# Staff paper

Agenda reference: 3C

## ISSB meeting

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| Date | **November 2022** |
| Project | **General Sustainability-related Disclosures** |
| Topic | **Timing of reporting** |
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## Objective

1. This paper provides staff analysis and recommendations on the proposed requirement in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information Exposure Draft* ([draft] S1) for an entity to report information required by the IFRS Sustainability Disclosure Standards at the same time as its related financial statements ('the proposed requirement on timing of reporting').

2. The objective of this paper is to:

   (a) provide staff analysis of the matters raised in the comment letters and market outreach that the staff think the International Sustainability Standards Board (ISSB) should consider in its redeliberations; and

   (b) seek decisions from the ISSB on the staff recommendations.

3. This paper only addresses the proposed requirement on timing of reporting regarding when sustainability-related information is published. Where necessary, it also discusses matters that are connected to this requirement, such as the proposed requirements on reporting period, location of information, connected information and the use of estimates. The ISSB is not asked, in this paper, to make any decisions regarding these issues.

## Summary of Recommendations

4. The staff recommends that the ISSB:

   (a) confirm the proposed requirement for an entity to report its sustainability-related financial disclosures at the same time as its related financial statements; and

   (b) introduce transitional relief for a limited period of time to permit an entity to report sustainability-related financial disclosures up to three months after the publication of its financial statements. When an entity takes advantage of this relief by publishing its sustainability-related financial disclosures within three months after the publication of its financial statements, and therefore is unable to meet the requirements on location of reporting, the sustainability-related financial disclosures are required to be authorised by the same bodies or individuals that authorise the entity's financial statements.

5. The ISSB is not asked in this meeting to make a decision on how long the transitional relief should last. If the ISSB agrees with the staff recommendation to provide transitional relief, the staff recommend that the length of that relief be discussed at a future ISSB meeting as part of its deliberations on effective date and considered alongside any other transitional reliefs being provided. This will enable the ISSB to consider the extent to which the period prior to S1 and S2 effective dates could assist preparers in aligning the timing of the sustainability-related reporting and the financial statements.

## Structure of the paper

6. This paper is structured as follows:

   (a) Background (paragraphs 7-17);

   (b) Staff analysis (paragraphs 18-64);

   (c) Staff recommendations (paragraphs 65-88);

   (d) Questions for the ISSB (paragraph 89); and

   (e) Next steps (paragraph 90).

## Background

7. In March 2022, the Chair and Vice-Chair published [draft] S1, setting out proposed requirements for disclosing sustainability-related financial information to provide users of general purpose financial reporting (users) with a complete set of sustainability-related financial disclosures. [Draft] S1 was developed in response to calls from users for information about sustainability-related risks and opportunities that supplements and complements the information in the financial statement to inform investment decision-making and resource allocation.

8. To promote timely disclosure that is connected to the entity's financial statements, paragraphs 66-71 of [draft] S1 include proposed requirements on the timing of reporting, stating:

> An entity shall report its sustainability-related financial disclosures at the same time as its related financial statements and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements.

## Summary of responses

9. The following summary of responses provides further detail to the summary provided in the Agenda Paper 3A *General Requirements for Disclosure of Sustainability-related Financial Information—Summary of public comments* at the September 2022 ISSB meeting.

10. Most respondents agreed with the proposal that sustainability-related financial disclosures should be published at the same time and for the same reporting period as financial statements, whilst also noting there may be barriers to publishing this information simultaneously. Comments on this matter were consistent across geographies and stakeholder types.

11. Most respondents agreed that sustainability-related financial disclosures should be required to be published at the same time as related financial statements as simultaneous publication will provide

users with a coherent, holistic, and connected picture of the entity's position and performance, which will enable them to make more informed capital allocation decisions.

12. Some respondents went further, stating that when information is not published at the same time users will be unable to correlate it with the financial statements, thereby undermining the usefulness of sustainability-related information.

13. Some respondents noted that this proposed requirement is aligned to existing guidance, practice and regulatory requirements on broader narrative reporting requirements, for example in IFRS Practice Statement 1: *Management Commentary.* Narrative disclosures are often made at the same time as financial statements to provide important contextual insight into the entity's financial performance and financial position including factors that could affect the entity's ability to create value and generate cash flows in the future.

14. Almost all users of general purpose financial reporting that responded to this question acknowledged that ideally the timing of reporting would be simultaneous. They noted that this alignment is key to connectivity in information in the financial statements and in the sustainability-related financial disclosures and would enable users to understand financial information in the context of corresponding sustainability risks and opportunities, and therefore would provide a complete picture that would facilitate capital allocation decisions.

15. However, many respondents identified several concerns about the practical application of these requirements. These concerns include:

   (a) perceived increased reporting burden and significant costs, especially in the first years of application;

   (b) more time required to collect and aggregate sustainability-related data because reporting systems are underdeveloped, including additional time needed to obtain assurance;

   (c) delays in being able to calculate certain metrics caused by the need to wait for finalised financial statements and third-party data providers;

   (d) the additional reliance on assumptions and estimates to complete the data for the year, which might affect the quality of the data; and

   (e) existing jurisdictional reporting requirements that may be inconsistent with this proposal.

16. Some users of general purpose financial reporting also acknowledged this proposed requirement might be challenging for preparers and noted some concern that it might lead to a trade-off between the timing of the disclosure and the quality of data disclosed.

17. It was also emphasised in the responses that the timing of reporting is linked to other requirements, most notably on location of information and connected information. Most respondents supported the proposals about the location of sustainability-related information. Notably, most respondents agreed with the proposal that information can be included by cross-reference provided that the information is available to users on the same terms and at the same time. These comments provide further evidence that respondents agreed with the principle that information should be published at the same time.

## Staff analysis

18. The following staff analysis provides the rationale for the staff recommendations and outlines the matters the ISSB may need to consider in its redeliberations.

19. Whilst some of the matters discussed in the staff analysis relate to other proposals in [draft] S1 and [draft] S2, these are only discussed in reference to the implications for the requirements on timing of reporting. The ISSB is not asked, in this paper, to make any decisions regarding these issues.

## Objective of the proposed requirement on timing

20. Requiring preparers to report sustainability-related financial information at the same time as financial statements is intended to support the connectivity of information which is key to the overall objective of [draft] S1. The timely disclosure of this information is expected to provide users of general purpose financial reporting with a better understanding of the relationships between various types of information in general purpose financial reporting.

21. Additionally, reporting sustainability-related financial information at the same time and in the same location as financial statements is a statement about the value of that information and reinforces the view that both sustainability-related information and financial statements are prepared for the same primary users (investors, lenders and other creditors) and that considering this information in combination is important for informed decision making.

22. Having different publication dates could limit the ability of users of general purpose financial reporting to assess the relationship between the various types of information in general purpose financial reporting. It could also impact the assessment of how sustainability-related financial risks and opportunities are integrated with and connected to the wider business processes and strategic position of the entities.

## Current practice

### *Current disclosure practice*

23. Studies of disclosure practice[1] demonstrate that there is a range of approaches currently being taken by preparers. While some may publish information outside of the financial report and at a different time than the publication of financial statements, there is evidence that some preparers are already disclosing various sustainability-related matters within the annual report, and therefore at the same time.

24. In the 2021 annual review of disclosures in accordance with Task Force on Climate-related Financial Disclosures (TCFD) recommendations[2], the TCFD highlighted that information is currently disclosed in various locations including within annual financial reports (including financial filings), in separately published sustainability reports, and separately published TCFD/climate reports. Although there were no specific comments in this review on the timing of reports, the variety of locations in which information was disclosed suggests different approaches are also used in regard to the timing of reports. At the very least, preparers who provide the information as part of the annual financial reports

[1] KPMG, 'Big shifts, small steps: Survey of sustainability reporting 2022', https://assets.kpmg/content/dam/kpmg/xx/pdf/2022/10/ssr-small-steps-big-shifts.pdf, 2022, (accessed on 27 October 2022)
[2] Task Force on Climate-related Financial Disclosures, '2021 Status Report', 2021, https://www.fsb.org/wp-content/uploads/P141021-1.pdf, (accessed on 27 October 2022)

are currently providing information at the same time. Information disclosed in separate reports may or may not be published at the same time.

25. More specifically regarding the timing of reporting, in its review of mandatory TCFD disclosures[3], the UK's Financial Reporting Council found that information that was provided for a different reporting period and information that was published after the publication of the financial statement reduced the usefulness of the information. This review also highlighted the regulatory expectation that information should be published at the same time and for the same reporting period. This includes any referenced information presented outside the annual report which should cover the same reporting period and is available at the same time as the annual report.

26. The GRI standards are the most used voluntary standards for sustainability reporting. The GRI Standards do not specify a location of information or timing for reporting and our understanding is that it is common practice for preparers using these standards to publish separate sustainability reports. Some preparers may publish these reports at the same time as the financial statements, whereas others may publish these reports between three to nine months after the balance sheet date.

### *Jurisdictional disclosure requirements*

27. There is currently a wide variety of approaches taken by regulators regarding the timing of sustainability reporting. While the majority of regulations do not specify a specific date by which this information must be published, some require information to be disclosed as part of the annual financial report (and therefore at the same time), and others specify dates that might not align with the annual financial reporting cycle.

28. Similar to the current practice described in paragraph 26 in relation to sustainability reports, where jurisdictional requirements do not specify location of sustainability-related information or timing of reporting, it is common practice for sustainability reports to be published after the publication of the financial statements.

29. Some jurisdictional requirements specify mandatory timing of reporting that might not align with the annual reporting cycle. For example, both the Act on Promotion of Global Warming Countermeasures (Act No. 117 of 1998) in Japan and the National Greenhouse and Energy Reporting Act 2007 (NGER Act) in Australia specify timing for reporting that does not align with legal requirements on the timing of financial statements. Paragraphs 52-57 provide further analysis on these specific regulations.

30. In the UK, Listing Rule LR 9.8.6R(8) requires the disclosure of TCFD-related information in the annual financial report. When companies have chosen to disclose this information in a different document, the company must provide a description of where the information can be found and an explanation of why this information is not included in the annual financial report. Additionally, The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 requires companies within scope to disclose a non-financial and sustainability statement in the Strategic Report which is published at the same time as financial statements.

31. The US SEC's proposed rule The Enhancement and Standardisation of Climate-Related Disclosures for Investors would require an SEC registrant to publish climate-related disclosures in an appropriately

[3] Financial Reporting Council, 'CRR Thematic review of TCFD disclosures and climate in the financial statements', 2022, https://www.frc.org.uk/getattachment/65fa8b6f-2bed-4a67-8471-ab91c9cd2e85/FRC-TCFD-disclosures-and-climate-in-the-financial-statements_July-2022.pdf, (accessed on 27 October 2022)

captioned section within its registration statements and annual reports (for example, Form 10-K), and therefore at the same time as the publication of financial statements. Additionally, this proposed rule would also require disclosure of some specific quantitative climate-related financial statement metrics and related disclosures in a note to the audited consolidated financial statements.

32. In the EU, the proposed Corporate Sustainability Reporting Directive (CSRD) revises and replaces the Non-Financial Reporting Directive (NFRD). One of the elements that has been revised is the requirement on the location of information and timing of reporting. The proposed CSRD now specifies that sustainability information must be disclosed within the company's management report and therefore at the same time as the publication of financial statements. Previously the NFRD allowed Member States, when transposing into national law, to include an exemption that would allow preparers to publish sustainability information within six months of the balance sheet date. This exemption has now been removed and preparers must publish the information at the same time as the financial statements.

33. The Egyptian Financial Regulatory Authority announced resolutions requiring companies listed on the Egyptian Stock Exchange and companies operating in non-bank financial activities to submit reports related to sustainability and the financial impacts of climate change in line with the TCFD recommendations. These reports are required to be included in the annual board of directors' reports and attached to the annual financial statements.

## Factors to consider in redeliberation

34. In the following section, the staff have highlighted seven factors to consider when redeliberating on the proposed requirement on timing:

(a) Scope of the problem (paragraph 35);

(b) Data availability and preparer readiness (paragraphs 36-40);

(c) Cost (paragraphs 41-43);

(d) Use of estimates (paragraphs 44-49);

(e) Effective date (paragraphs 50-51);

(f) Interoperability with jurisdictional requirements (paragraphs 52-57); and

(g) Connection to other proposed requirements in [draft] S1 (paragraphs 58-64).

### *Scope of the problem*

35. The concerns that were raised in response to the proposals, which are outlined in paragraph 15(a)-(e), mostly relate to the proposed requirements for quantitative information, rather than all the requirements within [draft] S1. The most common concerns relate to value chain data, for example, data required for Scope 3 and financed and facilitated emissions disclosures.

### *Data availability and preparer readiness*

36. The concerns that have been raised by respondents about the timing of reporting are primarily focused on the practical challenges associated with data availability and preparer readiness. The

proposal on the timing of reporting highlights, and perhaps exacerbates, these challenges, but is not the source of these challenges.

37. These concerns are core to the issue of the timing of reporting. Preparers may need additional time beyond the period between the publication of S1 and the effective date to comply with all, or specific elements, of the standard.

38. Concerns about data availability refers to a number of challenges in obtaining data. This might include, but not limited to, data availability:

(a) within an entity's operations when the entity has a complex organisational structure (for example, when consolidating data, large conglomerates may have to collect data from many entities within its structure);

(b) through third party data providers (for example, when collecting information on the energy or water usage within its operations, an entity will need to wait for data that is provided by its utility company); or

(c) through the value chain (for example, when collecting information on Scope 3 emissions, entities will need to collect information from suppliers within complex supply chains).

39. Some of these concerns about data availability (paragraph 38(a)-(b)) may be resolved if preparers had more time to produce their disclosures. For example, publishing sustainability-related information 6 months after the publication of financial statements could lead to more robust disclosure that has a higher percentage of actual data, rather than estimates.

40. However, some data challenges, especially regarding value chain, will remain regardless of how much time is given to preparers. For example, allowing preparers to publish sustainability-related information 6 months after the publication of financial statements does not guarantee a complete set of data from supply chains. This issue is not unique to the proposal on timing of reporting, and has also been identified in relation to other requirements, such as Scope 3 Greenhouse Gas (GHG) emissions as discussed in the October ISSB meeting's Agenda Paper 4B *Climate-related Disclosures—Scope 3 greenhouse gas emissions*.

### *Cost*

41. Many respondents raised concerns that the proposed requirements on the timing of reporting will be an increased and costly burden, particularly in the first years of reporting. This is especially true for preparers that are less prepared or have fewer resources, and therefore will find it challenging to publish financial statements and sustainability-related financial disclosures simultaneously. These are predominately initial implementation costs, and we would expect these to reduce over time.

42. Whilst the initial costs may be significant, the benefit of the proposed requirement is to support the connection between financial statements and sustainability-related financial information. This proposed requirement on timing of reporting is also expected to provide users with timely information that enables a better understanding and holistic view of the entity's financial performance and position.

43. Whenever new reporting requirements are introduced, there will be implementation costs and therefore investment will be needed to support the reporting that would be required by any standard issued by the ISSB. The ISSB will need to balance the benefits of proposed reporting requirements

with the resulting costs. However, concerns about implementation costs and the changes needed in disclosure practice are not in themselves concerns that should prevent the ISSB to change a proposal.

### *Use of estimates*

44. [Draft] S1 already includes proposed guidance for estimation in recognition of the inherent challenges of providing quantitative information. Paragraph 79 in [Draft] S1 states:

> When metrics cannot be measured directly and can only be estimated, measurement uncertainty arises. The use of reasonable estimates is an essential part of preparing sustainability-related metrics and does not undermine the usefulness of the information if the estimates are accurately described and explained. Even a high level of measurement uncertainty would not necessarily prevent such an estimate from providing useful information. An entity shall identify metrics it has disclosed that have significant estimation uncertainty, disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties.

45. Noting the challenges on data availability (paragraph 38(a)-(c)), preparers will likely need to use estimates in relation to specific requirements, regardless of the requirements on timing. This is particularly true for data required for value chain disclosures.

46. Some preparers already use estimates to complete data for the year. For example, when data is unavailable for the fourth quarter, estimates can be used to report a complete year.

47. Similarly, the US SEC's proposed rule The Enhancement and Standardisation of Climate-Related Disclosures for Investors specifically allows estimates of fourth quarter GHG emissions to enable disclosure for the full year at the same time as the publication of financial statements.

48. The use of estimates is also common practice in financial reporting. Estimates may be used in accrual basis accounting, which is used to complete financial statements, for instance, when an event has taken place within a reporting period, but estimates are needed when actual data is unavailable. For example, financial statements may include an accrual for costs associated with work that has been completed or products that have been delivered during the financial period but have not yet been invoiced. The amount will be estimated based on historical information. Estimation that includes consideration of forward looking elements is also necessary to support impairment assessments, to measure items at fair value and to measure expected credit losses.

49. For further discussion on the use of estimates, refer to this months' Agenda Paper 3B *General Requirements for Disclosure of Sustainability-related Financial–Comparative information and updated estimates*.

### *Effective date*

50. Although timeliness of sustainability-related financial disclosure is a key objective, the staff analysis per the previous paragraphs has identified that preparers may need additional time to be able to comply with all, or specific elements, of [draft] S1, especially in the first reporting cycles. Therefore, preparers may benefit from additional time beyond the period between the publication of S1 and the effective date to develop the systems required for data collection and processes for the timely preparation and finalisation of sustainability-related financial disclosures.

51. When deliberating on the effective date, the ISSB will consider the appropriate amount of time before [draft] S1 is effective. This decision will include consideration of preparer's readiness and how long it may take a preparer to be able to report on all requirements within [draft] S1.

### *Interoperability with jurisdictional requirements*

52. Some respondents raised specific concerns that the proposed requirement on timing would be inconsistent with, and in some cases even incompatible with, local laws and regulations. In particular, GHG emissions regulations in Australia and Japan were cited as particular concerns.

53. The concerns raised in the comment letters associated with these jurisdictional requirements are specific to particular disclosure requirements, notably GHG emissions data, rather than [draft] S1 as a whole.

54. In Japan, under the Financial Instruments and Exchange Act, where companies have 31 March year-end they are required to file their Annual Securities Report, including the financial statements, within three months. Additionally, specific companies with high GHG emissions are required by the Act on Promotion of Global Warming Countermeasures (Act No. 117 of 1998) to calculate and report their GHG emissions by the end of July. The difference in publication date is not substantial, but preparers noted that it would be difficult to align disclosure dates due to the publication of emissions factors which may not be finalised until July. It has also been noted that by law specific GHG emissions are calculated using the fiscal year as the reporting period, whereas others are required to be calculated by calendar year.

55. Additionally, as there are no mandatory timing requirements for the publication of sustainability reports, it is common in Japan for preparers to publish sustainability or integrated reports up to 9 months after the year-end. Respondents noted that as preparers in Japan are subject to mandatory timing requirements for financial statements, additional mandatory timing requirements for sustainability-related information could results in significant strain on internal resources.

56. In Australia, the National Greenhouse and Energy Reporting Act 2007 (NGER Act) specifies that companies within scope must disclose their GHG emissions by October every year and for a specific reporting period (monitoring period). Therefore, the timing of reporting for NGER disclosure might not align with the fiscal year used in the financial statements.

57. Further research in these jurisdictions by the staff has found that these concerns about jurisdictional interoperability highlights additional challenges, but would not prevent preparers from being able to simultaneously disclose financial and sustainability-related information. Preparers have explained that although mandatory timing of reporting and reporting periods differ for GHG emissions disclosure, they are able to provide information at the same time as the financial statements. As they collect data on a monthly basis, they are able to report on different periods and publish the information at various times in the year, and therefore would be able to comply with both jurisdictional requirements and [draft] S1 requirements. However, the staff note that these preparers are experienced in collecting GHG emissions data having collected this data since 2013. Additionally, these preparers do not currently collect Scope 3 emissions.

## *Connection to other proposed requirements in [draft] S1*

58. The proposed requirement on timing of reporting is linked to the requirements in [draft] S1 on the location of information and connected information. These proposals are consistent with requiring the

sustainability-related financial information to be published at the same time as the financial statements.

59. The proposed requirements on the location of reporting in paragraph 72 of [draft] S1 requires preparers to disclose sustainability-related information as part of its general purpose financial reporting. Additionally, paragraph 75 of [draft] S1 states:

> Information required by an IFRS Sustainability Disclosure Standard can be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced.

60. Most respondents that provided comments on the location of information during the consultation on [draft] S1 agreed that sustainability-related financial information should be published as part of the general purpose financial reporting (see Agenda Paper 3A *General Requirements for Disclosure of Sustainability-related Financial Information—Summary of public comments* from the September 2022 ISSB meeting). Therefore, any changes to the proposed requirement on timing of reporting could have implications for the requirements on location of information.

61. The proposed requirement on timing of reporting is also linked to the requirements on connected information, especially regarding the connectivity between sustainability-related financial information and financial statements as outlined in paragraph 42-44 of [draft] S1.

62. Connected information is key to the objective to [draft] S1. The information contained in both the financial statements and sustainability-related financial disclosures are important inputs to users' assessment of an entity's future cash flows. Therefore, connection between these different types of information is important for users, especially when assessing the financial effects of sustainability-related risks and opportunities.

63. Comments received from users of general purpose financial reporting in relation to 'connected information' (Question 6 of the Invitation to Comment in [draft] S1) reinforced the importance of the proposed requirement on timing of reporting. In particular, users reporting noted how connecting sustainability-related information with the financial statements would enable an understanding of how sustainability risks and opportunities are taken into account when an entity is executing its strategy. This might include a holistic understanding of the approaches used to manage risks and opportunities and the assumptions used that underpin asset valuations.

64. Existing requirements in paragraph 42 of [draft] S1 require preparers to provide information to enable users of general purpose financial reporting to assess how information is linked in the sustainability-related information and the financial statements. However, there is no equivalent requirement in IFRS Accounting Standards that would require preparers to refer to sustainability-related information in financial statements. Therefore, it is feasible that if sustainability-related information was published after the publication of financial statements, preparers would still be able to refer to the information contained within the financial statements. However, as noted in paragraphs 62-63, this would prevent users from understanding the financial statements in the context of corresponding sustainability-related information and therefore users would not obtain a complete picture of the entity's financial performance and position until the subsequent publication of the sustainability-related financial disclosures.

# Staff recommendations

## Recommendations on timing of reporting

65. The staff recommends that the ISSB:

   (a) confirm the proposed requirement for an entity to report its sustainability-related financial disclosures at the same time as its related financial statements (paragraphs 67-71); and

   (b) introduce transitional relief for a limited period of time to permit an entity to report sustainability-related financial disclosures up to three months after the publication of its financial statements. When an entity takes advantage of this relief by publishing its sustainability-related financial disclosures within three months after the publication of its financial statements, and therefore is unable to meet the requirements on location of reporting, the sustainability-related financial disclosures are required to be authorised by the same bodies or individuals that authorise the entity's financial statements (paragraphs 72-80).

66. The ISSB is not asked in this meeting to make a decision on how long the transitional relief should last. If the ISSB agrees with the staff recommendation to provide transitional relief, the staff recommend that the length of that relief be discussed at a future ISSB meeting as part of its deliberations on effective date and considered alongside any other transitional reliefs being provided. This will enable the ISSB to consider the extent to which the period prior to S1 and S2 effective dates could assist preparers in aligning the timing of the sustainability-related reporting and the financial statements.

### *Confirm the proposed requirement on timing of reporting*

67. Based on the comments received in the comment letters and the staff analysis, the staff conclude that the proposed requirement for an entity to report sustainability-related financial disclosures at the same time as the publication of financial statements will substantially contribute to the objective of [draft] S1.

68. Whilst there are some benefits in allowing sustainability-related financial information to be disclosed after the publication of the financial statements, such flexibility could compromise the objective of [draft] S1. This flexibility could also reduce the decision-usefulness of the sustainability-related information and perhaps also reduce the usefulness of other information in general purpose financial reporting.

69. The staff also considered the evolving maturity of corporate reporting practice. The current concerns that have been identified in paragraph 15(a)-(e) regarding data availability and preparers readiness are expected to lessen as reporting practice advances and preparers enhance their data systems and internal processes as a result of implementing S1 and S2.

70. Where concerns about the timing of reporting relate to the challenges associated with the collection of value chain information, the staff note that it is unlikely that substantial changes to the proposal will in itself resolve these issues[4]. It is also noted that the ISSB has asked the staff to consider reliefs for preparers in the provision of Scope 3 GHG emissions information including, amongst other things, allowing extra time for the provision of this information. Accordingly, the staff do not believe that this

[4] At the October ISSB meeting, the ISSB confirmed that S2 will require the disclosure of Scope 3 GHG emissions information. The ISSB also agreed that this will be accompanied by reliefs to assist preparers. The proposed reliefs being considered include amongst other things allowing additional time for the provision of Scope 3 GHG emissions information.

should be a primary consideration in determining the appropriate timing for the provision of sustainability-related financial information.

71. The staff also note that proposed guidance in [draft] S1 regarding the use of estimates could enable preparers to meet the proposed requirement on timing of reporting. Paragraphs 44-49 in the staff analysis outlines how estimates are currently used to complete the years data. Preparers should be encouraged to use estimates when appropriate and necessary. For further discussion on the use of estimates, refer to this months' Agenda Paper 3B *General Requirements for Disclosure of Sustainability-related Financial–Comparative information and updated estimates*.

### *Transitional relief on the timing of reporting*

72. The staff recommendation to introduce transition relief for a limited period is designed to balance the proposed requirement on timing, which was supported by users of general purpose financial reporting, with recognising the practical challenges faced by preparers, which are expected to lessen over time. It is also consistent with the observations of many respondents that ideally the timing of the sustainability-related financial information should be aligned with the financial statements.

73. The staff analysis (paragraphs 36-40) concluded that many of the concerns raised in response to the proposals relate to data availability and preparer readiness. This limited transitional relief would provide preparers with additional time to establish systems and processes to facilitate the disclosure of all requirements within S1 at the same time as the financial statements.

74. The staff have not yet developed a recommendation for how long this relief would be available. The ISSB will need to consider the details of this transitional relief in the context of relief provided for other matters and when deliberating the effective date. For example, depending on the agreed effective date for S1, the ISSB may consider a shorter or longer period for relief and whether different effective dates for specific entities or for specific requirements could address some concerns about initial implementation costs.

75. The staff recognise that any relief, permanent or temporary, would be insufficient in itself to address the challenges associated with the collection of value chain data. In acknowledgement of this, and to maintain the objective on the timely reporting of sustainability-related financial information, the staff recommend transitional relief that is available for a limited period, rather than permanent relief. It is also noted that for Scope 3 requirements specific consideration is being given to practical relief, and therefore the overall timing of sustainability-related reporting should not be driven by considerations regarding Scope 3.

76. The recommended transitional relief would provide preparers an additional three months within the reporting cycle to collect relevant data and prepare the sustainability-related financial disclosures, which should address concerns about initial costs and resourcing constraints. It also will allow additional time for entities to improve their systems and processes for the preparation of this information which will facilitate more timely preparation. The staff recommend a limit of three months which we think would be sufficient to alleviate these concerns while maintaining the objective of [draft] S1. As noted in paragraph 26, some preparers currently publish sustainability-related disclosures between three to nine months after the balance sheet date. Rather than maintaining the status quo, this recommendation would provide practical relief but would also raise expectations on aligning the disclosure of sustainability-related information and financial statements.

77. The staff recognise that three months of relief will still raise concerns from some preparers who may view this as being insufficient. However, the staff think this is a reasonable balance to provide relief to

preparers while still seeking to maintain the ambition of timely reporting and enabling users of general purpose financial reporting to have the full set of information necessary to inform investment decisions. Any more relief would likely result in the disclosure of greatly reduced decision-useful information. Additionally, before this relief comes into force, the period between the publication of S1 and its effective date would also provide preparation time for preparers.

78. In proposing this transitional relief, the staff acknowledge the consequences this will have on other proposed requirements, in particular on the proposed requirements on location of information. Therefore, preparers that take advantage of this relief will be unable to meet the requirements on location of information.

79. Recognising this consequence on the requirements on the location of information, the staff recommend this relief also includes a requirement that when a preparer uses this relief the sustainability-related financial disclosures are required to be authorised by the same bodies or individuals that authorise the entity's financial statements.

80. Due to the limited nature of this relief, the impact on the requirement on location will be temporary. Preparers will have to meet all requirements on timing of reporting and location of information once the relief is no longer available.

## Other options considered but not recommended

81. The staff recommendations (paragraphs 65-66) exclude these actions, which the staff considered but rejected:

(a) Amend [draft] S1 to permit entities to disclose all sustainability-related financial information within three months of the date of publication of the financial statement as long as the information is for the same reporting period (paragraphs 82-84);

(b) Amend [draft] S1 to permit the disclosure of sustainability-related financial information at the same time but for a different reporting period (paragraphs 85-87); and

(c) Remove the requirement to allow greater flexibility (paragraph 88).

### *Amending [draft] S1 requirements on the timing of publication*

82. Amending [draft] S1 to permit entities to disclose all sustainability-related financial information within three months of the date of publication of the financial statement as long as the information is for the same reporting period (permanently) would ensure some connectivity to the financial statement as the reporting period would be the same, while also allowing some flexibility and additional time for the collection and disclosure of required information.

83. The staff rejected this option as a permanent amendment to [draft] S1 as it would compromise the timely delivery of information to users of general purpose financial reporting which may impact its decision usefulness and reduce the ability of entities to satisfy the requirement on connected information.

84. As noted in paragraphs 10-14, most respondents agreed with the proposal on timing and therefore the staff have concluded no permanent amendments are warranted. However, to recognise the practical concerns that are outlined in paragraph 15(a)-(e), the staff recommendation to allow delayed reporting

for a limited time period should be sufficient to give preparers enough time to establish systems to be able to meet this requirement in the future.

### *Amending [draft] S1 requirements on the reporting period*

85. The staff also considered whether to maintain the requirements on disclosing information at the same time but allow for flexibility in the reporting period that the sustainability-related financial information relates to. For example, staff considered whether entities should be allowed to provide sustainability-related information for an annual period three months to one year different to the reporting period used in the financial statements.

86. This option would give preparers more time to collect the required information to be able to present a complete year of data. Additional time in the preparation of the disclosure would also likely contribute to improved data quality.

87. The staff rejected this option as it would compromise the objective on the information being connected with the financial statements. As noted in the responses to the proposals, the objective of connected information was emphasised as a crucial element of [draft] S1. A permanent disconnect in what is being addressed in the financial statements and in the sustainability-related financial information would be contrary to one of the core objectives of the IASB and the ISSB which is to ensure that a package of information is provided that meets the needs of primary users.

### *Remove the requirement to allow greater flexibility*

88. The staff also considered removing the proposed requirement on timing altogether to allow greater flexibility. This would mean that the sustainability-related financial information would need to be provided for the same reporting period as the associated financial statements but the timing of publication of that information would not be specified by the ISSB (and as a result the information would not be required to be included as part of the general purpose financial reporting package). This option was not proposed as a recommendation as the staff believe it would significantly undermine the objective of [draft] S1, and impact other proposals on location of information and connected information. It is also expected to reduce the usefulness of sustainability-related disclosures to users.

## Questions for the ISSB

89. The staff present the following questions for the ISSB.

**Questions for the ISSB**

1. Does the ISSB have any questions on the matters raised in this paper?
2. Does the ISSB agree with the staff recommendations to:

   (a) confirm the proposed requirement for an entity to report its sustainability-related financial disclosures at the same time as its related financial statements; and

   (b) introduce transitional relief introduce transitional relief for a limited period of time to permit an entity to report sustainability-related financial disclosures up to three months after the publication of its financial statements. When an entity takes advantage of this relief by publishing its sustainability-related financial disclosures within three months after the

> publication of its financial statements, and therefore is unable to meet the requirements on location of reporting, the sustainability-related financial disclosures are required to be authorised by the same bodies or individuals that authorise the entity's financial statements?

## Next steps

90. If the ISSB agrees with the staff's recommendations, the staff will provide recommendations on the period of transitional relief at a future ISSB meeting. These matters will be discussed in relation to the effective date and other transitional reliefs agreed upon by the ISSB.