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## ISSB meeting

Date	<b>April 2023</b>
Project	<b>General Sustainability-related Disclosures</b>
Topic	<b>IFRS S1 transition relief</b>
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This paper has been prepared for discussion at a public meeting of the International Sustainability Standards Board (ISSB). This paper does not represent the views of the ISSB or any individual ISSB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Sustainability Disclosure Standards. The ISSB's technical decisions are made in public and are reported in the ISSB *Update*.

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## Objective

1. This paper seeks a decision from the ISSB on the staff recommendation to provide a transition relief for those applying IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1). This paper builds on previous ISSB redeliberations and decisions related to transition reliefs for IFRS S1.

## Summary of recommendations

2. The staff recommends the ISSB introduce a transition relief in IFRS S1 that would allow entities to report only on climate-related risks and opportunities in the first year they apply IFRS S1 and IFRS S2 *Climate-related Disclosures* (IFRS S2) and to begin reporting on their other sustainability-related risks and opportunities in the second year. Consistent with the ISSB's decision in February 2023, climate-related disclosures would still be required for annual reporting periods beginning on or after 1 January 2024.
3. For the first annual reporting period an entity applies IFRS S1 and IFRS S2, an entity would apply IFRS S2 in accordance with IFRS S1 only insofar as IFRS S1 relates to climate-related financial information. For the following annual reporting period, the entity would apply IFRS S1 as it relates to the entity's full range of sustainability-

related risks and opportunities (ie in the following annual reporting period, the application of IFRS S1 would not be limited to climate). This recommendation would relieve entities from the need to disclose information about all sustainability-related risks and opportunities until the second year of applying the ISSB Standards.

4. For example, an entity applying IFRS S1 and IFRS S2 at their effective date, and using this transition relief, would be required to disclose:
  - (a) material information about climate-related risks and opportunities in accordance with IFRS S2 for annual reporting periods beginning on or after 1 January 2024; and
  - (b) material information about the entity's sustainability-related risks and opportunities in accordance with IFRS S1 for annual reporting periods beginning on or after 1 January 2025 (ie for the full range of sustainability-related risks and opportunities in addition to climate).
5. This one year transition relief would **not** change the effective date of IFRS S1. IFRS S1 would remain effective for annual reporting periods beginning on or after 1 January 2024. However, the requirements in IFRS S1 would apply only insofar as they relate to the disclosure of climate-related financial information. In addition, this transition relief would not have any implications on the application of, or requirements in, IFRS S2.
6. The staff also recommends that if an entity applies this transition relief, the entity is required to disclose that fact.

## Structure of paper

7. This paper is structured as follows:
  - (a) background (paragraphs 8–11);
  - (b) staff analysis and recommendations (paragraphs 12–24); and
  - (c) questions for the ISSB (paragraph 25).

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## Background

8. [Draft] IFRS S1 would require an entity to disclose ‘material information about all of the [significant] sustainability-related risks and opportunities to which it is exposed’ (emphasis added).
9. As summarised in [Agenda Paper 3A: General Sustainability-related Disclosures—Summary of comments](#) (September 2022), many respondents provided feedback on aspects of [draft] IFRS S1 that may prove challenging. In particular, respondents noted the expansive scope of [draft] IFRS S1, including that a preparer would be required to disclose material information about all significant sustainability-related risks and opportunities. The ISSB responded to this (and other) feedback by introducing several reliefs and other provisions that will assist preparers in applying IFRS S1 and IFRS S2, as summarised in [Agenda Paper 3D&4D: Proportionality and support for those applying IFRS S1 and IFRS S2](#) (February 2023).
10. Paragraph 8 of [draft] IFRS S1 would require entities to apply IFRS S1 in accordance with *IFRS Sustainability Disclosure Standards*, meaning, for example, that entities would be required to apply IFRS S1 and IFRS S2 together. As explained in the Basis for Conclusions on [draft] IFRS S2, ‘entities are intended to prepare disclosures in accordance with the conceptual elements and general features set out in [draft] IFRS S1, including those related to material information, reporting entity, connected information and location of information, among others.’ These conceptual elements and general features are purposefully not included in IFRS S2. Therefore it is necessary to apply IFRS S1 at the same time as IFRS S2 because IFRS S1 provides the general requirements that support the disclosure of the climate-specific information set out in IFRS S2.
11. The ISSB further underscored the requirement to apply IFRS S1 together with IFRS S2 at the February 2023 ISSB meeting, when the ISSB decided to permit early application of IFRS S1 and IFRS S2 **only if** an entity applies both at the same time.

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## Staff analysis and recommendations

12. At the February 2023 ISSB meeting, the ISSB granted permission for the staff to begin the balloting process for IFRS S1 and IFRS S2. Since that meeting, the staff has been drafting IFRS S1 based on the tentative decisions made by the ISSB during the redeliberation period. Throughout this drafting process, stakeholders have continued to express support for the requirement to disclose information about the range of sustainability-related risks and opportunities to which an entity is exposed. However, some stakeholders observed that it will be challenging for entities to begin their sustainability reporting providing information about the full range of sustainability-related risks and opportunities in accordance with IFRS S1, especially for annual reporting periods beginning on or after 1 January 2024. Some have also noted that reporting on climate-related risks and opportunities is the highest priority at this time.
13. The staff considered the [IFRS Foundation Trustees' Feedback Statement on the Consultation Paper on Sustainability Reporting](#) (Feedback Statement, April 2021). Respondents broadly agreed that the ISSB should prioritise climate change in its standard-setting, but also emphasised climate should not be the sole focus. In response, the IFRS Foundation Trustees stated their view that the ISSB should 'prioritise work on climate-related reporting, while also working towards meeting the information needs of investors on other sustainability and ESG matters'. Therefore, there was a consensus that the ISSB should prioritise the development of climate standards while not limiting their work to climate-related information.
14. The staff considered the challenges associated with the requirement to report on the full range of sustainability-related risks and opportunities at the same time, as well as the learnings from the Feedback Statement regarding the need to prioritise work on climate-related reporting.
15. The staff thinks that an effective way to address these challenges, while balancing stakeholder feedback on climate-related reporting, would be to introduce a transition relief in IFRS S1 that would allow entities one additional year to report on sustainability-related financial information other than climate.

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***IFRS S1 transition relief: considerations***

16. Introducing such a transition relief would provide further support to those applying IFRS Sustainability Disclosure Standards and would be helpful for overall implementation efforts. An entity using this relief would:
- (a) prioritise its implementation efforts on climate-related disclosures, which is aligned with market feedback about the relative urgency of this information; and
  - (b) have more time for its overall preparation to report on the full range of sustainability-related risks and opportunities to which they are exposed as required by IFRS S1.
17. More specifically, by first applying IFRS S1 and IFRS S2 only to climate-related risks and opportunities, entities will become familiar with the concepts in IFRS Sustainability Disclosure Standards broadly. The staff thinks this will better prepare entities to apply the requirements to all sustainability-related risks and opportunities in the following year. For example, when applying IFRS S1 and IFRS S2, an entity will be required to prepare and report on climate-related information in its value chain. In doing so, the entity must develop processes, controls and procedures to gather and report on value chain-related information. Therefore, in the following year, when applying the requirements in IFRS S1 to all sustainability-related risks and opportunities, the entity will be better prepared to report on information related to its value chain. That is because the entity can leverage the processes, controls and procedures already developed for climate-related reporting.

***Staff recommendation***

18. The staff recommends the ISSB introduce a transition relief in IFRS S1 that would allow entities to report only on climate-related risks and opportunities in the first year they apply IFRS S1 and IFRS S2 and to begin reporting on their other sustainability-related risks and opportunities in the second year. Consistent with the ISSB's decision

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in February 2023, climate-related disclosures would still be required for annual reporting periods beginning on or after 1 January 2024.

19. For the first annual reporting period an entity applies IFRS S1 and IFRS S2, an entity would apply IFRS S2 in accordance with IFRS S1 only insofar as IFRS S1 relates to climate-related financial information. For the following annual reporting period, the entity would apply IFRS S1 as it relates to the entity's full range of sustainability-related risks and opportunities (ie in the following annual reporting period, the application of IFRS S1 would not be limited to climate). This recommendation would relieve entities from the need to disclose information about all sustainability-related risks and opportunities until the second year of applying the ISSB Standards.
20. For example, an entity applying IFRS S1 and IFRS S2 at their effective date, and using this transition relief, would be required to disclose:
  - (a) material information about climate-related risks and opportunities in accordance with IFRS S2 for annual reporting periods beginning on or after 1 January 2024; and
  - (b) material information about the entity's sustainability-related risks and opportunities in accordance with IFRS S1 for annual reporting periods beginning on or after 1 January 2025 (ie for the full range of sustainability-related risks and opportunities in addition to climate).
21. This one-year transition relief would **not** change the effective date of IFRS S1. IFRS S1 would remain effective for annual reporting periods beginning on or after 1 January 2024. However, the requirements in IFRS S1 (for example, the description of materiality, requirements about the qualitative characteristics of sustainability-related financial information and the requirements regarding the reporting entity and value chain) would apply only insofar as they relate to the disclosure of climate-related financial information. In addition, this transition relief would not have any implications on the application of, or requirements in, IFRS S2.

22. The staff notes that this recommendation would be a relief, and therefore would be optional rather than mandatory. Accordingly, an entity would be able to elect to not apply this relief and thus provide information on its sustainability-related risks and opportunities beyond climate when it first applies the IFRS S1 and IFRS S2.
23. Additionally, consistent with the transition reliefs the ISSB tentatively decided to provide at the February 2023 ISSB meeting, as described in [Agenda paper 3B&4A: Effective date](#), this transition relief will be available to an entity when it applies IFRS S1 for the first time, including if it applies IFRS S1 later than, or earlier than, the effective date.
24. The staff also recommends that if an entity applies this transition relief, the entity is required to disclose that fact.

## Questions for the ISSB

25. The staff presents the following questions for the ISSB.

### Questions for the ISSB

1. Do you have any comments or questions on the staff analysis and recommendations?
2. Does the ISSB agree with the staff recommendation to introduce a transition relief in IFRS S1 that would allow entities to report only on climate-related risks and opportunities in the first year they apply IFRS S1 and IFRS S2 and to begin reporting on their other sustainability-related risks and opportunities in the second year?
3. Does the ISSB agree with the staff recommendation that if an entity applies this transition relief, the entity is required to disclose that fact?