

ISSB Introduces Global Sustainability Standards: IFRS S1 and S2 for Comprehensive Financial Disclosures

After consulting the market extensively and consolidating resources from various initiatives with international support, the (ISSB) released its first two standards IFRS S1 and S2 on June 26, 2023.

The primary objective is to compel entities to disclose decision-making useful information about their climate and sustainability related risks and opportunities. This information is crucial for stakeholders, including those providing resources to the entity. IFRS S1 and IFRS S2 mandate the disclosure of material sustainability-related and climate-related risks and opportunities that could impact cash flows, access to financing, or cost of capital over the short, medium, or long term.



What are the key elements of IFRS S1?

IFRS S1 establishes a baseline for comprehensive sustainability-related financial disclosures to meet the needs of global capital markets. The core content covers disclosure on governance processes, controls, strategy, risk management practices, and metrics and targets related to identified risks and opportunities.

It also sets out general requirements for content and presentation, specifying that disclosures must pertain to the same reporting entity as the financial statements.

In addition, financial data and assumptions should be consistent with corresponding financial statements, and any judgments made must be identified.

The general requirements for disclosure of sustainability-related financial information entails the following key points:

- Mandates the disclosure of material information about sustainability-related risks and opportunities with financial statements to meet investor information needs.
- Adopts the TCFD (Task Force on Climate-Related Financial Disclosures) architecture (governance, strategy, risk management, and metrics and targets) for disclosing information about sustainability-related risks and opportunities.
- Requires industry-specific disclosures.
- For matters other than climate (IFRS S2), directs companies to sources to identify sustainability-related risks, opportunities, and information.
- Can be used in conjunction with any accounting requirements (GAAP).

What are the key elements of IFRS S2?

IFRS S2 - climate-related disclosures details the requirements for companies to disclose information about their climate-related risks and opportunities, building on IFRS S1. It incorporates the recommendations of the TCFD and mandates the disclosure of information on both cross-industry and industry-specific climate-related risks and opportunities.

IFRS S2 requires specific metric category disclosures, including greenhouse gas (GHG) emissions (Scope 1, 2, and 3) as well as relief measures aimed to ease the burden of reporting GHG emissions, including temporary relief for the first annual reporting period and alternative measurement methods. The standard also mandates disclosures related to climate-related physical and transition risks, internal carbon prices, capital deployment, and remuneration.

Industry-based guidance assists in identifying, measuring, and disclosing information specific to particular business models or activities. While entities are required to consider the guidance, they are not obligated to apply specific metrics.

IFRS S2 climate-related disclosures outlines the criteria for companies to reveal details about their climate-related risks and opportunities. It:

- Adopts TCFD recommendations.
- Aligns with IFRS S1.
- Mandates disclosure of significant information regarding climate-related risks and opportunities, encompassing both physical and transition risks.
- Enforces industry-specific disclosures, supported by guidance based on the SASB (Sustainability Accounting Standards Board) Standards.



Application Timeline

An organization must follow both IFRS S1 and IFRS S2 starting from January 1, 2024, for annual reporting. However, the adoption dates may vary across jurisdictions. Early application is allowed, and in such cases, the entity must disclose early application and apply both standards simultaneously. Alternatively,

the entity can choose to apply transition relief for sustainability-related disclosures (IFRS S1), where the "date of initial application" is the start of the annual reporting period when the entity first uses the standards.

The ISSB offers transition relief to help entities align sustainability-related financial disclosures with their financial statements, allowing them more time to prepare. Under this relief, an entity is not obligated to provide disclosures from IFRS S1 or IFRS S2 for periods before the initial application date. Therefore, no comparative information is required in the first annual reporting period when the standards are applied.

Moreover, in the initial annual reporting period using IFRS S1, an entity can choose to report sustainability-related financial disclosures after publishing its general-purpose financial statements. According to IFRS S1, if an entity chooses this relief, it should report sustainability-related financial disclosures at a specific time as outlined in the standard. These would include:

1. At the same time as its next financial report for the second quarter or half-year, if the entity is obligated to present such an interim report.
2. Alongside its subsequent second-quarter or half-year interim financial report, but within nine months from the end of the annual reporting period in which the entity first adopts this standard, if the entity voluntarily issues such an interim report.
3. Within nine months from the conclusion of the annual reporting period in which the entity initially applies this standard, if the entity is not compelled to and chooses not to issue an interim general-purpose financial report.

Furthermore, during the initial annual reporting period when an entity adopts IFRS S1 and IFRS S2, the entity can disclose information solely on climate-related risks and opportunities (following IFRS S2). It can apply the requirements in IFRS S1 (on sustainability-related information) only to the extent that they pertain to the disclosure of information on climate-related risks and opportunities.

If the entity utilizes this transition relief in line with IFRS S1, it must disclose this fact and is "not obligated to disclose comparative information about its climate-related risks and opportunities" in the first annual reporting period when applying the standard.

In the second annual reporting period, the entity is "not obliged to disclose comparative information about its sustainability-related risks and opportunities, except for its climate-related risks and opportunities."

Why should companies apply the ISSB Standards?

These ISSB Standards are designed to be proportionate and enforceable, aiming to provide reliable and decision-useful information linked to financial statements. They are applicable globally, offering a consistent baseline for financial reporting worldwide.

The ISSB Standards offer a straightforward framework, allowing companies to provide investors with useful, consistent, and comparable information globally in a cost-effective and reliable manner. These standards build upon existing initiatives like TCFD, CDSB (Climate Disclosure Standards Board), SASB, and integrated reporting, incorporating well-known concepts and aligning with accounting standards.



ISSB aims to simplify reporting further by ensuring interoperability with jurisdictional requirements and GRI (Global Reporting Initiative) Standards,

reducing the need for redundant reporting. Companies adopting ISSB Standards can expect benefits such as enhanced data quality, positively impacting governance, strategy, access to capital, reputation, and engagement with employees and stakeholders. The inclusion of IFRS S1 and IFRS S2 in the ISSB Standards facilitates streamlined sustainability reporting processes, providing investors with better information for informed decision-making.

Global Momentum Builds for ISSB Sustainability Reporting Standards

IFRS S1 and IFRS S2 are the first global sustainability disclosure standards by the ISSB and are gaining traction worldwide. Major countries like Australia, Canada, Japan, Hong Kong, Malaysia, New Zealand, Nigeria, Singapore, and the U.K. are considering adopting these standards. Japan plans to implement them by March 31, 2025. The EU, through CSRD, aims to align with global initiatives like ISSB. For Canada the CSSB will issue proposals on its first standards, Canadian Sustainability Disclosure Standards (CSDS) 1 and 2, in March 2024. Committed to the global baseline the ISSB established, CSDS 1 and 2 align with IFRS S1 and S2 – but with Canadian-specific modifications suggested. Proposed modifications will include a Canadian-specific effective date and transition relief proposals to help with eventual implementation of the standards.

Endorsements from regulatory bodies and business communities, including a collaboration with the World Economic Forum, signify growing support. This momentum may establish ISSB standards as a universal baseline for sustainability reporting, fostering convergence and efficiency in ESG reporting.

Would IFRS Sustainability Disclosure Standards be mandatory?

Jurisdictional authorities would decide whether to require the application of IFRS Sustainability Disclosure Standards, just as they have decided whether to require the application of IFRS Accounting Standards. The ISSB does not have the right to mandate the application of its standards. However, companies can choose to apply them. The Canadian Securities Administrators determine reporting requirements for Canadian public companies.

Conclusion

ISSB introduced global sustainability standards, IFRS S1 and S2, on June 26, 2023, on the belief that better information supports better economic and investment decisions. IFRS S1 focuses on general sustainability-related information, while IFRS S2 specifically addresses climate-related disclosures. The standards offer relief measures and transition options for companies to align sustainability-related financial disclosures with their financial statements.

Key elements of IFRS S1 and S2 include mandates for material disclosure, adoption of TCFD recommendations, industry-specific disclosures, and alignment with existing accounting standards. The application timeline begins on January 1, 2024, with flexibility for early adoption.



Companies are encouraged to apply ISSB Standards as they provide a straightforward framework for consistent and comparable global reporting, offering benefits such as enhanced data quality, positive impacts on governance and strategy, and improved stakeholder engagement. The global momentum for these standards is evident, with various countries considering adoption.

While the ISSB cannot mandate the application of its standards, jurisdictional authorities will decide whether to require compliance.

How PKF Antares Can Assist

No matter where your organization stands in its commitment to sustainability, our team is ready to assist you with various aspects, including:

- IFRS S1 and S2 reporting controls
- Sustainable finance

- Human capital management
- Non-financial reporting and disclosure
- ESG audit and verification
- ESG disclosures

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