

IFRS S1 Deep-dive webinar—Transcript from 12 July 2023

Rebecca Bar:

Good morning, good afternoon, good evening everyone. Thanks for joining us for our webinar today.

On 26 June, the International Sustainability Standards Board (ISSB) published IFRS S1 and IFRS S2, the first two ISSB Standards. Welcome to the first of a two-part webinar series, introducing and explaining these inaugural IFRS Sustainability Disclosure Standards.

These Standards advance the ISSB's goal of delivering a high-quality global baseline of sustainability-related disclosures to inform investment decisions and contribute to efficient and resilient global capital markets.

I am Rebecca Bar, Director of Membership, and I'll be your MC for today's webinar. I manage the IFRS Sustainability Alliance, a membership programme with over 370 organisations—corporations, investment firms, consultants, data providers, accounting firms and others—who all share the belief in the power of building a global baseline of sustainability disclosures to meet capital market needs.

It's my pleasure to introduce my two colleagues who will be speaking in today's webinar.

Sue Lloyd is Vice-Chair of the ISSB. Previously, she served as Vice-Chair of the International Accounting Standards Board (IASB) and played a leading role in the establishment of the ISSB, beginning in 2020.

I'm also happy to introduce Bryan Esterly, the ISSB's Acting Executive Technical Director. Prior to this role, Bryan was the Chief Technical Officer for the SASB Standards at the Value Reporting Foundation.

Sue Lloyd:

Hello to everybody listening to us today. It's great to see that we have a truly global audience to match our truly global baseline today.

Over the course of this session, Bryan and I are going to give you an overview of the key features in IFRS S1, our general requirements standard.

But before we get into detail, I'm going to give you a bit of the background on the whole point of these Standards. What are we trying to achieve with these new Standards that we have just published?

At heart, it's to facilitate a good conversation or dialogue between a company and its existing and potential investors.

If we look at the investor side of the equation, we have a set of standards that are designed to result in the provision of information that enables investors to really understand how various sustainability-related risks and opportunities are going to affect the future value and prospects of a company. And for that information to be

capable of being assured, and for it to be globally comparable. So investors have the information they need that is focused and that they can rely on to inform their investment decisions.

And whether it's a company in Canada or Hong Kong or the UK, investors know the comparisons they make are valid comparisons based on the application of the company baseline. So that's the investor side of the equation.

Let's look at the company side of things. It's worthwhile for the companies as well, because this is a means for companies to explain to investors how to think about them when attracting capital. It is an opportunity to explain what the prospects of a company are and why they are a good investment possibility for an investor. It is a means of attracting capital to them. So it's all about communication from companies to investors about sustainability-related risks and opportunities.

Whenever you hear us talking about our work, you'll hear us talking about our truly global baseline of disclosures. What do we mean when we talk about that?

When you use our Standards, you'll see the provision of information that is intended to be used in a common way around the world. So, there is a common set of disclosures that has been identified as important to investors around the world.

We start with that as a way to ensure that there is comparability between entities around the world to inform investment decisions.

We work with jurisdictions and others to achieve this. One really important party in our conversations is the International Organization of Securities Commissions. They are looking at endorsing the truly global baseline that we have created, to give the signal that IFRS S1 and IFRS S2 are fit for use in global capital markets.

We work with jurisdictions around the world. We have a jurisdictional working group that includes the UK, the US, Europe, China and Japan. And we sit in that group and make sure that the global baseline we are building is truly fit for purpose all around the world.

This means companies that use our Standards in different jurisdictions have a common basis, common words, common disclosures that can be used all around the world, which creates an efficient reporting system.

But one of the particular complexities of sustainability reporting is that it is not only investors who are interested in sustainability information. Other stakeholders are also interested in sustainability information. Jurisdictions are interested, particularly in disclosures that may need to be provided by companies.

So we start with this global baseline, but then we anticipate the addition of building blocks. Incremental targets and disclosures can be added to our global baseline if it is necessary to meet a different stakeholder need. For example, the needs of employees, or public policy purposes, or a particular jurisdictional need for information that has not been provided as part of the global baseline.

By having the global base underneath, with incremental disclosures, it means we have global comparability for the base, and a system that can be used by companies across markets in a really efficient way.

On the building block approach, another important partner for us is the Global Reporting Initiative (GRI). Working with them, we hope that the combination of our global baseline, which is laser focused on meeting investor needs, alongside the GRI Standards, which are focused on broader stakeholder needs, as a package can be an efficient reporting system to allow companies to report across their stakeholders.

In March last year, the ISSB put out proposals that were the precursors to the Standards that we finalised just last week.

We were delighted when we put out our exposure drafts to find a massive amount of interest in our work around the world.

Over the 120-day consultation period, we received more than 1,400 responses in writing from stakeholders, in addition to holding an enormous amount of meetings with stakeholders around the world.

We really benefitted from understanding the global perspective on our Standards.

We had public meetings where we discussed feedback and made the decisions leading to IFRS S1. If you're interested in how we processed all your letters and feedback, and how you can get to understanding the final IFRS S1, relative to the proposals, we have a feedback statement on our website that you can look at. It gives a lot of details, in particular about how we addressed the need for small companies and companies in emerging markets to apply our Standards well.

I'm now going to hand over to Bryan, who will walk you through the details of IFRS S1.

Bryan Esterly:

It's a really exciting milestone having now issued IFRS S1 and IFRS S2. I'm going to start by sharing the key aspects in S1, then I'll move on to the specifics on the contents of the Standard.

IFRS S1, our foundational standard, sets out the overarching requirement for a company to disclose information about its sustainability-related risks and opportunities that is useful to investors in making investment decisions.

S1 requires that disclosures are part of a general purpose financial package to make sure it is connected to and can be considered alongside financial statements.

S1 also sets out general requirements for the content and presentation of sustainability-related financial information. This includes the core content for complete disclosures. Companies providing this complete set of disclosures help form the global baseline of sustainability-related financial information to meet the needs of global capital markets.

Other key aspects of S1 include how the standard applies the Task Force on Climate-related Financial Disclosures (TCFD) architecture, governance, strategy, risk management, metrics and targets—a structure already used by the many companies around the world that have implemented the TCFD recommendations.

S1 also requires industry-specific disclosures so that companies can focus on reporting that information directly connected to their business model and their business activities. This improves the usefulness of information for investors, including the comparability of disclosures across peers.

S1 establishes sources of guidance to help companies identify sustainability-related risks and opportunities and information, including metrics to disclose. For example, the SASB Standards are included as a source of guidance within S1.

Finally, it is important to note that S1 can be used in conjunction with any accounting requirements. In other words, it is GAAP agnostic. However, it should be noted that S1 did benefit from leveraging many concepts from the IFRS Accounting Standards.

IFRS S1 is made up of six sections:

1. the overall objective of the Standard.
2. the scope of the Standard and the ISSB Standards at large.
3. the conceptual foundations of sustainability-related financial information, which includes the requirements on materiality and connected information.
4. the core content disclosure requirements relating to governance, strategy, risk management, and metrics and targets.
5. the general requirements that broadly apply to ISSB Standards, including location of disclosures, timing of reporting and the statement of compliance.
6. the requirements relating to judgements, uncertainties and errors.

I will first turn to the objective component of the Standard. At the highest level, IFRS S1 sets out the overarching requirement for a company to disclose information about its sustainability-related risks and opportunities to meet the information needs of investors.

When we talk about sustainability-related risks and opportunities, we are not talking about each and every possible risk and opportunity than an entity could face.

Rather, S1 specifically asks for information on those risks and opportunities that is useful to investors. S1 describes this information as sustainability-related risks and opportunities that could reasonably be expected to affect a company's cash flows, its access to finance or cost of capital over the short, medium or long term. S1 also refers to this as the sustainability risk and opportunities that could reasonably be expected to affect a company's prospects.

This is a really important anchoring concept of S1, which helps a company narrow down to that specific subset of sustainability-related risks and opportunities.

It's important to be clear about why sustainability-related information matters to investors. IFRS S1 explains that information about sustainability-related risks and opportunities is useful to investors because a company's ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the company and its stakeholders, society, the economy and the natural environment throughout the company's value chain.

S1 discusses how a company and the resources and relationships throughout its value chain form an interdependent system in which the company operates. The company's dependencies and impacts on those resources and relationships give rise to its sustainability-related risks and opportunities.

For example, a beverage company is likely to be dependent on natural resources, such as water. As a result, the company both depends on that natural resource, water, and also impacts that natural resource, through its water withdrawals and water consumptions. It is those dependencies and impacts that can give rise to that company's sustainability-related risks and opportunities. It is very likely there is a risk, and potentially an opportunity, around water.

IFRS S1 builds on concepts from the Integrated Reporting Framework, which helps companies articulate how they rely on, use and affect different types of resources and relationships (financial, social, human, natural, and so on) to create, preserve or erode value for investors over time.

Now we will move on from the objective of IFRS S1 to the conceptual foundations. S1 sets out the conceptual foundations to support companies in reporting in accordance with the ISSB Standards.

One important function of S1 is to set out parameters for the type of information that needs to be provided in order for it to be decision-useful for investors. Specifically, the fair presentation requirements in S1 require a company to disclose relevant information about its sustainability-related risks and opportunities and to faithfully represent—provide a complete, neutral and accurate depiction of—those risks and opportunities.

Sue is going to discuss two of these conceptual foundations in further detail—materiality and connected information.

Sue Lloyd:

One of the key concepts in the ISSB Standards is the notion of materiality that we use.

The type of information we are asking for, the subject matter we are focusing on, is the information that a company needs to provide to its investors to enable them to understand the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

When it comes to the particular disclosures that need to be provided, the filter we use is this version of materiality that we borrowed from our sister board, the IASB. And the basic thing I want you to take away is that the information needs to be a big deal.

It needs to be such a big deal that if this information is missing or misstated, that error or absence could be reasonably expected to influence or change an investment decision. It needs to be such an important piece of information that its absence could have that effect. And that is a really important filter. It is a filter and concept from the IFRS Accounting Standards that has two really important consequences.

One, for anyone that has used the IFRS Accounting Standards, you benefit from understanding what this notion of materiality means. It is focused on investor needs and it is focused on this filter of 'reasonably be expected to influence decisions'. So it comes with a lot of knowledge and application and practice.

The second benefit of using this term is that it means we have a really good connection with the financial statements, because this is the same filter that's used to determine the content of financial statements.

This is reinforcing the idea that the whole role of the ISSB is meeting the needs of investors. And this materiality focus is consistent with that.

Two other quick observations on materiality before we move on to the next concept.

For those of you who are interested in other perspectives of materiality, this notion of materiality is very similar to the notion that was used as a basis for the US Securities and Exchange Commission's (US SEC) proposals on climate disclosures. There were some mandatory aspects of that and a couple of differences, but this basic idea of an investor focus is fairly aligned with the US SEC approach.

This is different to the approach in Europe. The European Sustainability Reporting Standards (ESRS) have a consciously broader focus on materiality because they are designed not just to inform investors, but to meet broader public policy and

information needs. In Europe, they are using the concept of so-called 'double materiality', because they are interested in meeting the needs of investors and the needs of a broader range of stakeholders, including business partners, employees, government organisations, while also focusing on pure impact materiality. That is a key difference. But for us, it is all about the investor information needs.

The concept of connected information is another really important concept underpinning IFRS S1.

We want the report that is provided using the ISSB Standards to be a package of information that is a really good basis for communication. And one of the things that helps with that communication is making sure there are clear connections between information. So IFRS S1 asks for information that enables investors to understand some different types of connections. Connections between different sustainability-related risks and opportunities. Connections and information about particular sustainability-related risks and opportunities. How are you governing that risk? What is your strategy? What are your metrics and targets in relation to, say, water risks or opportunities?

The other connection that is very important is the connection between the information in the sustainability disclosures that we ask for and the information that is provided in the connected financial statement as part of that general purpose financial reporting package that Bryan was talking about.

This is a really important role of the ISSB: to make sure that investors can understand the package of information that a company provides. We make these connections by requiring that the same reporting entity provides the financial statements and the associated financial disclosures on sustainability. So, if it is a consolidated set of financial statements, it is a consolidated entity that reports on sustainability risks. We ask that the information be provided at the same time as the financial statements. And we ask that wherever possible, based on the accounting requirement that the company is applying, consistent data and assumptions are used in the sustainability information and financial statements, because all too often investors say they don't understand how a company can be saying one thing about sustainability and then when you pick up the financial statements there seems to be a complete disconnect.

The other connection that is a really important part of S1 is the requirement that information be provided about the current effects in the financial statements of a company's sustainability-related risks and opportunities. That is another good example of connections.

Let's move on to the structure and content of IFRS S1, what we call the core content. For anybody who is familiar with the TCFD recommendations, when you pick up S1 you will recognise the structure and content that comes from those recommendations.

IFRS S1 states that whenever you are reporting on a sustainability-related risk and opportunity, no matter what the topic is, the information should be about how you are governing that risk and opportunity, your strategy for dealing with it, the risk management approaches and processes, and the metrics and targets that are being used to help you to monitor, manage and assess your performance against your targets. The ISSB built on the TCFD recommendations because we were given a very clear message from the market when we were established: not to start with a clean sheet of paper. There was great material out there already, and the TCFD recommendations are a great example of that. If you're already using the TCFD recommendations, you are in a great position to get started to apply the ISSB Standards.

Bryan Esterly:

I am now going to provide a short overview of the general requirements within IFRS S1.

Firstly, I want to focus on the statement of compliance. A company that complies with all the requirements in the ISSB Standards is required to make an explicit and unreserved statement of compliance. A company is able to assert compliance only if it meets all the requirements of the ISSB Standards.

IFRS S1 relieves a company from disclosing information otherwise required by an ISSB Standard if law or regulation prohibits the company from disclosing that information. The Standard also relieves a company from disclosing information about a sustainability-related opportunity if that information is commercially sensitive.

We will now move on to sources of guidance. IFRS S1 asks companies to provide material information for all sustainability-related risks and opportunities that could reasonably be expected to affect a company's prospects. IFRS S2 sets out the requirements for climate-related disclosures.

But what about the risks and opportunities beyond those relating to climate? Or other sustainability risks and opportunities aside from those that are climate related?

This is where the sources of guidance play a really important role in S1. The Standard directs companies to specific sources of guidance to support companies in the identification of risks and opportunities, and information to disclose about those risks and opportunities.

So first, when identifying which sustainability risks and opportunities a company should report on beyond climate:

- S1 says that consideration must be given to the SASB Standards, specifically the disclosure topics in the relevant SASB Standard for the industry in which the company operates.
- In addition, companies may consider other materials, specifically the CDSB Framework Application Guidance for Water- and Biodiversity-related Disclosures, industry practice and materials of other investor-focused standard setters.

Then, after a company has identified the sustainability-related risks and opportunities to provide information about, S1 supports companies in identifying the specific information to disclose.

Here, S1 says again that a company must consider the SASB Standards, specifically the metrics associated with disclosure standards of the relevant SASB Standards.

In addition, a company may consider, to the extent that it meets investors' information needs, the aforementioned CDSB Framework Application Guidance, industry practice and materials of other investor-focused standard setters, as well as the GRI Standards and the ESRS.

In summary, S1 provides guidance from day one for companies through these sources of guidance, to facilitate reporting on all sustainability-related risks and opportunities that matter to investors.

Now I'll move on to the general requirements focused on the timing and the location of disclosures, as well as the requirements for comparative information.

On the timing of reporting, IFRS S1 requires that the sustainability-related financial disclosures are published at the same time as the financial statements and for the same reporting period as the financial statements.

As a result, sustainability-related financial information is provided to investors on a timely basis and in a manner that can help investors understand the connections with financial statements.

However, we are aware that getting ready for this reporting is something companies likely need more time to prepare for—so there is a specified relief granted to companies in the first year of reporting to ISSB Standards.

Turning to the location of reporting, IFRS S1 requires disclosures to be provided as part of the same reporting package as financial statements. However, S1 does not dictate where that reporting package is provided. Furthermore, S1 acknowledges that a company may issue multiple reports, which form this reporting package. S1 does not require disclosures in any one specified document, because the focus is on the overall package of information that a company provides to investors.

This is really important given that the ISSB Standards are designed to be used around the world, and it thus facilitates jurisdiction-specific requirements on the location of reporting.

S1 also allows a company to provide additional information on sustainability-related matters beyond what is required by the ISSB Standards—especially in order to meet jurisdictional law or regulation—but only if that additional information does not obscure material information required by the ISSB Standards.

Moving on to comparatives, companies are required to disclose comparative information for all amounts disclosed in the current reporting period, unless another ISSB Standard permits or requires otherwise. This requirement for comparative information is broadly consistent with financial reporting. However, comparative information need not be provided in the first year a company applies the ISSB Standards. This is one of many reliefs granted in S1, particularly in the first year of reporting.

Sue Lloyd:

One of the very important pieces of feedback the ISSB received consistently in the 1,400 comment letters to our proposals last year was that, because this is such a big change in reporting for many companies, guidance is needed.

When you pick up IFRS S1 you should see that we responded to that request, and there are different types of guidance included in S1.

The first type of guidance is Application Guidance, which is set out in an appendix to IFRS S1 and must be followed when you apply the Standard. This guidance provides some extra detail on key aspects of the application of our Standards. So, for example, there is some guidance here on how to identify which sustainability risks and opportunities to report on, how to identify what is material information, and short examples on types of connected information that you might need to think about to pull the report together.

In contrast, the accompanying guidance which we call Illustrative Guidance is included as helpful background material. You don't have to do what is set out in the Illustrative Guidance, but it is there to try to assist you. It includes, for example, guidance on how you might think about identifying some different sustainability risks and opportunities beyond climate using the SASB Standards.

Perhaps the biggest piece of feedback in response to the proposals last year was that we needed to be really aware that for many companies, this is a huge change in reporting. People needed time to get used to it, and we needed to cater to different circumstances. So we needed to address what we call proportionality, to make sure this is a truly global baseline, a set of standards that is used not just by the world's largest and well-resourced companies in well-developed economies but also by smaller companies and companies in emerging markets. We really tried to take that to heart when finalising our Standards, and that is reflected in a number of ways.

Firstly, when we could, we used well-known terminology and concepts. Quite a lot of the terminology and concepts in our Standards—such as materiality—have been borrowed from the IFRS Accounting Standards, which are familiar to many of our stakeholders.

We also did a lot to address proportionality. So, in many places in IFRS S1 and IFRS S2, we refer to this notion of a company being required to use information that is available to them without undue cost or effort. This is to make sure that those who are newer to sustainability reporting, those who have less resources and expertise, face a less onerous request in terms of the information that they must gather to apply our Standards. We need to make sure the information is a reasonable and supportable set of information, but we are not asking you to search exhaustively. And we want to make sure there is difference between what we ask of well-resourced companies and those with fewer resources.

This is reflected in several places in our Standards, where we state that the skills, capabilities and resources of the company writing the report are taken into consideration. That may require qualitative rather than quantitative information to be provided in a number of cases.

Bryan already mentioned that we refer to third-party materials, such as the SASB Standards, and that we built on the TCFD recommendations—materials that companies are already familiar with and may already be using, which can be used as a basis to begin your ISSB reporting.

The last area that we've provided help with is in relation to transition reliefs. In the first year that you use our Standards, we have included a number of reliefs to help you get started. The first one—and probably the most important one to be aware of—is that in the first year that you use S1 and S2, you are only required to report on your climate-related risks and opportunities. So even though ultimately, as Bryan explained so well, S1 requires a company to report on all of its sustainability risks and information of interest to its investors, in the first year companies only need to report on climate, even using S1. That's to give people time to get used to the concepts and ideas in our Standards, to get started on their ISSB sustainability reporting.

Also, even though we ultimately ask that the information in the sustainability report be provided at the same time as the financial statement, in the first year—to give companies time to get ready—we allow that information to be provided later. So in the first year, when you provide your annual sustainability reporting using our Standards, that annual information can be provided with the following half-year reporting package. There are also reliefs in the first year from providing comparative information. These reliefs are all designed to help people get started on their reporting journey.

Let's talk about when we ask you to start using our Standards. The great news is they are available for use straight away. And we've designed IFRS S1 and IFRS S2 to be used in a proportionate way, so companies can start with a less complicated approach and then improve the way they use the Standards over time—becoming more comprehensive in the information they collect, for example.

And because we have those proportionality exemptions in the Standards, because we have those initial transition reliefs in the first year that you use our Standards, we ask companies to start using our Standards from next year.

We think that is possible because of the approach we have taken in the initial application of our Standards. We also think it is really important for companies to get started. The best way to learn is to apply our Standards. By starting with climate information first, where we have the greatest investor demand, and with CDP, the important platform for sustainability information, asking companies to provide information using IFRS S2 for their 2024 and 2025 reporting, our Standards have been designed to support an early start on the sustainability reporting journey.

Having said all of that, even though IFRS S1 and IFRS S2 are available for use now, and even though we think it is possible for companies to use these Standards for 2024 reporting onwards, if you are waiting to hear what a jurisdiction requires you to do, as opposed to what you choose of your own free will, different decisions will be made from a jurisdictional perspective in terms of the mandatory date of application of our Standards around the world. That is a conversation that will be unfolding over time.

We have hopefully given you a good taster of IFRS S1. If you want to find out more, including reading S1 and S2, that's all available along with other materials on our website: [ifrs.org](https://www.ifrs.org).