and opportunities (paragraph 22 of IFRS S2).

Climate resilience (Appendix A of IFRS S2):

- the capacity of an entity to adjust to climate-related changes, developments or uncertainties.
- involves the capacity to manage **climate-related risks** and benefit from **climate-related opportunities**, including the ability to respond and adapt to **climate-related transition risks and climate-related physical risks**.
- includes both strategic resilience and operational resilience to climate-related changes, developments and uncertainties.

¹ The term 'investors' is used in this document to refer to primary users of general purpose financial reports, who are existing and potential investors, lenders and other creditors.

Required information about an entity's assessment of its climate resilience



The **implications of the entity's assessment** for the entity's strategy and business model, including how it would need to respond to the effects identified in its assessment.



The **significant areas of uncertainty** considered in the assessment.



The entity's **capacity to adjust or adapt** its strategy and business model to climate change over the short, medium and long term, including:

- the availability of, and flexibility in, its **financial resources** to respond to the effects identified in the assessment.
- its ability to redeploy, repurpose, upgrade or decommission **existing assets**; and
- the effect of **current and planned investments** in climate-related mitigation, adaptation and opportunities for climate resilience.

Illustration 1—Disclosing information about climate resilience

Company A is a property insurance company with exposure to activities in geographical areas prone to wildfires. The company has assessed its climate resilience. In disclosing its **assessment of its climate resilience**, it might disclose information *including*:



the implications of its assessment of how the **effects of climate-related physical risks** might affect its property insurance business, and the **actions that it has taken to mitigate the effects** (such as limiting exposure to activities in particular geographical areas);



the **significant estimation uncertainty** in its quantitative modelling that might result in under- or over-estimation of the effects of climate-related physical risks (such as the inability to predict the frequency of wildfires with a high degree of certainty); and



the **entity's capacity to adjust or adapt** its strategy and business model (such as to make greater use of reinsurance to mitigate against the effects on its property insurance business).

Assessing climate resilience

IFRS S2 requires an entity to **use scenario analysis to assess its climate resilience** using an approach that is commensurate with its circumstances (paragraphs 22 and B1–B18 of IFRS S2).



Scenario analysis

A process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty to **inform an entity's assessment of its climate resilience**.



Climate resilience assessment

Management's assessment of the implications of the scenario analysis for the entity's **strategy and business model** and the entity's **capacity to adjust or adapt**.



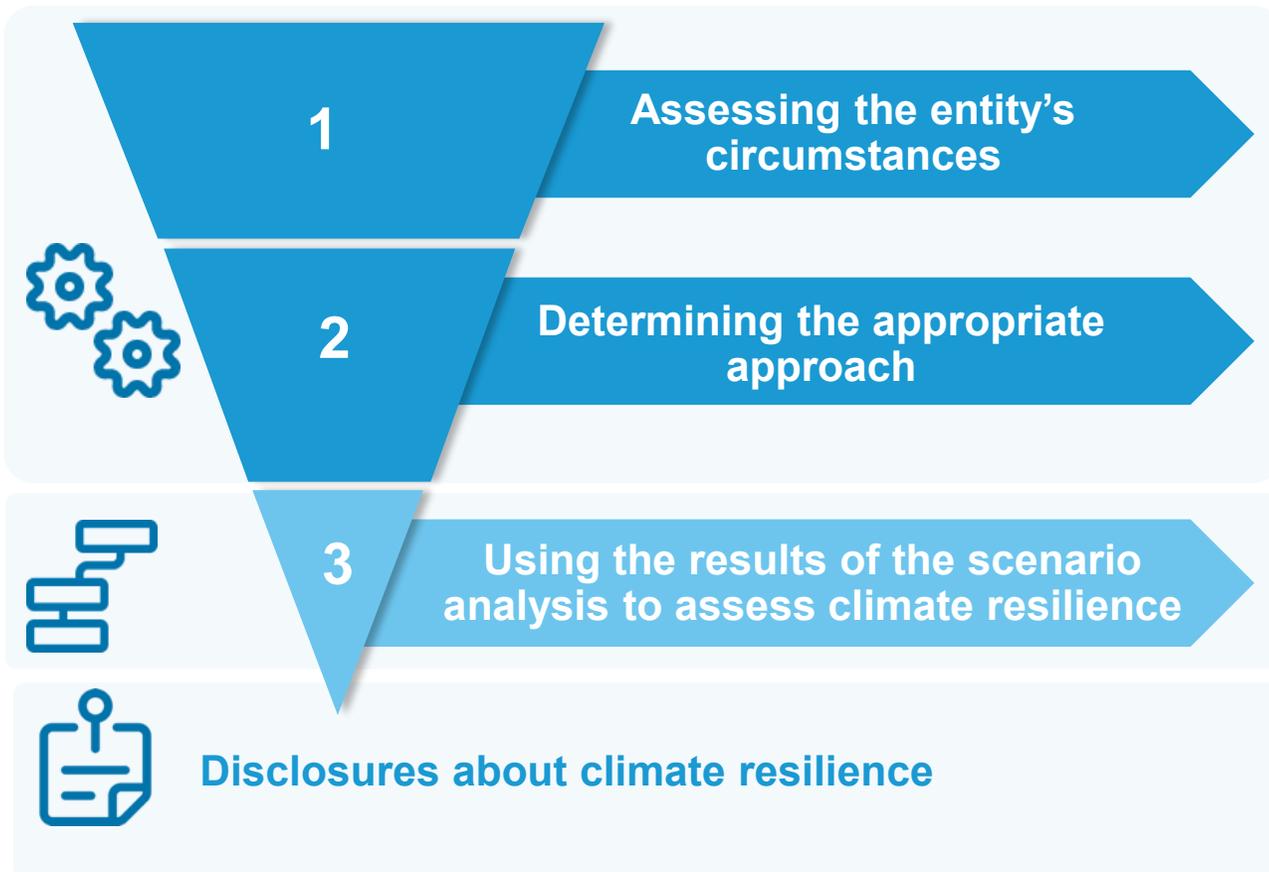
Disclosures about climate resilience

- An entity's **assessment of its climate resilience** as at the reporting date.
- **How and when** the scenario analysis was carried out.

Using scenario analysis to assess climate resilience



Using scenario analysis to assess climate resilience



IFRS S2 includes **application guidance** on using scenario analysis to assess climate resilience.

The application guidance requires an entity to use an approach to scenario analysis that:

- is **commensurate** with its circumstances; and
- enables it to consider **all reasonable and supportable information** that is available to the entity at the reporting date **without undue cost or effort**.

The application guidance in paragraphs B1–B18 of IFRS S2 draws on the range of practice outlined in documents published by the TCFD, including *Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities* (2017) and *Guidance on Scenario Analysis for Non-Financial Companies* (2020).

Assessing the entity's circumstances

- 1** Paragraphs B2–B7 of IFRS S2 require an entity to use an approach to scenario analysis that is **commensurate with its circumstances**. To assess its circumstances, the entity must consider:

The entity's exposure to climate-related risks and opportunities

With all else being equal, the greater the entity's exposure to climate-related risks or opportunities, the more likely it would determine that a more technically sophisticated form of scenario analysis is warranted.

By considering its exposure to climate-related risks and opportunities, an entity can better assess whether a more technically sophisticated form of scenario analysis would be of **greater benefit to the entity itself and to investors**.

Skills, capabilities and resources available to the entity (internal and external)

Through an iterative learning process, as an entity repeats the scenario analysis, it is likely to develop its skills and capabilities and strengthen its approach over time. It can also invest in obtaining or developing the necessary skills and capabilities, if resources are available.

By considering the skills, capabilities and resources available, an entity can better assess the **cost and effort** of a particular approach to scenario analysis.

Illustration 2—Assessing the entity’s circumstances

	Exposure to climate-related risk and opportunities	Available skills, capabilities and resources	Assessing the entity’s circumstances
<p>Company X a large energy company</p>	<p>High degree of exposure because it has identified that potential changes to climate-related regulations in the key jurisdictions where it operates could affect its strategy and business model.</p>	<p>Has the skills, capabilities and resources to carry out sophisticated quantitative modelling to assess its climate resilience. The use of scenario analysis is an established practice in its industry.</p>	<p>The entity’s circumstances indicate that the potential benefits of using an advanced approach (including quantitative modelling) to scenario analysis outweigh the potential costs and effort.</p>
<p>Company Y a mid-sized consumer goods company</p>	<p>Moderate degree of exposure because it has identified that the effects of climate-related physical risks could disrupt the supply of key commodities for its food products.</p>	<p>Does not have the skills, capabilities and resources to carry out sophisticated quantitative modelling. It is the first time that the company is conducting scenario analysis to assess its climate resilience.</p>	<p>The entity’s circumstances indicate that the potential benefits of an advanced approach to scenario analysis <i>do not</i> justify the potential costs and effort, and that a simple approach (focusing on qualitative analysis) is commensurate with its circumstances.</p>

Determining the appropriate approach

- 2** In addition to being commensurate with its circumstances, paragraphs B8–B15 of IFRS S2 require that the entity’s approach to scenario analysis must enable consideration of **all reasonable and supportable information** available to the entity at the reporting date **without undue cost or effort**. Such determination involves:

Selecting inputs for the scenario analysis

When selecting inputs, an entity must consider all reasonable and supportable information—including scenarios, variables and other inputs—available without undue cost or effort.

IFRS S2 **does not prescribe the scenarios to use**, but an entity must have a **reasonable and supportable basis** for using particular scenarios and ensure they are **relevant to its circumstances**.

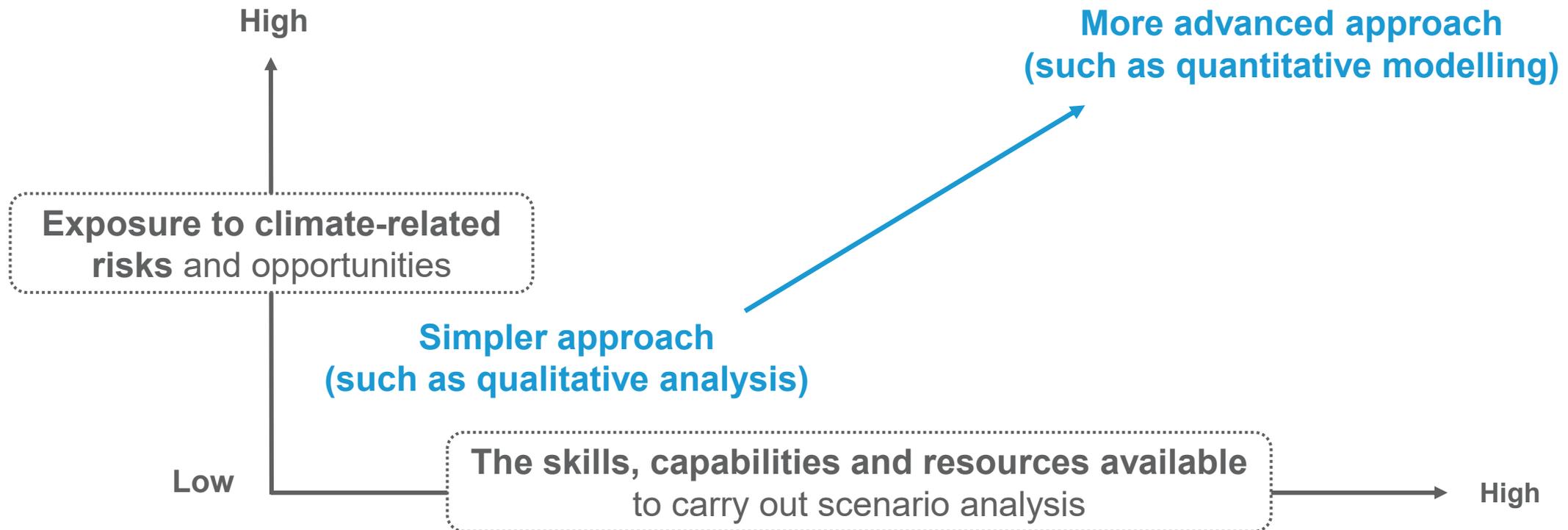
Analytical choice for the scenario analysis

An entity must prioritise the **analytical choices** (for example, qualitative analysis or quantitative modelling) that enable it to consider all reasonable and supportable information available without undue cost or effort. **Quantitative information** will often enable a more robust assessment. But **qualitative information** (including scenario narratives), either alone or together with quantitative information, can also provide a reasonable and supportable basis.

Illustration 3—Determining the appropriate approach

	Selecting inputs for the scenario analysis	Analytical choice for the scenario analysis	Determining the appropriate approach
Company X a large energy company	Selects four diverse scenarios that provide a reasonable and supportable basis , including a scenario consistent with an orderly transition scenario. The scenarios are publicly available and relevant to assessing the effects of changing climate-related regulations on its key business activities.	Uses both qualitative scenario narratives and quantitative modelling to assess the effects of the identified risks and opportunities on its strategy and business model.	Both Companies X and Y determine that the inputs and analytical choices for their approach to scenario analysis enables them to consider all reasonable and supportable information available to them without undue cost or effort .
Company Y a mid-sized consumer goods company	Selects three diverse scenarios that provide a reasonable and supportable basis , including a localised scenario. These scenarios are publicly available and relevant to assess the effects of physical risks on the supply of its key commodities.	Uses only qualitative scenario narratives to assess the effects of the identified risks and opportunities on its strategy and business model.	

Commensurate approach to an entity's circumstances



Regardless of the approach, an entity must **select inputs** and **analytical choice** that enables it to use **all reasonable and supportable information** available to it **without undue cost or effort**.
An entity's approach is likely to evolve over time.

Additional considerations



Frequency of scenario analysis (paragraphs B3 and B18 of IFRS S2)

IFRS S2 **does not require an entity to update its scenario analysis annually**, but it does require an entity to—**at a minimum**—update its scenario analysis **in line with its strategic planning cycle** (for example, every three to five years) and **reassess its circumstances** each time it updates its scenario analysis.

In contrast, an entity must **carry out a climate resilience assessment annually** and reflect updated insight into the implications of the scenario analysis.



Using scenario analysis to inform other disclosures

IFRS S2 **requires** an entity to use scenario analysis to assess its **climate resilience**. It is not required to be used for any other purposes.

But scenario analysis can be used to inform other disclosures when applying IFRS S2. For example, it can be helpful to inform the application of other requirements in IFRS S2, such as when **identifying climate-related risks and opportunities** and providing information about **anticipated financial effects**.

Using the results of the scenario analysis to assess climate resilience

- 3** The entity must **interpret the results of the scenario analysis** to assess its climate resilience—that is, to assess the implications of the scenario analysis for the entity’s strategy and business model and its capacity to adjust or adapt.

Based on that assessment, an entity must disclose **information that enables investors to understand its climate resilience** (see [Slides 6–7](#)). In addition, paragraph 22(b) of IFRS S2 requires the entity to disclose information about **how and when** the scenario analysis was carried out, including:



information about the **inputs** the entity used;



the **key assumptions** the entity made in the analysis; and



the **reporting period** in which the scenario analysis was carried out.

Illustration 4—Information about how and when scenario analysis was carried out

Company Z is a mining company. The company has assessed its climate resilience using scenario analysis. In disclosing information about **the scenario analysis carried out**, it might disclose, for example:



information about the **inputs** used, such as:

- the **climate-related scenarios** that the entity analysed and their **sources**; and
- the fact that the scenario analysis was carried out across the **time horizons** of 2030, 2040 and 2050;



the **key assumptions** made in the analysis, such as the entity's assumptions about:

- the **climate-related policies** in its key jurisdictions; and
- the **macroeconomic trends** and **technological development**; and



information about the **reporting period** in which the scenario analysis was carried out, such as the fact that the entity's assessment of climate resilience for the reporting period was based on the results of scenario analysis carried out in a prior period, in line with the entity's strategic planning cycle.

Key takeaways



IFRS S2 requires an entity to **disclose its assessment of its climate resilience** and to **use scenario analysis** in making such an assessment. Scenario analysis can also be helpful to inform other disclosures.



IFRS S2 requires an entity to use an approach to scenario analysis that is **commensurate with its circumstances. Proportionality mechanisms** are set out in the Standard to support an entity to determine its approach.



IFRS S2 **does not prescribe** inputs or assumptions for scenario analysis, including which scenarios to use. Instead, it requires an entity to select relevant scenarios and **provide information** about the inputs and assumptions used for the scenario analysis.

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