ISSB’S SUSTAINABILITY STANDARDS 1 AND 2: Understanding their Requirements and Implications for Corporate Reporting

PRESENTED BY MS SENA DAKE [PRESIDENT OF ICAG]

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Outline

- Introduction
- Sustainability Development Goals [SDGs]
- IFAC and SDGs
- Sustainability Reporting Frameworks
- International Sustainability Standards Board [ISSB]
- Understanding the Requirements of IFRS S1 and IFRS S2
- The Implications of IFRS S1 and IFRS S2 on corporate reporting
- Conclusion

INTRODUCTION

Definition

- In the broadest sense, sustainability refers to the ability to maintain or support a process continuously over time.
- In business and policy contexts, sustainability seeks to prevent the depletion of financial, natural or physical resources, so that they will remain available for the long term.

- Sustainability is often broken into three core concepts:
  - economic,
  - environmental, and
  - social.
- Many businesses and governments have committed to sustainable goals, such as reducing their environmental footprints and conserving resources.
- Some investors are actively embracing sustainability investments, known as "green investments."

What is Sustainability Reporting

- Sustainability reporting is a way of disclosing how a company impacts the environment, society, and governance (ESG) and what it does to improve them;
- It helps stakeholders make informed decisions, builds trust and reputation, and fosters innovation and risk management for the company.

- Some of the **common topics** covered in sustainability reports are greenhouse gas emissions, energy use, water consumption, waste management, human rights, diversity and inclusion, and anti-corruption.
- Sustainability reporting is not mandatory in most countries, but it is becoming more expected and encouraged by investors, regulators, customers, and civil society.
- Sustainability reporting can also create value for the company by identifying opportunities for cost savings, efficiency gains, product innovation, and stakeholder engagement

SUSTAINABILITY DEVELOPMENT GOALS [SDGs]

- On 25 September 2015, the 193 countries of the UN General Assembly adopted the 2030 development agenda for Sustainable Development.

GOAL	OBJECTIVE	DESCRIPTION
Goal 1	No Poverty	By 2030, eradicate extreme poverty for all people everywhere
Goal 2	Zero Hunger	End hunger, achieve food security and improved nutrition by 2030
Goal 3	Good Health and Well-being	Ensure healthy lives and promote well-being for all at all ages by 2030.
Goal 4	Quality Education	Ensure that all girls and boys complete free, equitable and quality primary and secondary education by 2030.
Goal 5	Gender Equality	To achieve gender equality and empower all women and girls.

Goal 6	Clean Water and Sanitation	Ensure availability and sustainable management of water and sanitation for all by 2030.
Goal 7	Affordable and Clean Energy	Ensure access to affordable, reliable, sustainable and modern energy for all by 2030.
Goal 8	Decent Work and Economic Growth	Promote sustained, inclusive and sustainable economic growth.
Goal 9	Industry, Innovation and Infrastructure	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation by 2030
Goal 10	Reduced Inequality	Reduce inequality within and among countries by 2030

Goal 11	Sustainable Cities and Communities	Make cities and human settlements inclusive, safe, resilient and sustainable.
Goal 12	Responsible Consumption and Production	Ensure sustainable consumption and production patterns.
Goal 13	Climate Action	Take urgent action to combat climate change and its impacts.
Goal 14	Life below Water	Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

Goal 15	Life on Land	Protect, restore and promote sustainable use of terrestrial ecosystems, combat desertification and halt biodiversity loss
Goal 16	Peace and Justice Strong Institutions	Promote peaceful and inclusive societies for sustainable development; provide access to justice for all.
Goal 17	Partnerships to achieve the Goal	Strengthen the means of implementation and revitalize the global partnership for sustainable development.

- So the above mentioned sustainable development goals (SDGs) are covering almost every aspect of the human life.
- If these goals are achieved within the stipulated time, it’s sure that the life of poor throughout the world will be easier.

IFAC and SDGs

- According to IFAC, the accountancy profession can contribute to achieving the SDGs by:
  - Providing reliable and relevant information for decision-making and accountability
  - Enhancing transparency and trust in financial and non-financial reporting
  - Supporting effective governance and risk management
  - Promoting ethical and professional standards
  - Developing capacity and capabilities of accountants and auditors
  - Engaging in partnerships and collaborations with stakeholders

- IFAC also recommends that organizations disclose their contributions to the SDGs in a consistent and comparable way, using the **Sustainable Development Goals Disclosure (SDGD) Recommendations**
- These recommendations provide guidance on how to integrate the SDGs into strategy, governance, stakeholder engagement, and reporting.

SUSTAINABILITY REPORTING FRAMEWORKS

- As sustainability has come sharply into focus, various Environment, Social and Governance [ESG] reporting frameworks have emerged.
- These include:
  - Global Reporting Initiative [GRI] Framework
  - Task Force on Climate-related Financial Disclosures[TFCFD] Framework
  - Global Real Estate Sustainability Benchmarks [GRESB] Framework
  - Sustainability Accounting Standards Board[SASB] Framework.
  - Carbon Disclosure Project[CPD] Framework

- GRI (**Global Reporting Initiative)** is the independent, international organization that helps businesses and other organizations to take responsibility for their impacts, by providing them with the global standards

- TFCFD [Task Force on Climate-related Financial Disclosures,]
- Financial markets need clear, comprehensive, high-quality information on the impacts of climate change.
- This includes the risks and opportunities presented by rising temperatures, climate-related policy, and emerging technologies in our changing world.
- The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to help improve and increase reporting of climate-related financial information.

- GRESB[Global Real Estate Sustainability Benchmarks] is the global standard for portfolio-level ESG reporting in the real estate sector.
- GRESB's goal is straightforward – to help real estate investors assess the ESG (environmental, social, governance) performance of their commercial real estate portfolios.

- SASB[Sustainability Accounting Standards Board].
- The SASB Conceptual Framework sets out the basic concepts, principles, definitions, and objectives that guide SASB in its approach to setting standards for sustainability accounting; it provides an overview of sustainability accounting, describing its objectives and audience.

- CDP [Carbon Disclosure Project,]
- CDP is a not-for-profit charity that provides a global disclosure system for investors, companies, cities, states, and regions to disclose their environmental impact.
- Companies have to answer an annual questionnaire about their environmental impact and actions taken to reduce them.
- The CDP questionnaire is mainly used by investors and corporate clients to evaluate the risk of climate change-related issues for a company
- The CDP collects data on companies’ environmental practices and performance, which serves as a reporting standard on environmental topics.
- CDP gives a score that confers a total ESG rating for the subjected enterprises to assess their environmental impact.

INTERNATIONAL SUSTAINABILITY STANDARDS BOARD [ISSB]

- As the global voice of the accountancy profession, IFAC has supported the establishment of the **International Sustainability Standards Board** (ISSB) to develop a comprehensive global baseline of sustainability disclosures for investors and capital markets, endorsed by IOSCO and implemented around the world.
- A new standard-setter on the scene, the ISSB was conceived by the International Financial Reporting Standards (IFRS) Foundation in response to a global consultation in 2020
- It confirmed the growing and urgent demand among investors and key stakeholders for a consistent, international set of sustainability reporting standards and disclosures.

- The International Sustainability Standards Board (ISSB) was finally established in November 2021 at the UN Climate Change Conference (COP 26) –[held in Glasgow] to deliver a global baseline of sustainability disclosures that meet capital market needs.
- ISSB has_pledged to enhance interoperability with other international and jurisdictional sustainability-related standards to better support adoption.
- This is good news for businesses using existing frameworks—they'll be better positioned to align with the new ISSB standards.

- While various frameworks, principles, and standards already exist for organizations to voluntarily report on sustainability-related information, the reporting landscape is fragmented and inconsistent—to the extent that it prevents clear, concise comparisons across the global landscape.
- By working with stakeholders from existing disclosure frameworks, and international government and corporate representatives, the ISSB’s global baseline addresses the information gap and concerns around the reliability, usefulness, and comparability of sustainability disclosures.

Membership

- The ISSB has 14 members.
- Most Board members are full-time, so that they commit all of their time to paid employment as ISSB members.
- A minority of the members can be part-time, but they are expected to spend most of their time on ISSB activities.
- All members of the ISSB are required to commit themselves formally to acting in the public interest in all matters.

- Up to three members are appointed from each of Asia-Oceania, Europe and the Americas and one member from Africa (currently, **Dr (Mrs) Ndidi Nnoli-Edozien** from Nigeria).
- Four additional members can be appointed from any area, subject to maintaining overall geographical balance

- Members are selected to ensure that at all times the ISSB has the best available combination of technical expertise and diversity of international business and market experience to develop high quality, global sustainability reporting standards.
- Members include people who have experience as auditors, preparers, users, academics and market and/or financial regulators.
- Collectively, ISSB members are expected to demonstrate expert knowledge, relevant industry expertise in sustainability reporting and share practical, relevant and up-to-date experience of sustainability reporting so that the ISSB as a group can contribute to the development of high-quality, global sustainability disclosure standards

- The maximum term is 10 years—an initial term of five years and a second term of three to five years (five years for the Chair and Vice-Chairs)
- The ISSB meets in public to discuss technical matters, usually each month except August

Due process

- The transparent due process practices of the IFRS Foundation were a critical factor in stakeholders' support for establishing the ISSB under the IFRS Foundation, and stakeholders noted that the ISSB's due process should largely be based on that of the IASB, but not necessarily identical.
- However, the IFRS Foundation has stated that the ISSB would need to be clear about the reason for any differences.

- Until such time as the IFRS Foundation’s Due Process Handbook is revised to reflect the process and practices of the ISSB, its due process is expected to reflect the same principles as those of the IASB:
    - Agenda Setting
    - Project Planning
    - Discussion Paper and Public Consultation
    - Exposure Draft and Public Consultation
    - Issuance of Standard
    - Post Adoption Monitoring

Consultative bodies

- The ISSB will draw upon expertise from several advisory groups.
- Technical advice on sustainability matters is provided to the ISSB by the new Sustainability Consultative Committee, whose members include the International Monetary Fund, the Organisation for Economic Co-operation and Development, the United Nations, the World Bank and additional expert members drawn from public, private and non-governmental organisations.
- The remit and expertise of the IFRS Advisory Council will be extended to provide strategic sustainability-related advice and counsel to the ISSB, as well as the Trustees and the IASB.

- Finally, the Trustees have formed a working group to create a mechanism for formal engagement on standard-setting between the ISSB and jurisdictional representatives, including from emerging markets (similar to the Accounting Standards Advisory Forum, which fulfils this role for the IASB).
- The announcement of the ISSB also included a commitment by the leading international sustainability standard-setters;Climate Disclosure Standards Board (CDSB) and Value Reporting Foundation (VRF) to consolidate into the IFRS Foundation. These consolidations have now been completed.

- The IFRS Foundation intends to leverage the existing CDSB and VRF advisory groups, which include investors and other experts who have demonstrated long-standing support for improved sustainability disclosure.
- As well, the World Economic Forum's private sector coalition will be engaged.
- The IFRS Foundation also intends to use the International Integrated Reporting Council, which is a body of VRF, to provide advice on establishing connectivity between the work of the IASB and the ISSB via the fundamental concepts and guiding principles of integrated reporting.

- On 26th June 2023, ISSB issued 2 inaugural standards
  - IFRS S1
  - IFRS S2

Transition Implementation Group

- Yesterday, 14th September 2023, the ISSB announced the members of its TIG on IFRS 1 and IFRS 2.
- The TIG has been established to support implementation of IFRS S1 and IFRS S2 with the objective of providing a public forum for any stakeholder to share implementation questions with the ISSB and to follow the discussion of those questions.
- The TIG consists of 17 members, of which 13 are preparers and Four are assurance providers, and additionally includes official observers.

- The members have been appointed based on their deep technical expertise in sustainability and /or financial reporting.
- Membership reflects strong global participation, with representation from the following jurisdictions: Australia, Belgium, Brazil, , Canada, China, Finland, Germany, Hong Kong SAR, Japan, Malaysia, **NIGERIA[Igazeuma OKOROBA –Head of Sustainability , Dangote Cement Plc],** South Africa, South Korea, United Kingdom, and USA.
- The TIG will not issue any authoritative guidance , but the IFRS Foundation will publish summaries and recordings from meetings on those meeting webpages

IFRS S1 — GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION

Overview

- IFRS S1 sets out overall requirements with the objective to require an entity to disclose pieces of information about its sustainability-related risks and opportunities that are useful to the primary users of general purpose financial reports in making decisions relating to providing resources to the entity.
- IFRS S1 was issued in June 2023 and applies to annual reporting periods beginning on or after 1 January 2024.

March 2021	**Technical Readiness Working Group (TRWG) created**
November 2021	General requirements for disclosure of sustainability-related financial information prototype published
31 March 2022	ED/2022/S1 General Requirements for Disclosure of Sustainability-Related Financial Information published
26 June 2023	IFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information published

Objective

- The objective of IFRS S1 is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to the primary users of GPFRs in making decisions relating to providing resources to the entity. [IFRS S1:1]
- Information about sustainability-related risks and opportunities is useful to primary users because an entity's ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment through-out the entity's value chain.

- IFRS S1 requires an entity to disclose information about **all** sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. [IFRS S1:3]
- IFRS S1 prescribes how an entity prepares and reports its sustainability-related financial disclosures.
- It sets out general requirements for the content and presentation of those disclo-sures so that the information disclosed is useful to primary users in making decisions about providing resources to the entity. [IFRS S1:4]
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Conceptual foundations

- For sustainability-related financial information to be useful, it must be relevant and faithfully represent what it purports to represent.
- The usefulness of sustainability-related financial information is enhanced if the information is comparable, verifiable, timely and un-derstandable. [IFRS S1:10]

Fair presentation

- A complete set of sustainability-related financial disclosures presents fairly all sustainability-related risks and opportunities that could reasonably be expected to affect an entity’s prospects. [IFRS S1:11]
- Fair presentation requires disclosure of relevant information about sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects, and their faithful representation in accordance with the principles set out in IFRS S1.
- To achieve faithful representation, an entity is required to provide a complete, neutral and accurate depiction of those sustainability-related risks and opportunities. [IFRS S1:13]

- Fair presentation also requires an entity: [IFRS S1:15]
  - (a) to disclose information that is comparable, verifiable, timely and understand-able; and
  - (b) to discloses additional information if compliance with the specifically applic-able requirements in IFRS Sustainability Disclosure Standards is insufficient to enable users of general purpose financial reports to understand the effects of sustainability-related risks and opportunities on the entity’s cash flows, its access to finance and cost of capital over the short, medium and long term
- Applying IFRS Sustainability Disclosure Standards, with additional information disclosed when necessary, is presumed to result in sustainability-related financial disclosures that achieve fair presentation. [IFRS S1:16]

Materiality

- An entity is required to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. [IFRS S1:17]
- In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity. [IFRS S1:18]

- When an entity applies IFRS Sustainability Disclosure Standards, it is required to consider all facts and circumstances and decide how to aggregate and disaggregate information in its sustainability-related financial disclosures.
- The entity is not permitted to reduce the understandability of its sustainability-related financial disclosures by obscuring material information with immaterial information or by aggregating material items of information that are dissimilar to each other. [IFRS S1:B29]
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- Law or regulation might specify requirements for an entity to disclose sustainability-related information in its general purpose financial reports. In such circumstances, the entity is permitted to include in its sustainability-related financial disclosures information to meet legal or regulatory requirements, even if that information is not material. However, such information should not obscure material information. [IFRS S1:B31]
- If an entity determines that information about a sustainability-related opportunity is commercially sensitive, the entity is permitted in limited circumstances to omit that information from its sustainability-related financial disclosures. Such an omission is permitted even if information is otherwise required by an IFRS Sustainability Disclosure Standard and the information is material. [IFRS S1:B34]
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Reporting entity and connected information

- An entity’s sustainability-related financial disclosures are required to be for the same reporting entity as the related financial statements. [IFRS S1:20]
- An entity is required to provide information in a manner that enables users of general purpose financial reports to understand the following types of connections: [IFRS S1:21]

- (a) the connections between the items to which the information relates—such as connections between various sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects; and
- (b) the connections between disclosures provided by the entity:
  - (i) within its sustainability-related financial disclosures—such as connections between disclosures on governance, strategy, risk management and metrics and targets; and
  - (ii) across its sustainability-related financial disclosures and other general purpose financial reports published by the entity—such as its related financial statements.

- An entity is required to identify the financial statements to which the sustainability-related financial disclosures relate. [IFRS S1:22]
- Data and assumptions used in preparing the sustainability-related financial disclosures are required to be consistent—to the extent possible considering the requirements of IFRS Accounting Standards or other applicable GAAP—with the corresponding data and assumptions used in preparing the related financial statements [IFRS S1:23]
- When currency is specified as the unit of measure in the sustainability-related financial disclosures, the entity is required to use the presentation currency of its related financial statements. [IFRS S1:24]

Core content

- Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise in specified circumstances, an entity is required to provide disclosures about: [IFRS S1:25]
  - (**a) governance**—the governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities;
  - **(b) strategy**—the approach the entity uses to manage sustainability-related risks and opportuni-ties;
  - **(c) risk management**—the processes the entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities; and
  - **(d) metrics and targets**—the entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set, or is required to meet by law or regulation.
- IFRS S2 sets out objectives for each of these aspects, and disclosure requirements to achieve those objectives.

Sources of guidance: Identifying sustainability-related risks and opportunities

- In identifying sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects, an entity **is required to** apply IFRS Sustainability Disclosure Standards [IFRS S1:54]
- In addition to IFRS Sustainability Disclosure Standards: [IFRS S1:55]
- (a) an entity **is required to** refer to and consider the applicability of the disclosure topics in the SASB Standards; and
- (b) an entity **may** refer to and consider the applicability of:
  - (i) the CDSB Framework Application Guidance for Water- and Biodiversity-related Disclosures;
  - (ii) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general purpose financial reports; and
  - (iii) the sustainability-related risks and opportunities identified by entities that operate in the same industry(s) or geographical region(s).
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- (c) may—to the extent that these sources assist the entity in meeting the objective of IFRS S1 and do not conflict with IFRS Sustainability Disclosure Standards—refer to and consider the applicability of the Global Reporting Initiative (GRI) Standards and the European Sustain-ability Reporting Standards (ESRS)

- An entity is required to identify: [IFRS S1:59]
  - (a) the specific standards, pronouncements, industry practice and other sources of guidance that the entity has applied in preparing its sustainability-related financial disclosures, including, if applicable, identifying the disclosure topics in the SASB Standards; and
  - (b) the industry(s) specified in the IFRS Sustainability Disclosure Standards, the SASB Standards or other sources of guidance relating to a particular industry(s) that the entity has applied in preparing its sustainability-related financial disclosures, including in identifying applicable metrics.

Location of disclosures and timing of reporting

- An entity is required to provide disclosures required by IFRS Sustainability Disclosure Standards **as part of its general purpose financial reports**. [IFRS S1:60]
- Subject to any regulation or other requirements that apply to an entity, there are various possible locations in its general purpose financial reports in which to disclose sustainability-related financial information.
- Sustainability-related financial disclosures could be included in an entity's management commentary or a similar report when it forms part of an entity's general purpose financial reports.

- Management commentary or a similar report is a required report in many jurisdictions. It might be known by or included in reports with various names, such as ‘management report’, ‘management’s discussion and analysis’, ‘operating and financial review’, ‘integrated report’ or ‘strategic report’. [IFRS S1:61]
- An entity is required to report its sustainability-related financial disclosures at the same time as its related financial statements.
- The entity’s sustainability-related financial disclosures are required to cover the same reporting period as the related financial statements. [IFRS S1:64]
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Comparative information

- Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise, an entity is required to disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period.
- If such information would be useful for an understanding of the sustainability-related financial disclosures for the reporting period, the entity is also required to disclose comparative information for narrative and descriptive sustainability-related financial information. [IFRS S1:70]
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Statement of compliance

- An entity whose sustainability-related financial disclosures comply with all the requirements of IFRS Sustainability Disclosure Standards is required to make an explicit and unreserved statement of compliance.
- An entity is not permitted to describe sustainability-related financial disclosures as complying with IFRS Sustainability Disclosure Standards unless they comply with all the requirements of IFRS Sustainability Disclosure Standards. [IFRS S1:72]

Judgements, uncertainties and errors

- An entity is required to disclose information to enable users of general purpose financial reports to understand the judgements, apart from those involving estimations of amounts, that the entity has made in the process of preparing its sustainability-related financial disclosures and that have the most significant effect on the information included in those disclosures. [IFRS S1:74]
- In addition, an entity is required to disclose information to enable users of general purpose financial reports to understand the most significant uncertainties affecting the amounts reported in its sustainability-related financial disclosures. [IFRS S1:77]

- An entity is required to: [IFRS S1:78]
- (a) identify the amounts that it has disclosed and that are subject to a high level of measurement uncertainty; and
- (b) in relation to each amount identified, disclose information about:
  - (i) the sources of measurement uncertainty—for example, the dependence of the amount on the outcome of a future event, on a measurement technique or on the availability and quality of data from the entity's value chain; and
  - (ii) the assumptions, approximations and judgements the entity has made in measuring the amount.
- Furthermore, an entity is required to correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed unless it is impracticable to do so. [IFRS S1:83]

Effective date and transition

- An entity is required to apply IFRS S1 for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If an entity applies IFRS S1 earlier, it is required to disclose that fact and apply IFRS S2 at the same time. [IFRS S1:E1]
- An entity is not required to provide the disclosures specified in IFRS S1 for any period before the beginning of the annual reporting period in which an entity first applies IFRS S1. Accordingly, an entity is not required to disclose comparative information in the first annual reporting period in which it applies IFRS S1. [IFRS S1:E3]

- In the first annual reporting period in which an entity applies IFRS S1, the entity is permitted to report its sustainability-related financial disclosures after it publishes its related financial statements. In applying this transition relief, an entity is required to report its sustainability-related financial disclosures: [IFRS S1:E4]
  - (a) at the same time as its next second-quarter or half-year interim general purpose financial report, if the entity is required to provide such an interim report;
  - (b) at the same time as its next second-quarter or half-year interim general purpose financial report, but within nine months of the end of the annual reporting period in which the entity first applies IFRS S1, if the entity voluntarily provides such an interim report; and
  - (c) within nine months of the end of the annual reporting period in which the entity first applies IFRS S1, if the entity is not required to and does not voluntarily provide an interim general purpose financial report;

- In the first annual reporting period in which an entity applies IFRS S1, the entity is permitted to disclose information on only climate-related risks and opportunities (in accordance with IFRS S2) and consequently apply the requirements in IFRS S1 only insofar as they relate to the disclosure of information on climate-related risks and opportunities. If an entity uses this transition relief, it is required to disclose that fact. [IFRS S1:E5]

- If an entity uses that transition relief: [IFRS S1:E6]
  - (a) in the first annual reporting period in which the entity applies IFRS S1, it is not required to disclose comparative information about its climate-related risks and opportunities; and
  - (b) in the second annual reporting period in which the entity applies IFRS S1, it is not required to disclose comparative information about its sustainability-related risks and opportunities, other than its climate-related risks and opportunities.

IFRS S2 — CLIMATE-RELATED DISCLOSURES

Overview

- IFRS S2 sets out the requirements for identifying, measuring and disclosing information about climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.
- IFRS S2 was issued in June 2023 and applies to annual reporting periods beginning on or after 1 January 2024.

Date	Development	Comments
March 2021	Technical Readiness Working Group (TRWG) created	
November 2021	Climate-related disclosures prototype published	
31 March 2022	ED/2022/S2 Climate-related Disclo-sures published	Comments requested by 29 July 2022
26 June 2023	IFRS S2 Climate-related Disclo-sures published	Applies to annual reporting periods beginning on or after 1 January 2024

Objective

- The objective of IFRS S2 is to require an entity to disclose information about its climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity. [IFRS S2:1]
- These are climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. [IFRS S2:2]

Scope

- IFRS S2 applies to: [IFRS S2:3]
  - (a) climate-related risks to which the entity is exposed, which are:
    - (i) climate-related physical risks; and
    - (ii) climate-related transition risks; and
  - (b) climate-related opportunities available to the entity.
- Climate-related risks and opportunities that could not reasonably be expected to affect an entity’s prospects are outside the scope of IFRS S2. [IFRS S2:4]

Governance

- The objective of climate-related financial disclosures on governance is to enable users of GPFR to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities. [IFRS S2:5]
- To achieve this objective, an entity is required to disclose information about the governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of climate-related risks and opportunities. Specifically, the entity is required to identify the body(s) or individual(s). [IFRS S2:6(a)]
- An entity is also required to disclose information about management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities. [IFRS S2:6(b)]

Strategy

- The objective of climate-related financial disclosures on strategy is to enable users of general purpose financial reports to understand an entity's strategy for managing climate-related risks and opportunities. [IFRS S2:8]
- Specifically, an entity is required to disclose information to enable users of general purpose financial reports to understand: [IFRS S2:9]
  - (a) the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects;
  - (b) the current and anticipated effects of those climate-related risks and opportunities on the entity's business model and value chain;

- (c) the effects of those climate-related risks and opportunities on the entity’s strategy and decision-making, including information about its climate-related transition plan;
- (d) the effects of those climate-related risks and opportunities on the entity’s financial position, financial performance and cash flows for the reporting period, and their anticipated effects on the entity’s financial position, financial performance and cash flows over the short, medium and long term taking into consideration how those climate-related risks and opportunities have been factored into the entity’s financial planning; and
- (e) the climate resilience of the entity’s strategy and its business model to climate-related changes, developments and uncertainties—taking into consideration the entity’s identified climate-related risks and opportunities.

Risk management

- The objective of climate-related financial disclosures on risk management is to enable users of GPFR to understand an entity's processes to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process.[IFRS S2:24]
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- To achieve this objective, an entity is required to disclose information about: [IFRS S2:25]
- (a) the processes and related policies the entity uses to identify, assess, prioritise and monitor climate-related risks, including information about:
  - (i) the inputs and parameters the entity uses (for example, information about data sources and the scope of operations covered in the processes);
  - (ii) whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related risks;
  - (iii) how the entity assesses the nature, likelihood and magnitude of the effects of those risks (for example, whether the entity considers qualitative factors, quantitative thresholds or other criteria);
  - (iv) whether and how the entity prioritises climate-related risks relative to other types of risk;
  - (v) how the entity monitors climate-related risks; and
  - (vi) whether and how the entity has changed the processes it uses compared with the previous reporting period.

- (b) the processes the entity uses to identify, assess, prioritise and monitor climate-related opportunities, including information about whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related opportunities; and
- (c) the extent to which, and how, the processes for identifying, assessing, prioritising and monitoring climate-related risks and opportunities are integrated into and inform the entity's overall risk management process.

Metrics and targets

- The objective of climate-related financial disclosures on metrics and targets is to enable users of GPFR to understand an entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation. [IFRS S2:27]
- To achieve this objective, an entity is required to disclose: [IFRS S2:28]
  - (a) information relevant to the cross-industry metric categories;
  - (b) industry-based metrics that are associated with particular business models, activities or other common features that characterise participation in an industry; and
  - (c) targets set by the entity, and any targets it is required to meet by law or regulation, to mitigate or adapt to climate-related risks or take advantage of climate-related opportunities, including metrics used by the governance body or management to measure progress towards these targets

Climate-related metrics and targets

- An entity is required to disclose information relevant to the cross-industry metric categories of: [IFRS S2:29]
  - (a) greenhouse gases;
  - (b)climate-related transition risks;
  - (c) climate-related physical risks;
  - (d) climate-related opportunities;
  - (e) capital deployment;
  - (f) internal carbon prices; and
  - (g) remuneration.

- **(a)climate-related green house gases**- the entity is required to:
  - (i) disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of CO2 equivalent, classified as scope 1, 2 and 3 greenhouse gas emissions;
    (ii) measure its greenhouse gas emissions in accordance with the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)* unless required by a jurisdictional authority or an exchange on which the entity is listed to use a different method for measuring its greenhouse gas emissions;

- (iii) disclose the approach it uses to measure its greenhouse gas emissions including:
  - (1) the measurement approach, inputs and assumptions the entity uses to measure its greenhouse gas emissions;
  - (2) the reason why the entity has chosen the measurement approach, inputs and assumptions it uses to measure its greenhouse gas emissions; and
  - (3) any changes the entity made to the measurement approach, inputs and assumptions during the reporting period and the reasons for those changes.

- (iv) for Scope 1 and Scope 2 greenhouse gas emissions, disaggregate emissions between:
  - (1) the consolidated accounting group (for example, for an entity applying IFRS Accounting Standards, this group would comprise the parent and its consolidated subsidiaries); and
  - (2) other investees excluded from the consolidated accounting group (for example, for an entity applying IFRS Accounting Standards, these investees would include associates, joint ventures and unconsolidated subsidiaries .
- (v) for Scope 2 greenhouse gas emissions, disclose its location-based Scope 2 greenhouse gas emissions, and provide information about any contractual instruments that is necessary to inform users' understanding of the entity's Scope 2 greenhouse gas emissions; and

- (vi) for Scope 3 greenhouse gas emissions, disclose:
  - (1) the categories included within the entity's measure of Scope 3 greenhouse gas emissions, in accordance with the Scope 3 categories described in the *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011)*; and
  - (2) additional information about the entity's Category 15 greenhouse gas emissions or those associated with its investments (financed emissions), if the entity's activities include asset management, commercial banking or insurance;
- (b) **climate-related transition risks**—the amount and percentage of assets or business activities vulnerable to climate-related transition risks;
- (c) **climate-related physical risks**—the amount and percentage of assets or business activities vulnerable to climate-related physical risks;

- (d**) climate-related opportunities**—the amount and percentage of assets or business activities aligned with climate-related opportunities;
- (e**) capital deployment**—the amount of capital expenditure, financing or invest-ment deployed towards climate-related risks and opportunities;
- **(f) internal carbon prices**—the entity is required to disclose:
  - (i) an explanation of whether and how the entity is applying a carbon price in decision-making (for example, investment decisions, transfer pricing and scenario analysis); and
  - (ii) the price for each metric tonne of greenhouse gas emissions the entity uses to assess the costs of its greenhouse gas emission; and

- **(g) remuneration**—the entity is required to disclose:
  - (i) a description of whether and how climate-related considerations are factored into executive remuneration; and
  - (ii) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations.

- In addition, an entity is required to disclose the quantitative and qualitative climate-related targets it has set to monitor progress towards achieving its strategic goals, and any targets it is required to meet by law or regulation, including any greenhouse gas emissions targets. For each target, the entity is required to disclose: [IFRS S2:33]
  - the metric used to set the target;
  - the objective of the target (for example, mitigation, adaptation or conformance with science-based initiatives);
  - the part of the entity to which the target applies (for example, whether the target applies to the entity in its entirety or only a part of the entity, such as a specific business unit or specific geographical region);

- the period over which the target applies;
- the base period from which progress is measured;
- any milestones and interim targets;
- if the target is quantitative, whether it is an absolute target or an intensity target; and
- how the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement, has informed the target

Industry-based guidance

- *Industry-based Guidance on Implementing IFRS S2* suggests possible ways to apply some of the disclosure requirements in IFRS S2.
- The guidance does not create additional requirements. Specifically, the guidance suggests ways to identify and disclose information about cli-mate-related risks and opportunities associated with particular business models, activities or other common features that characterise participation in an industry.
- In applying IFRS S2, an entity is required to refer to and consider the applicability of the information set out in the guidance. [IFRS S2:IB1]

- The industry-based guidance has been derived from Sustainability Accounting Standards Board (SASB) Standards, which are maintained by the ISSB. Because the guidance is industry-based, only a subset is likely to apply to any entity. [IFRS S2:IB2]

Effective date and transition

- An entity is required to apply IFRS S2 for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If an entity applies IFRS S2 earlier, it is required to disclose that fact and apply IFRS S1 at the same time. [IFRS S2:C1]
- An entity is not required to provide the disclosures specified in IFRS S2 for any period before the beginning of the annual reporting period in which an entity first applies IFRS S2 (the date of initial application). Accordingly, an entity is not required to disclose comparative information in the first annual reporting period in which it applies IFRS S2. [IFRS S2:C3]

- In the first annual reporting period in which an entity applies IFRS S2, the entity is permitted to use one or both of the following reliefs: [IFRS S2:C4]
  - (a) if, in the annual reporting period immediately preceding the date of initial application of IFRS S2, the entity used a method for measuring its greenhouse gas emissions other than the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)*, the entity is permitted to continue using that other method; and
  - (b) an entity is not required to disclose its Scope 3 greenhouse gas emissions which includes, if the entity participates in asset management, commercial banking or insurance activities, the additional information about its financed emissions.

- If an entity uses either of these reliefs, the entity is permitted to continue to use that relief for the purposes of presenting that information as comparative information in subsequent reporting periods. [IFRS S2:C5]

IMPLICATIONS FOR CORPORATE REPORTING

- This year marks the issuance of the inaugural IFRS Sustainability Disclosure Standards designed to provide a global baseline of sustainability –related disclosures for the capital market.
- Better information leads to better economic decisions.
- Issuing of these standards is just the starting point, The ISSB is consulting on future priorities to help determine what comes next.
- The Board welcomes the feedback from all of us.
- Below are TEN points the ISSB wants us to know about the two ISSB inaugural standards:

i) IFRS SI and IFRS S2 are Global Disclosure Standards

ii) The Issuance of the Standards is premised on International Support

iii) The Standards require disclosure of decision-useful material information

iv) The Standards pride themselves of building on and consolidating existing frameworks and initiatives

v) The Standards seek to reduce duplicative corporate reporting

vi) The Standards seek to help ebtities to communicate holistically in a cost effective manner

vii) The Standards have deep connections with Financial Statements

viii) The Standards were developed through rigorous consultative process

ix) The standards seek to achieve inter-operability with broader sustainability reporting

x) The ISSB continually seeks to build partnership for capacity building

1. IFRS SI and IFRS S2 are Global Disclosure Standards

- The standards allow companies and investors to standardise on a single global baseline of sustainability disclosure for the capital market with additional jurisdictional requirements being built on top of the global baseline

ii) The Issuance of the Standards is premised on International Support

- The work of ISSB has received strong support from investors, companies , policy makers market regulators and others from around the world including IOSCO, the Financial Stability Board , the G20 and the G7 leaders

iii) The Standards require disclosure of decision-useful material information

- Focussing mainly on the capital market means that the ISSB Standards only require information that is material , proportionate and decision-useful to investors.
- Moreover, by beginning with climate, companies can phase in their sustainability disclosures.

iv) The Standards seek to building on and consolidating existing frameworks and initiatives

- IFRS S1 and IFRS S2 are built on, and consolidate the TFCFD recommendations , SASB Standards, CDSB Framework, IR Framework , World Economic Forum metrics, etc to streamline sustainability disclosures.

v) The Standards seek to reduce duplicative corporate reporting

- The baseline approach provides a way to achieve global comparability for financial markets, and allow jurisdictions to further develop additional requirements if needed to meet public policy or broader stakeholder needs.
- This approach helps to reduce duplicative reporting for companies subject to multiple jurisdictional requirements.

vi) The Standards seek to help entities to communicate worldwide cost effectively

- The standards have been designed to provide reliable information to investors; helping companies to communicate how they identify and manage the sustainability related risks and opportunities they face over the short, medium and longer terms

vii) The Standards have deep connections with Financial Statements

- The information required by the ISSB Standards is designed to be provided alongside financial statements as part of the same reporting package.
- ISSB Standards have been developed to work with any accounting requirements and are also built on the concepts underpinning IFRS already required for use by more than 140 jurisdictions across the globe

viii) The Standards were developed through rigorous consultative process

- ISSB Standards have been developed using the same inclusive, transparent due process used to develop IFRS; more than 1,400 responses to the ISSB DPs and EDs.
- All ISSB papers , feedback and technical decision-making are available tp view online.

ix) The standards seek to achieve inter-operability with broader sustainability reporting

- The ISSB's partnership with GRI , enable the ISSB to build its requirements to be interoperable with GRI standards, Thus, helping to reduce the disclosure burden for companies using both ISSB and GRI Standards for reporting

x) The ISSB continually seeks to build partnership for capacity building

- The ISSB's responsibilities do not stop at standard setting.
- At the Conference of the Parties to the United Nations Climate Change Conference (UNF CCC COP27) held in Egypt in November 2022 , the ISSB announced plans for a capacity building partnership programme, helping to establish the necessary resources for high quality consistent reporting across developed and emerging economies.

CONCLUSION

- Together, these inaugural standards and ISSBs capacity building programme will help build trust , confidence and much needed global comparability to the sustainability disclosure landscape.
- All PAOs are encouraged to guide and assist entities in their respective jurisdictions to adopt and comply with ISSB Standards.

- THANK YOU