



# Sustainability reporting

## General and climate-related requirements

IFRS® Sustainability Disclosure Standards



First Impressions | July 2023

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# Realising a global baseline for sustainability reporting

The arrival of the first two IFRS<sup>®</sup> Sustainability Disclosure Standards (the standards) marks a key milestone in the International Sustainability Standards Board (ISSB)'s vision to create a global baseline for investor-focused sustainability reporting that local jurisdictions can build on. It is now for jurisdictions to decide whether and how to incorporate the standards into local requirements, or for companies to decide to adopt voluntarily.

The standards are designed to be applied together to support companies in identifying and reporting sustainability information that investors need for informed decision making. They are intended to meet the needs of all types of companies, not just the most sophisticated. The standards will not only provide investor-focused information to help drive effective capital markets, but they also signify an important change in the status of sustainability reporting – marking a huge step towards achieving equal footing with financial reporting. Going forward, connected sustainability and financial reporting will be a requirement, rather than a feature, of best-practice reporting.

Achieving change of this magnitude will not be easy and some companies will have much to do. However, the ISSB has not started from scratch – the standards consolidate and build on existing frameworks, including the Task Force on Climate-related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB). They also include a pragmatic transition relief that will allow companies to report on only climate-related risks and opportunities in the first year.

Nevertheless, companies will need adequate systems, processes and controls in place to allow reporting of sustainability-related financial disclosures of the same quality, and at the same time, as their financial statements. This reporting could be as soon as for financial years beginning in 2024, with the new standards becoming effective from 1 January 2024. However, it will be for local jurisdictions to decide whether and when to mandate adoption of the standards. Companies operating in multiple jurisdictions may also have the added challenge of applying multiple incoming frameworks.

This publication focuses on the ISSB's first two standards, which cover the general requirements for disclosing sustainability-related financial information and climate-related disclosures. Using our insights and illustrative examples, it explores some of the key impacts and how companies might apply the standards. We hope it helps you to meet both the challenges and the opportunities arising from implementing these new standards.

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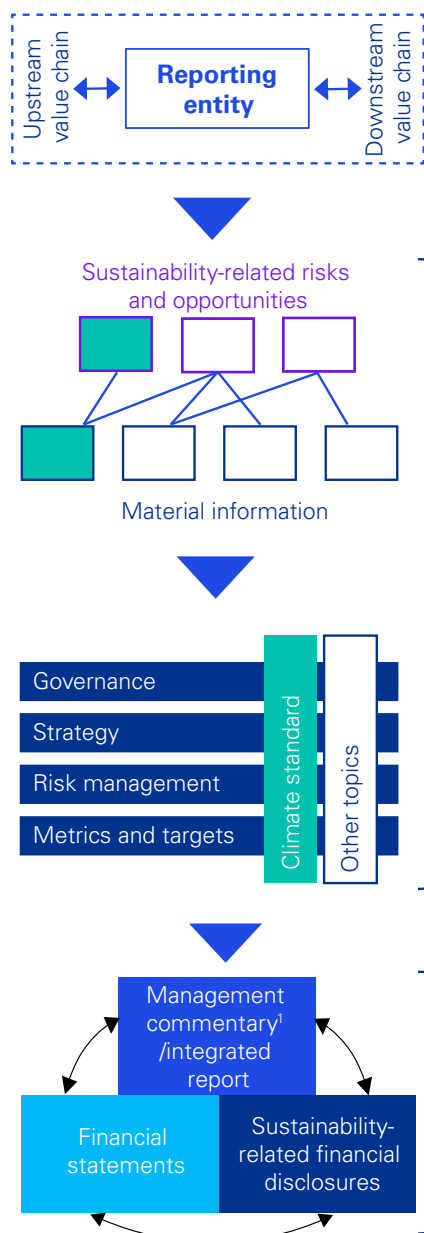
**KPMG global IFRS corporate and sustainability reporting leadership team**

**KPMG International Standards Group**

# 1 At a glance

## 1.1 A new concept

For some, the idea of sustainability reporting is new. For others, reporting under the IFRS Sustainability Disclosure Standards will introduce changes to existing practice. The following diagram and explanations are a simplistic representation, designed to provide a general understanding of reporting under the standards in the context of familiar concepts. The elements of the diagram are explained throughout this publication, with definitions provided in the [glossary](#).



A **reporting entity** prepares financial statements based on the events and transactions that have affected it during the reporting period.

The reporting entity is the same for **sustainability-related financial disclosures**. However, these disclosures also reflect information about the broader resources and relationships the reporting entity depends on across its **value chain**.

Understanding these resources and relationships enables companies to identify and report on all **sustainability-related risks and opportunities** – i.e. the key factors that could affect the **prospects** of the business.

Information is **material** to disclose if it is expected to influence investors’ decisions by affecting their assessment of the reporting entity’s future cash flows.

The ISSB’s general standard aims to help companies report **material sustainability-related financial information** across the areas of **governance, strategy, risk management, and metrics and targets**.

These areas apply across all sustainability-related risks and opportunities. However, in the first year of reporting, a transition relief permits companies to report on only **climate-related risks** and opportunities.

To supplement the **general standard**, additional standards will require disclosures that are consistent with – but more granular than – the content requirements in the general standard. The first additional standard is on **climate**.

Sustainability-related financial disclosures are connected to and complement the financial statements and management commentary<sup>1</sup>. Together they are part of **general purpose financial reports** – supporting investors’ assessments of a reporting entity’s future cash flows.

1. Management commentary is known under various names, including management discussion and analysis (MD&A), operating and financial review or strategic report.

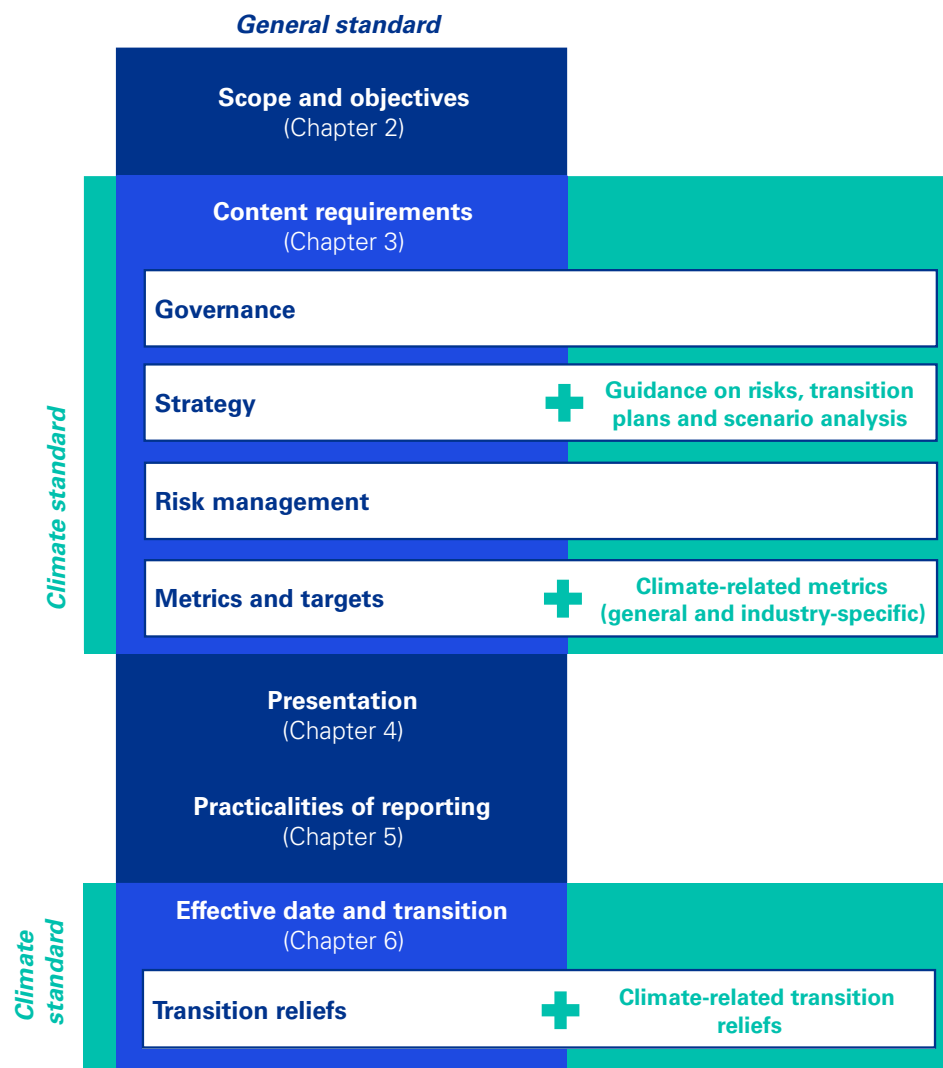
## 1.2 Two intersecting standards

The ISSB has released two standards:

- IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (the general standard); and
- IFRS S2 *Climate-related Disclosures* (the climate standard).

These two standards are designed to be applied together and alongside future topic- or industry-specific standards. They both include reporting across four content areas – i.e. governance, strategy, risk management, and metrics and targets. These areas are consistent with the TCFD Framework.

The following diagram shows the relationship between the standards and the corresponding chapters in this publication.



The general standard underpins reporting under all IFRS Sustainability Disclosure Standards, defining the **scope and objectives** of reporting and providing core **content, presentation** and **practical requirements**. It requires disclosure of **material information** on **all sustainability-related risks and opportunities that could reasonably be expected to affect the company’s prospects – not just those related to climate**.

The climate standard **replicates the core content requirements** and **expands on them with climate-specific reporting requirements** – e.g. information on transition plans, scenario analysis and climate-specific metrics and targets. It also provides industry-specific guidance based on the SASB Standards.

For **topics other than climate**, preparers will need to seek guidance on appropriate disclosures from other sources identified in the general standard – e.g. the SASB Standards.

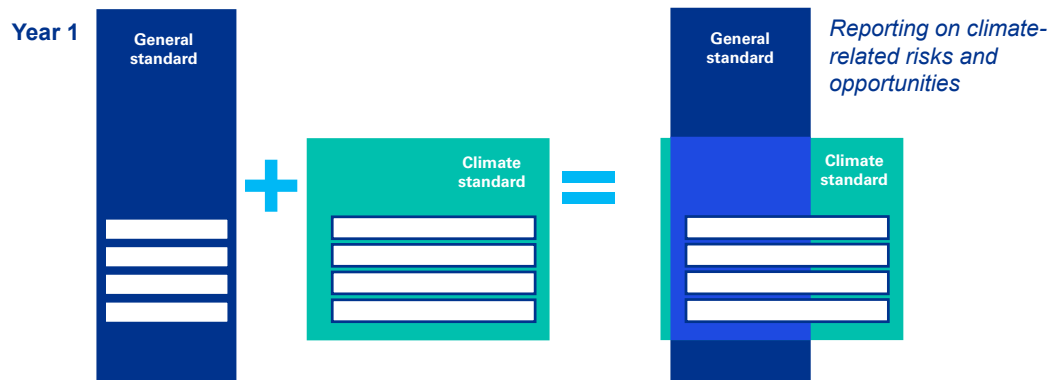
Over time, it is expected that the ISSB will release **additional standards** and supporting materials; for example, educational materials.

### 1.3 Getting started with reporting

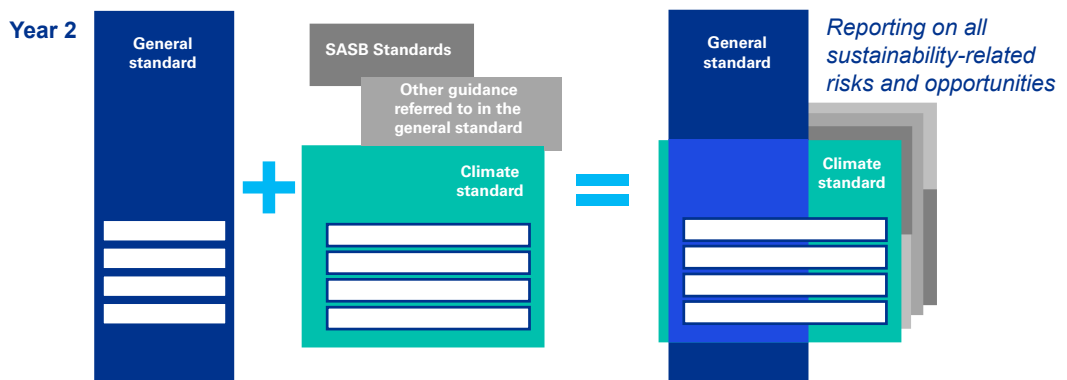
The standards include various transition reliefs that can help companies when they initially apply them.

One of these is a ‘climate first’ transition relief which allows companies to report on only climate-related risks and opportunities in the first year they apply the standards, rather than reporting on all sustainability-related risks and opportunities.

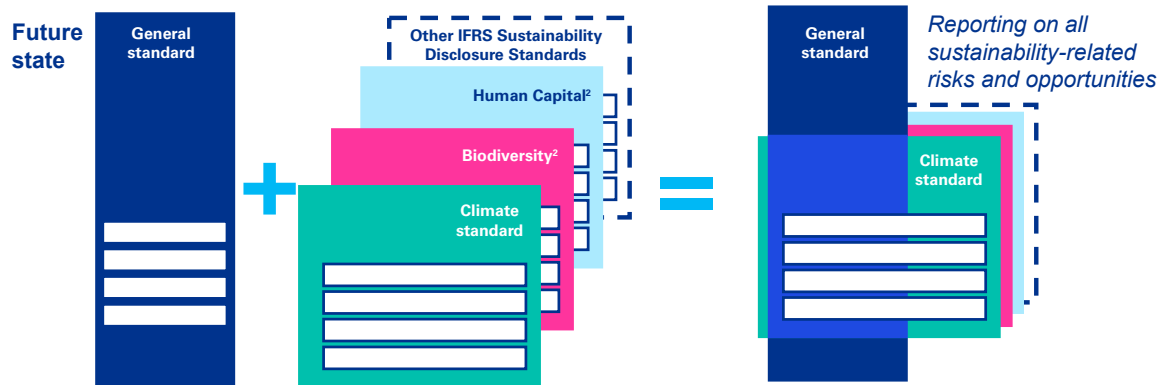
For the first year, companies taking this option use the climate standard and relevant areas of the general standard – e.g. the conceptual principles including the materiality definition, general requirements and guidance on judgements, uncertainties and errors.



In the second year, companies need to report on all sustainability-related risks and opportunities, using the general standard and other guidance referred to in that standard – e.g. the SASB Standards and the climate standard.



Ultimately, a company will use the full suite of topic- or industry-specific IFRS Sustainability Disclosure Standards, once they have been released by the ISSB.



## 1.4 Interaction with other frameworks

The ISSB aims to set a global baseline of “sustainability-related financial disclosures”. This type of disclosure is different from broader sustainability reporting – e.g. disclosure prepared using standards from the Global Reporting Initiative (GRI) – because it focuses on the information needs of investors and connectivity with information in the financial statements. Broader sustainability reporting commonly focuses on a company’s contribution to sustainable development, aiming to meet wider stakeholder needs.

Local jurisdictions need to decide whether and when to mandate application of the IFRS Sustainability Disclosure Standards, or how the standards will influence the local requirements. With strong support from the International Organization of Securities Commissions (IOSCO), a rapid route to adoption is expected in a number of jurisdictions.

Some jurisdictions may want to build on the requirements to meet wider stakeholder needs, including meeting public policy objectives.



Companies may need to apply the IFRS Sustainability Disclosure Standards alongside other sustainability reporting frameworks in their local jurisdictions. When this is the case, it is important that companies understand the differences between requirements and plan their reporting to ensure all requirements can be met in a cohesive manner, with minimal duplication.

2. Biodiversity and Human Capital are examples of potential future topics for IFRS Sustainability Disclosure Standards.

## 1.5 Key facts

Applicable for all	
<b>Applicable for all financial reporting frameworks</b>	<p>The standards are potentially <b>relevant for all companies</b> regardless of the framework applied in preparing the financial statements – i.e. not solely IFRS Accounting Standards.</p> <p>Individual <b>jurisdictions will decide</b> whether and when to adopt IFRS Sustainability Disclosure Standards.</p>
Connected with the financial statements	
<b>Reporting at the same time</b>	Reporting is required <b>at the same time</b> , and for the same period, as the financial statements, subject to a one-year transition relief (see <a href="#">Section 5.1</a> ).
<b>Investor-focused</b>	<p>The definition of <b>material information</b> is consistent with IFRS Accounting Standards – i.e. focused on investors (see <a href="#">Section 2.4</a>).</p> <p>Information is material to disclose if it is expected to influence investors' decisions by affecting their assessment of the company's future cash flows.</p> <p>This includes information about the company's economic, environmental or societal impacts which could influence investors' decisions, rather than all potential impacts.</p>
<b>Connected information</b>	<p>Sustainability-related financial disclosures need to be <b>connected to the financial statements</b> – both are included as <b>part of a company's general purpose financial reports</b> (see <a href="#">4.2.3</a>).</p> <p>They highlight relationships between pieces of information, explain trade-offs that management consider and provide insight into resources and relationships that are not necessarily recognised in the financial statements.</p>
<b>Forward-looking</b>	The standards require <b>forward-looking insight</b> about sustainability-related risks and opportunities that could reasonably be expected to affect the company's prospects.
Building on existing frameworks and standards	
<b>Aligned with TCFD</b>	The <b>core content areas</b> of governance, strategy, risk management, and metrics and targets are consistent with, and build on, the <b>TCFD Framework</b> .
<b>Industry-specific approach</b>	The standards require <b>industry-specific disclosures</b> . They include industry-specific guidance and reference the <b>SASB Standards</b> .
<b>Consolidation of existing bodies</b>	<p>The standards draw content from <b>other sustainability reporting bodies</b>, including the Climate Disclosure Standards Board (CDSB), the Value Reporting Foundation (VRF) (comprising SASB and the International Integrated Reporting Council (IIRC)), and the International Accounting Standards Board (IASB).</p> <p>The CDSB and VRF were consolidated into the IFRS Foundation during 2022.</p>
<b>Greenhouse gas emissions</b>	The climate standard refers to the Greenhouse Gas Protocol for guidance on greenhouse gas emissions.

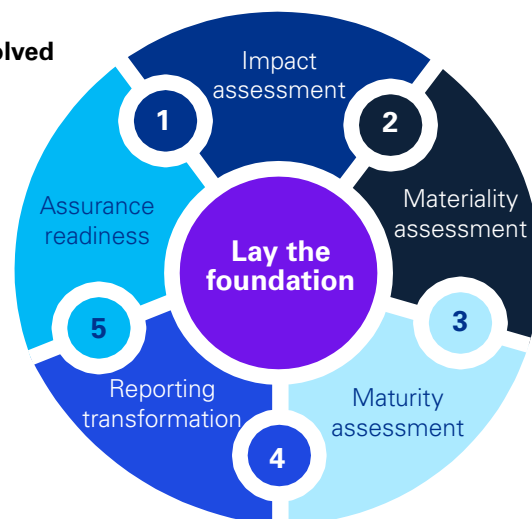


## 1.6 Key actions

Companies need to get ready for rapid implementation of the standards – laying the right foundation, before undertaking steps to understand the impacts and adapt to the reporting change.

Key to a strong foundation is:

- **Educating the board, management and those involved in reporting** about the company’s exposure to sustainability-related risks and opportunities, and ensuring that the company’s strategy for managing risks and opportunities is clear and understood across the organisation.
- **Preparing for more scrutiny** over sustainability-related financial disclosures, in particular whether disclosures about the company’s specific exposures meet investor needs and regulator expectations.
- **Establishing a clear governance structure** that is supported by effective cross-functional collaboration between departments (see [Appendix 4](#)) and:
  - ensures that any commitments and decisions on sustainability-related issues are appropriately considered and approved; and
  - oversees the quality of both financial and sustainability reporting, and the impact of new reporting requirements.



### 1

Impact assessment	
<b>Understand what applies to you</b>	<b>Understand if and when</b> the standards apply to you, or whether you will choose to apply them voluntarily.  Determine if you will also need to apply other local <b>regulatory frameworks</b> .
<b>Identify the differences</b>	<b>Identify the differences</b> between all the regulations and/or standards you will need to apply and the content you currently report.  <b>Keep abreast of key developments</b> as the ISSB executes its workplan. It will be important to be prepared for what comes next.

### 2

Materiality assessment	
<b>Understand your value chain</b>	Understand the breadth and composition of your value chain to support identifying your sustainability-related risks and opportunities and understanding where you will <b>source your data</b> .
<b>Identify material information</b>	Identify sustainability-related risks and opportunities that are relevant to report on and perform a <b>materiality assessment</b> to understand what information you will need to report.  You will need significant <b>volumes of data</b> across all identified sustainability-related risks and opportunities, including data related to relationships outside the reporting entity – e.g. suppliers.

3

### Maturity assessment

#### Assess your reporting maturity

**Assess the maturity** of your sustainability reporting processes, controls, data models, policies and knowledge.

Engage with current process owners to understand how information is being defined, captured and reported, and where there are control gaps or potential process improvements.

You will need a fit-for-purpose internal control structure around sustainability-related financial disclosures to ensure **data integrity**.

Determine your **target operating model** and develop a **roadmap** that addresses identified reporting gaps and embeds required governance, data, processes, people and change management.

4

### Reporting transformation

#### Design your future reports

Consider whether a change in **where and how you present information** is needed – e.g. to:

- integrate investor-focused sustainability-related financial disclosures into the general purpose financial reports; and
- address additional information that may be required elsewhere to meet other stakeholder needs.

You will need a **coherent reporting package** and communications strategy that avoids unnecessary duplication between different types of reporting.

#### Understand your resource needs

Understand and address your **resource needs** early in your implementation process.

You may need **subject-matter experts** to help you understand and report on the sustainability-related risks and opportunities that impact your company, including forward-looking technical analysis.

#### Expand your systems, processes and controls

Explore your options to **create efficiencies** and move certain aspects of the data collection and calculation process into existing systems, processes and controls that already relate to financial or sustainability reporting.

You will need **efficient and effective processes and controls** that allow you to report reliable and timely information (see [Appendix 4](#)).

5

### Assurance readiness

#### Engage with internal audit

**Engage with internal audit** teams to design procedures that support those responsible for sustainability-related financial disclosures to get comfortable with the information being produced and published (see [Appendix 4](#)).

#### Get ready for assurance

Assess whether your reporting processes are **ready for assurance** – requiring adequate documentation and audit trails.

The ISSB cannot require companies to obtain assurance on their disclosures, but many jurisdictions may require it, and companies may choose to obtain it to meet investor expectations.

# 1.7 Navigating this publication

The following diagram illustrates how key elements of both standards are explained throughout this publication. The corresponding section numbers are in brackets.

The following symbols are used to indicate content relating to:



Climate only  
(also indicated  
by **green  
headers**)



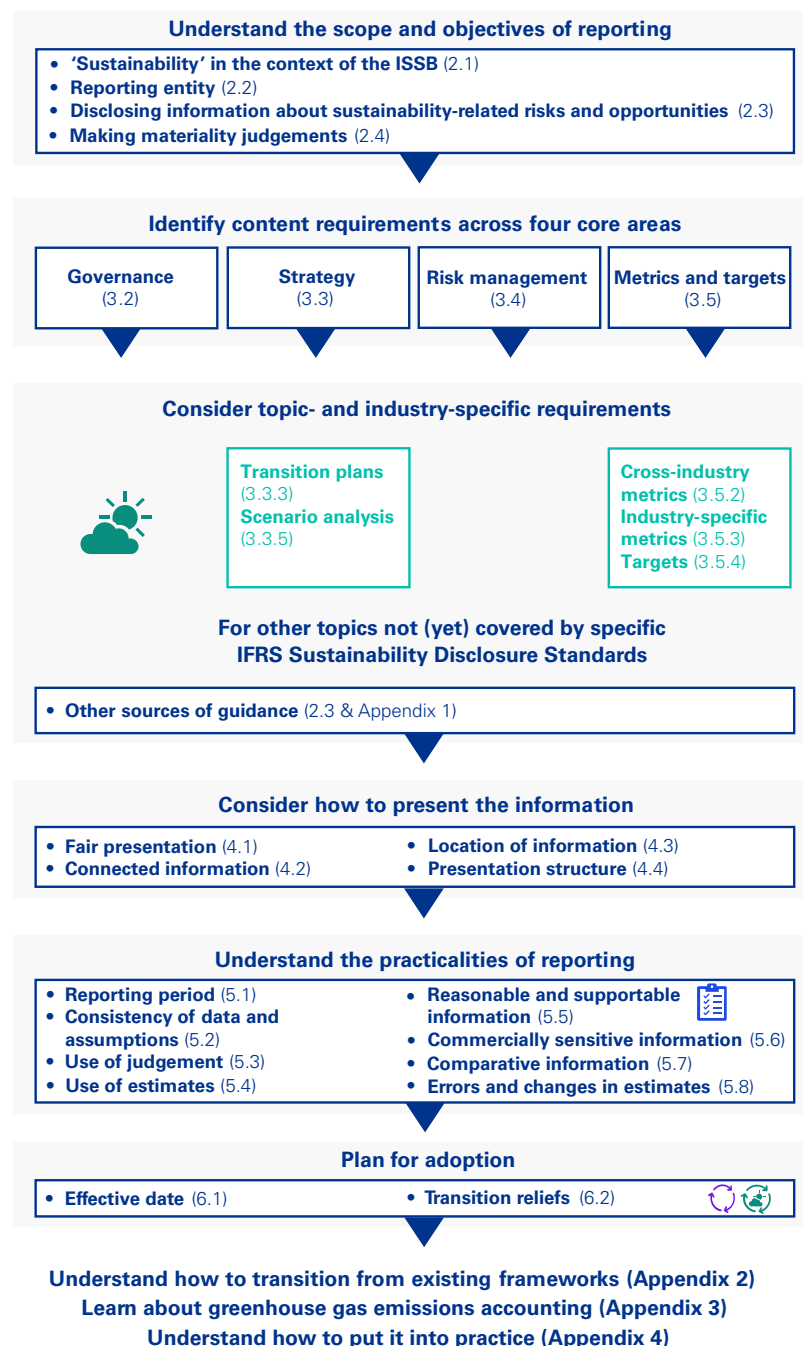
General  
transition  
reliefs



Climate-specific  
transition reliefs



Reasonable and  
supportable information



# 2 Scope and objectives

A company discloses material information about sustainability-related risks and opportunities

The general standard sets out the scope and objectives of reporting sustainability-related financial information under IFRS Sustainability Disclosure Standards.

Companies need to understand the **meaning of ‘sustainability’ in the context of the ISSB** (see [Section 2.1](#)) and how this informs the scope and objectives of IFRS Sustainability Disclosure Standards.

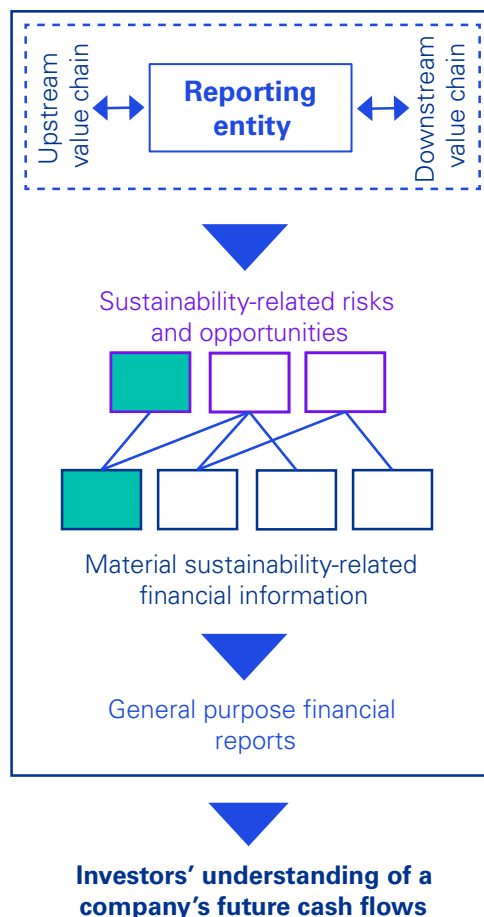
*IFRS S1.3, B1*

With these in mind, a **reporting entity** (see [Section 2.2](#)):

- identifies **sustainability-related risks and opportunities** that could reasonably be expected to affect its prospects (see [2.3.1](#)); and
- discloses **material information** (see [2.3.2](#)).

In disclosing material information about sustainability-related risks and opportunities, a company makes **judgements about materiality** (see [Section 2.4](#)).

The resulting sustainability-related financial information needs to provide insight into the sustainability-related risks and opportunities that could reasonably be expected to affect the prospects of the company.



This information is included in the company's general purpose financial reports because investors need it to assess the company's future cash flows.

In this publication, 'investors' assessments of a company's future cash flows' is used to refer to investors' assessments of the amount, timing, and uncertainty of future net cash inflows over the short, medium, and long term and management's stewardship of economic resources. These assessments enable investors to make decisions around providing resources to a company or influencing management's actions.

Information provided in sustainability-related financial disclosures needs to enable investors to understand the effects of identified sustainability-related risks and opportunities on the company's cash flows, its access to finance and cost of capital over the short, medium, and long term. This supports them to assess the company's future cash flows and ultimately make decisions.

## 2.1 'Sustainability' in the context of the ISSB

*IFRS S1.2, B2-B5*

Business leaders routinely assess and manage the risks and opportunities that influence the success or failure of their companies. Some of these risks and opportunities will be 'sustainability-related' because they arise from the company's dependencies on:

- resources, including natural and social capital; or
- relationships with stakeholders, society, the economy and the natural environment.

They may also arise from the impacts that the company has on these resources and relationships, if the impacts could affect the company's access to them.

Resources and relationships – and therefore impacts and dependencies – exist within the reporting entity and across the value chain. Whilst some impacts and dependencies may be connected to the same resources or relationships, others may be independent – i.e. impacts and dependencies do not always come in pairs. In addition, some impacts and dependencies will give rise to sustainability-related risks and opportunities, but others will not.

To prepare sustainability-related financial disclosures, a company needs to understand how its dependencies and impacts on resources and relationships create sustainability-related risks or opportunities, and where in the value chain they arise and have effects. Based on the information the company reports, investors can assess how these matters affect the company's future cash flows.



### Is the ISSB's approach to sustainability reporting the same as other standard setters?

*IFRS S1.BC44, BC49*

No, not all other standard setters. The type of reporting required by the standards (known as sustainability-related financial disclosures) focuses on the information needs of investors. For this reason, information about impacts and dependencies is reportable only if it provides insight into a sustainability-related risk or opportunity that could reasonably be expected to affect the company's prospects.

This differs from other forms of sustainability reporting – e.g. under GRI Standards, which provide valuable information to wider stakeholders. Rather than addressing the needs of a wide group of stakeholders, the IFRS Sustainability Disclosure Standards focus on the needs of investors. Wider stakeholders could include groups such as customers, employees and non-governmental organisations, in addition to the IFRS Sustainability Disclosure Standards focus on existing and potential investors, lenders and other creditors.

Information about the company's impacts, including on wider stakeholders, that could not reasonably be expected to affect an investor's assessment of the company's future cash flows is not included in sustainability-related financial disclosures. This avoids obscuring investor-relevant information. Information to meet the needs of wider stakeholders may still be reported, but meeting their needs is not the objective of providing sustainability-related financial disclosures within general purpose financial reports.

## 2.2 Reporting entity

*IFRS S1.20, B38*

Companies provide sustainability-related financial disclosures for the same reporting entity as the financial statements. This means that each element of a company's general purpose financial reports (which includes both the financial statements and sustainability-related financial disclosures) provides information about the same consolidated group or reporting entity.

However, sustainability-related financial disclosures provide broader information than the financial statements. Where relevant, they include information about sustainability-related risks and opportunities arising up and down the reporting entity's value chain.

*IFRS S1.A*

The concept of the 'value chain' used in the standards includes the full range of interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates. It encompasses everything that the reporting entity uses and relies on to create, consume and dispose of its products or services.

This may include interactions, resources and relationships:

- **within the reporting entity itself** – e.g. production activities or relationships with the workforce;
- **upstream** – e.g. with raw material manufacturers, service providers or suppliers;
- **downstream** – e.g. with distributors or customers; and
- **with the external environment** – e.g. financing, geographical, geopolitical or regulatory environments.

This means that a reporting entity's sustainability-related financial disclosures typically include narrative and metrics relating both to its own activities and to activities across its value chain (which may need to be obtained from external sources).



### Do companies need to report supply- and/or distribution-chain information?

Yes, to the extent that the information could reasonably be expected to affect investors' assessments of the company's future cash flows (see [Section 2.4](#)).

Investors may need this information to understand sustainability-related risks and opportunities affecting the company because of activities or relationships in its value chain, even though the activities and relationships are external to the reporting entity.

See [3.3.2](#) for further guidance on disclosures relating to the value chain.

IFRS S1.B5



**Do the standards provide guidance on how to report information about associates, joint ventures and other financed investments?**

Yes, there is some guidance. The general standard explains that material information may arise from interactions and relationships with investments such as associates, joint ventures and other financed investments. These investments would generally fall outside of the reporting entity itself, instead forming part of the value chain, because the reporting entity aligns to the consolidated financial statements. Companies need to provide information relating to risks and opportunities affecting the value chain, where it is material.

The climate standard provides specific guidance on the disclosure of greenhouse gas emissions from these types of investments (see 3.5.2). However, it does not provide guidance for other climate-related metrics.



**Example 1A – Supply chain risks**

Clothing retailer R sources products from multiple third-party factories in diverse locations. R identifies human rights abuses in the supply chain as a risk to its prospects, because of the potential impact on revenue following any negative publicity from breaches of its code of conduct.

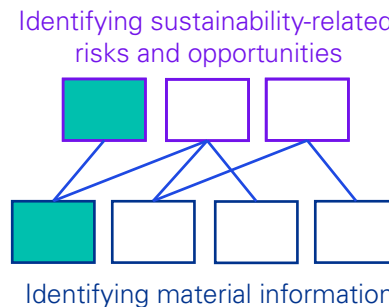
R has a comprehensive supply chain audit process to identify and assess the risk of human rights abuses in its supply chain. R concludes that this risk arises across its supply chain and could reasonably be expected to affect its prospects. Therefore, R discloses material information considering the full supply chain – e.g. clothing factories, fabric manufacturers, raw material suppliers and cotton growers.

Because R has a supply chain risk, it provides disclosures about the risk – i.e. its disclosures are not limited to information about activities in R itself.

## 2.3 Disclosing information about sustainability-related risks and opportunities

IFRS S1.17

A company needs to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect its prospects.



### 2.3.1 Identifying sustainability-related risks and opportunities

IFRS S1.2, B2–5

Sustainability-related risks and opportunities are specific to a company and arise from its:

- dependencies on resources and relationships; and
- impacts on resources and relationships.

These impacts and dependencies can arise from both within the reporting entity and across its value chain (see Section 2.2). When these dependencies and impacts create risks and opportunities, they can affect the company’s cash flows, its access to finance or cost of capital, and hence affect its prospects. Sustainability-related risks and opportunities may often be matters that management already monitors and manages when running the business.

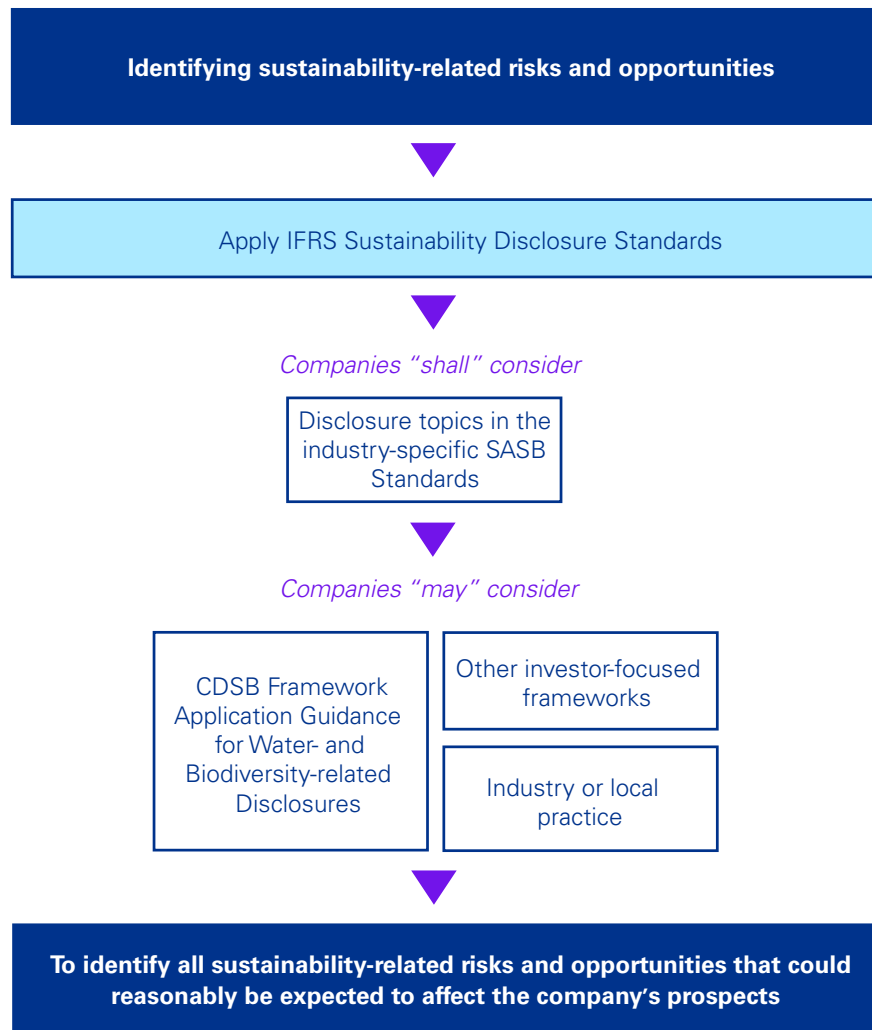
IFRS S1.B6, BC56–BC58



Companies need to identify sustainability-related risks and opportunities that could reasonably be expected to affect the company’s prospects and determine the scope of their value chain in relation to each. To do this, companies exercise judgement, using all reasonable and supportable information available at the reporting date without undue cost or effort (see Section 5.5).

IFRS S1.54–55, B7

Companies apply IFRS Sustainability Disclosure Standards and also consider additional sources of guidance indicated by the general standard.





FRS S1.B11, S2.B34

Companies need to reassess the scope of all affected sustainability-related risks and opportunities when a significant event or change in circumstances occurs. To do that, they are likely to need to reassess the scope of the value chain itself. Changes can arise even if they are not caused by the company and may include, but are not limited to, a significant change in the company's:

- value chain;
- business model, activities or corporate structure; or
- exposure to sustainability-related risks and opportunities.

### 2.3.2 Identifying material information

IFRS S1.56

Having identified sustainability-related risks and opportunities to report, a company then applies the relevant IFRS Sustainability Disclosure Standards and identifies material information to disclose.

IFRS S1.57, C1

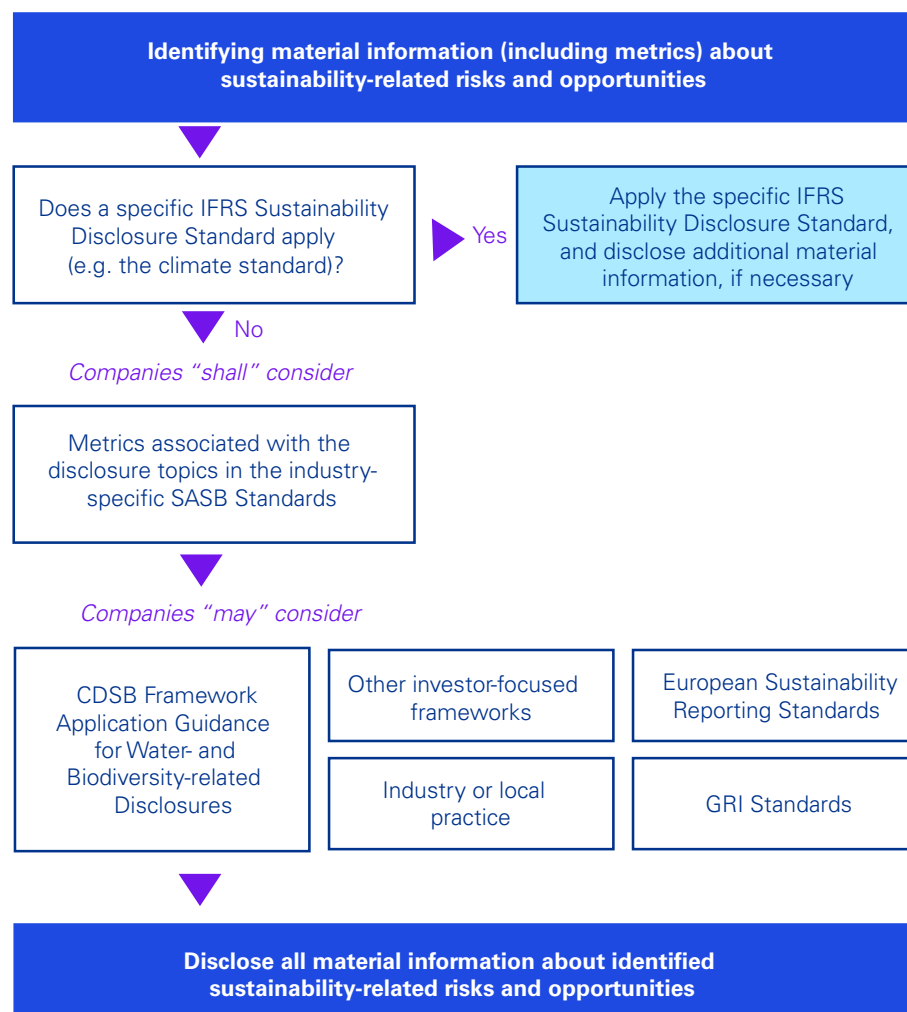
If no relevant IFRS Sustainability Disclosure Standard applies to an identified sustainability-related risk or opportunity, then companies need to use judgement to identify information that:

- is relevant to investors' decision making; and
- faithfully represents the identified sustainability-related risk or opportunity.

IFRS S1.58, C2–C3

In making this judgement, companies consider additional sources of guidance indicated by the general standard.

IFRS S1.15(b), 56–58, B20, B26, C1–C3



*IFRS S1.74*

Companies need to disclose their judgements that have had the most significant effect on the information included in their disclosures about sustainability-related risks and opportunities.

The absence of an IFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity identified is not a reason for companies to omit information. The additional sources of guidance (as shown in the above diagram) will be particularly useful to companies while the full suite of IFRS Sustainability Disclosure Standards is being developed.

*IFRS S1.15(b), B26*

In addition to the requirements and guidance above, management applies judgement to identify other or additional material information required to provide a complete, neutral and accurate depiction (i.e. faithful representation) of each sustainability-related risk or opportunity specific to the company. This could include providing additional explanation about a specified metric, to make sure that a faithful representation is provided. See [Section 4.1](#) for discussion of the qualitative characteristics of useful information.

*IFRS S1.59*

To help investors understand how management has identified material information and prepared the disclosures, companies disclose which SASB Standard(s)<sup>3</sup> and other sources of guidance they have applied to prepare the disclosures, including the industry or industries they have used.

**Example 1B – Supply chain risks**

Continuing [Example 1A](#), when disclosing its sustainability-related risks and opportunities, R identifies that its industry aligns with the 'Apparel, Accessories & Footwear' SASB Standard.

R uses the climate standard and the 'Apparel, Accessories & Footwear' SASB Standard and applies judgement to identify that its sustainability-related risks and opportunities include:

- environmental impacts in the supply chain (particularly focusing on climate- and water- related risks);
- labour conditions in the supply chain; and
- management of chemical products.

R uses the climate standard to identify material information to disclose about its climate-related risks and opportunities.

In the absence of other IFRS Sustainability Disclosure Standards, R is required to consider the metrics associated with the disclosure topics included in the relevant SASB Standard to identify material information about its other sustainability-related risks and opportunities. It also chooses to consider additional sources of guidance indicated in the general standard.

This could result in disclosing information on:

- water risks using the 'Environmental Impacts in the Supply Chain' SASB disclosure topic and applicable metrics, as well as relevant metrics from the CDSB Framework Application Guidance for Water-related Disclosures;
- labour risks in the supply chain, using metrics from the relevant SASB disclosure topic; and
- risks relating to management of chemical products, using the metrics from the relevant SASB disclosure topic and certain metrics from GRI 303 *Water and Effluents*.

R discloses information about the sources of guidance, disclosure topics and metrics that it applied to prepare its sustainability-related financial disclosures.

3. The SASB Standards are classified by industry. This is based on SASB's Sustainable Industry Classification System® (SICS®). SICS uses an impact-focused methodology to categorise companies into 77 different industries.

R follows the principles of the general standard and uses judgement to ensure the information disclosed:

- is relevant to investors' decision making;
- provides a faithful representation; and
- avoids duplication.



### Example 2 – Identifying disclosure topics and metrics for a complex business or conglomerate

IFRS S1.IG12,  
IE9–IE15

Conglomerate G has significant operations in Consumer Goods, Health Care and Food & Beverage, and limited operations in Transportation.

G refers to, and considers, the SASB Standards and identifies six SASB Standards that could apply to its operations.

- Household & Personal Products
- Meat, Poultry & Dairy
- Processed Foods
- Non-Alcoholic Beverages
- Biotechnology & Pharmaceuticals
- Road Transportation

G's Health Care operations are complex in nature. Through contracts with pharmaceutical companies, G develops generic medications, which are subsequently trialled, manufactured and marketed by an international drug retailer. G identifies that no SASB Standard fully aligns with its Health Care operations; however, it determines the Biotechnology & Pharmaceuticals SASB Standard to be the most aligned and therefore includes it among the six SASB Standards considered.

G considers the disclosure topics in each of the six SASB Standards, and concludes:

- for its significant operations, excluding Health Care, **most disclosure topics** are applicable;
- for its Transportation operations, **only some disclosure topics** are applicable; and
- for its Health Care operations, the **'Drug Safety' disclosure topic** is applicable due to reputational risk from fatalities or recalled medications. G considered the other topics in the Biotechnology & Pharmaceuticals SASB Standard but deemed them not applicable as they could not reasonably be expected to affect its prospects.

The applicable disclosure topics from the six SASB Standards are used by G to identify metrics and other material information for reporting.

G's disclosures:

- aggregate information about certain metrics across operations that have shared characteristics; and
- disaggregate information about certain metrics so as not to obscure useful information for investors.

G discloses information about the disclosure topics and metrics used in applying the six SASB Standards.

**Do companies need to consider the optional guidance on identifying sustainability-related risks and opportunities and material information to disclose?***IFRS S1.BC132*

No. Companies are required to disclose all material information about their sustainability-related risks and opportunities. The optional “may” consider guidance can help companies do that, but it is not a requirement to use it.

The IFRS Sustainability Disclosure Standards distinguish between sources that companies “shall” consider (i.e. guidance companies need to assess for relevance but not necessarily apply) and guidance companies “may” consider (i.e. there is no requirement to consider or use these materials).

**Do companies need to comply with the SASB Standards?***IFRS S1.55(a), 58(a), BC132*

No. Companies are required to consider the SASB Standard(s) for the industry or industries that they operate in. However, this does not mean that they are required to report on all disclosure topics identified by the SASB Standards, or provide all metrics indicated, where they are not considered applicable.

Nevertheless, as companies are required to consider the SASB Standard(s), documentation of these considerations will be needed to support regulatory, audit or other challenge from internal or external parties.

**Can companies use GRI and ESRS Standards to identify material information to disclose?***IFRS S1.C2-C3, BC139*

Yes, with some restrictions. Companies “may” consider GRI Standards and European Sustainability Reporting Standards (ESRSs) as sources for identifying potential disclosures in the absence of specific IFRS Sustainability Disclosure Standards.

Care is needed when using these resources because they do not have the same investor-focused objective of IFRS Sustainability Disclosure Standards – they are aimed at providing information for a wider group of stakeholders. Companies will need to consider whether information identified from these resources is material for investors and whether additional information would be required to meet those investors’ needs.

This means that companies preparing sustainability-related financial disclosures using GRI Standards or ESRSs need to first consider whether these disclosures meet all of the requirements in IFRS Sustainability Disclosure Standards before claiming compliance. They assess whether each metric used represents material information for investors, rather than copying large chunks of information prepared under those standards. Companies can only claim compliance with IFRS Sustainability Disclosure Standards if all requirements are met (see [Section 6.1](#)).

**Do companies need to disclose information about risks and opportunities that are not expected to affect their prospects?***IFRS S1.B24*

Typically, no. Disclosures are intended to provide information about the sustainability-related risks and opportunities that management expects to affect the company's prospects. If identified risks and opportunities cannot reasonably be expected to affect a company's prospects, then information about them is unlikely to be material.

However, information showing that the company is not exposed to a risk that affects its peers may be material if investors would otherwise expect the company to be exposed. Management needs to consider whether an explanation of why the company is not at risk could reasonably be expected to affect investors' assessments of the company's future cash flows.

## 2.4 Making materiality judgements

### 2.4.1 The role of materiality judgements

*IFRS S1.15(b),  
B25–26, D15*

Materiality plays a critical role under the IFRS Sustainability Disclosure Standards. Companies make materiality judgements so that their reporting focuses on information that is relevant to their facts and circumstances, rather than simply providing a prescribed list of information. For example:

- companies **are not** required to provide disclosures specified in the standards if the information is immaterial;
- companies **are** required to provide information required for a fair presentation of a sustainability-related risk or opportunity that is not otherwise specified in the standards if that information is material; and
- companies **are not** required to ensure their disclosures are perfectly precise in all respects, but they **are** required to ensure that factual information and assumptions applied in making estimates are free from material error.

*IFRS S1.17*

Material information is provided about the sustainability-related risks and opportunities that could reasonably be expected to affect a company's prospects (see [Section 2.3](#)).

*IFRS S1.18, A, IAS 1.7*

The definition of materiality in both IFRS Sustainability Disclosure Standards and IFRS Accounting Standards is consistent – i.e. information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users<sup>4</sup> of general purpose financial reports make on the basis of that reporting.

This means that the materiality of information is determined by the effect it is expected to have on investors' decisions, irrespective of whether the information is quantitative or qualitative.

*IFRS S1.B28*

The general standard requires companies to reassess their materiality judgements at each reporting date. This is because materiality can be dynamic as a company's circumstances and strategies change.

4. Primary users are existing and potential investors, lenders and other creditors.

**Example 3 – Material information (large vs small changes)**

Company M has information about a large change in water consumption at a location where the availability of water is plentiful. It might conclude that this information is immaterial because the level of water consumed at the site could not reasonably be expected to affect investors' assessments of M's future cash flows and therefore influence investors' decisions.

Company M may also have information about a small change in water consumption at a location where water supply is severely restricted. It might conclude that this information is material because it could reasonably be expected to affect investors' assessments of the site's ability to continue in operation, and hence influence their decisions.

**Can information about a sustainability-related risk or opportunity be material even though there is no current-period financial statement effect?**

Yes. The materiality of information is judged by reference to its potential to influence investors' decisions, not the size of the related financial statement balance(s).

Investors' decisions depend on their assessments of the company's future cash flows over the short, medium and long term. Therefore, information about a sustainability-related risk or opportunity that has not yet affected the amounts reported in the financial statements may be material.

**Do materiality judgements need to be documented?**

Generally, yes. Whilst there is no explicit requirement in the standards to disclose the materiality process followed for identifying information about sustainability-related risks and opportunities, companies are likely to need to document their decision making.

Materiality judgements are made to determine the information companies need to provide. They depend on the facts and circumstances at the time the disclosures are prepared. Because these can change, materiality judgements may be vulnerable to hindsight challenge if they are not subject to due process and properly documented. In some jurisdictions, the company's governing body is required to confirm that all relevant disclosures are included. Documentation of the materiality judgements applied may help to support this.

Companies are required to disclose their process to identify, assess, prioritise and monitor sustainability related risks and opportunities that could reasonably be expected to affect their prospects (see [Section 3.4](#)).

**2.4.2****How management makes materiality judgements**

The standards do not specify a process for companies to follow to make materiality judgements. Instead, the general standard sets out principles to follow. This approach contrasts with the process-based approach to defining materiality in some other sustainability reporting frameworks – e.g. GRI (see [2.4.4](#)).

*IFRS S1.18, B14–B15*

Under the standards, materiality is determined by whether omitting, misstating or obscuring a piece of information could reasonably be expected to influence investors' decisions about providing resources to the company (e.g. buying, holding or selling the company's equity) or influencing management's actions (e.g. by exercising voting rights). These decisions are inextricably linked to investors' assessments of net cash flows and stewardship of a company's economic resources.

*IFRS S1.B15, B18*

To make materiality judgements, a company considers investors' common information needs based on whether a piece of information could reasonably be expected to affect their assessment of the amount, timing and uncertainty of the company's future net cash inflows and stewardship of its economic resources.

This approach to assessing materiality does not require the company to model its future cash flows. However, it does require the company to consider what information could reasonably be expected to affect investors' assessments of its future cash flows (and hence influence their decisions).

*IFRS S1.B18, IG4-IG6*

The focus on investors' common information needs means that companies are not required to consider the specialist needs of individual investors.

*IFRS S1.B29-B30*

To provide material information, management will need to make aggregation judgements, considering whether:

- some information about sustainability-related risks or opportunities may be material to investors when it is considered in aggregate, even though it would not be material when considered in isolation; and
- some aggregated information about a sustainability-related risk or opportunity may not be material to investors, but disaggregated information relating to a particular site or activity may be material.



#### Example 4 – Aggregating information about risks

Company D has identified multiple sustainability-related risks that could affect its supply chain resilience. Individually these risks are so remote that information about each is immaterial. The company instead provides information about sustainability-related risks to its supply chain at an aggregated level.



#### Example 5 – Disaggregating information about a location-specific risk

Company W operates a water-stressed site. It provides disaggregated information about water usage at that site, but does not provide disaggregated water usage data covering other sites where water supply is plentiful. Since the availability of water varies across all sites, aggregated water usage may not be a useful metric as it obscures the location-specific risk.



#### Does assessing the materiality of information based on future cash flows imply a short-term horizon?

No. Cash flow models typically incorporate a 'perpetuity' component that reflects expectations of the company's future cash flows over the very long term. Because this is an important component of a company's valuation, information that affects investors' assessments may well be material, even though it relates to potential events beyond the company's planning horizon.

For example, information about business model resilience may be material even though management considers that the likelihood of failure in the short term is remote.

### 2.4.3 Materiality judgements relating to uncertain future events

IFRS S1.B24

Because investors’ assessments of future cash flows take account of the time value of money, information about a possible future event that is only expected to affect the company’s cash flows many years in the future is less likely to be considered material than information about a possible future event with similar effects that is expected to occur sooner.

Some sustainability-related risks or opportunities may have uncertain outcomes that may only crystallise over the longer term. For example, a company might expect a new piece of environmental regulation to be introduced in the next decade. The company’s ability to pass these costs on to its customers may be highly uncertain, depending on how the regulation is implemented and how the company’s competitors respond.

IFRS S1.B22

To assess whether information about a company’s exposure to an uncertain outcome is material, the company considers whether investors’ assessments of its future cash flows might be affected by the information, taking account of both:

- the range and likelihood of possible outcomes; and
- the potential effect on the amount, timing and uncertainty of its future cash flows.

IFRS S1.B24

Some information could reasonably be expected to influence investors’ decisions regardless of the timing or magnitude of the potential effect. For example, information about a low-magnitude sustainability-related risk may be material if investors would otherwise expect it to be of high magnitude.

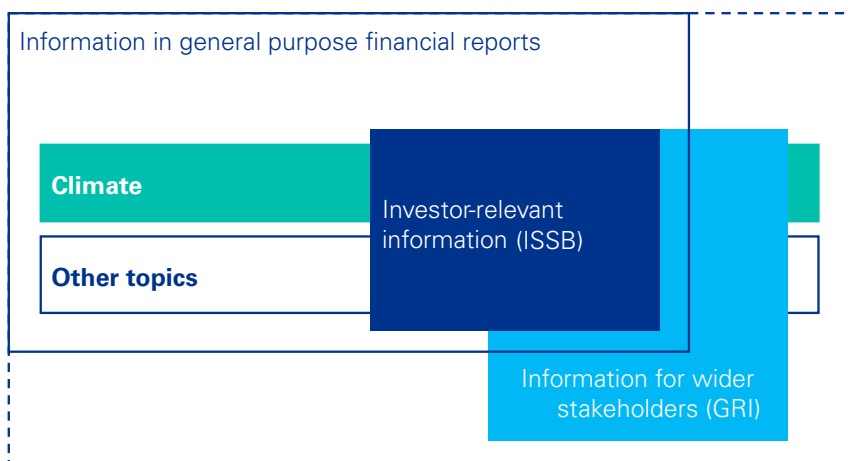


#### Does a company need to provide information about all possible future events?

No. Companies need to assess whether – at the reporting date – information about each risk or opportunity could be reasonably expected to influence investors’ decisions. To make this judgement companies consider whether information about the risk or opportunity could reasonably be expected to affect investors’ expectations of the amount, timing, and uncertainty of the company’s future cash flows, allowing for the range and likelihood of possible outcomes.

### 2.4.4 Materiality judgements made under other frameworks and standards

Other sustainability reporting frameworks and standards are designed to meet the needs of a wider set of stakeholders. They specify a different approach to determining materiality. For example, GRI Standards require a process of stakeholder engagement to identify the topics about which information may be material.





The approach to assessing materiality under IFRS Sustainability Disclosure Standards may be new to companies that currently produce sustainability reports to meet other stakeholder needs. While many of the sustainability-related matters that are important to other stakeholders may create risks or opportunities for the company, investors may need different information about these matters. Therefore, companies may need to consider whether their current approach to materiality judgements is appropriate under IFRS Sustainability Disclosure Standards.

ESRS<sup>5</sup> include a so-called 'double materiality' approach. This requires management to make two separate materiality assessments, covering:

- 'financial' materiality – similar, but not identical, to that required under IFRS Sustainability Disclosure Standards; and
- 'impact' materiality – similar to that required by GRI Standards. Some 'impact' material information may also be 'financially' material.

*IFRS S1.62, B27(f),  
C3, BC28*

IFRS Sustainability Disclosure Standards allow the inclusion of immaterial information that is required by other standards or frameworks, providing it does not obscure information needed by investors.



#### Could engagement with wider stakeholders support identifying risks and opportunities and materiality judgements?

Yes. Companies may engage with a range of stakeholders to identify:

- sustainability-related risks and opportunities to consider as part of their usual process for setting the strategy and managing operations; and
- topics for disclosure under other standards – e.g. GRI.

Wider stakeholder engagement may be a useful tool for identifying sustainability-related risks or opportunities, but the standards do not require it. However, it cannot be assumed that such engagement will identify all sustainability-related risks and opportunities and all material information required under IFRS Sustainability Disclosure Standards. Wider stakeholders may not have the same interest in assessing a company's future cash flows, meaning that they identify different information as important.

5. Based on draft European Sustainability Reporting Standards [published for comment](#) by the European Commission on 9 June 2023.

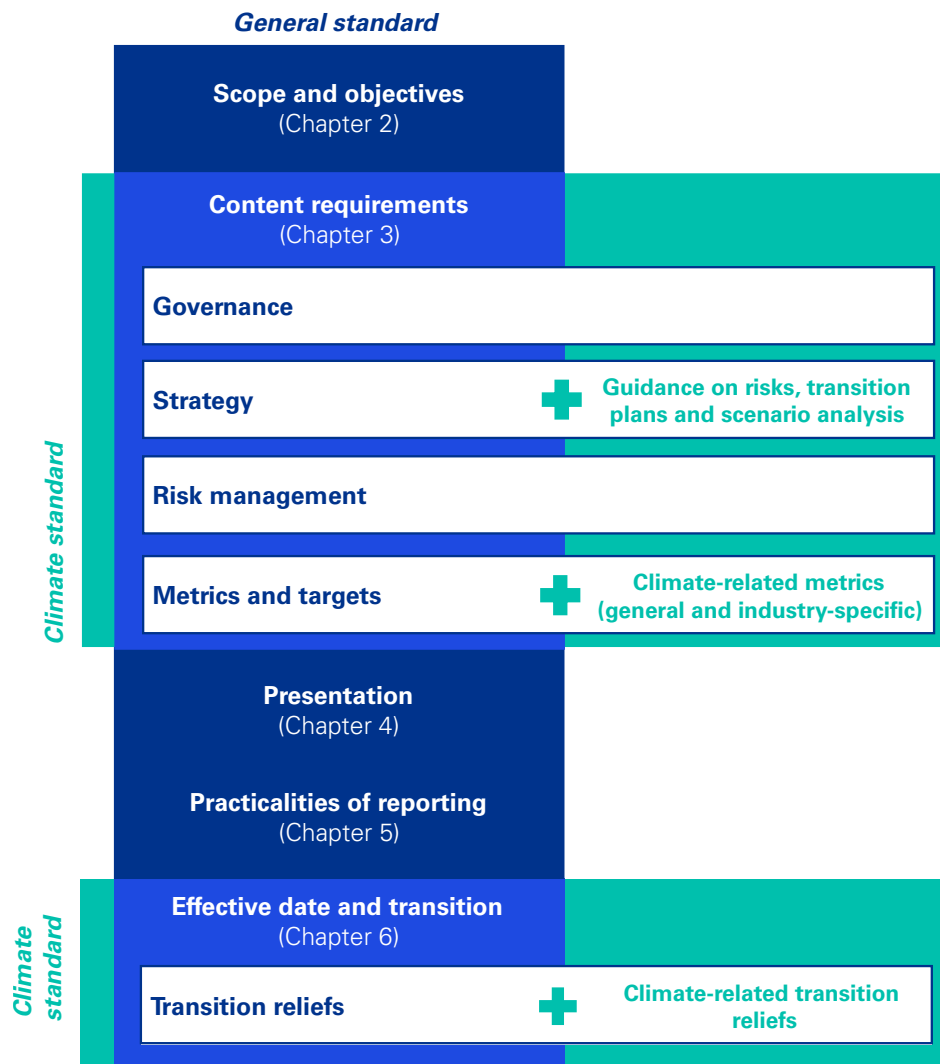
# 3 Content requirements

The content requirements of the first two IFRS Sustainability Disclosure Standards are structured around governance, strategy, risk management, and metrics and targets

## 3.1 A consistent content structure

Both the general standard and the climate standard follow a structure that is consistent with TCFD – comprising core content across the areas of governance, strategy, risk management, and metrics and targets. The climate standard adds topic- and industry-specific disclosures; future standards are expected to adopt the same content structure.

The standards do not require companies to present their disclosures using this structure. [Chapter 4](#) discusses the presentation of information across these content areas.



Where companies elect to take the transition option to report on only climate-related risks and opportunities in their first year of reporting (see [Section 6.2](#)), the requirements described throughout [Chapter 3](#) would relate to climate-related content only for the first year.

## 3.2 Governance

IFRS S1.26, S2.5

The **objective** of disclosures in the governance content area is to help **investors understand the governance processes, controls and procedures** a company uses to monitor, manage and oversee sustainability-related risks and opportunities.

IFRS S1.B41(b),  
B42(b), S2.7

The disclosure requirements on governance of climate-related risks and opportunities under the climate standard are consistent with the general standard. Companies need to avoid unnecessary duplication where sustainability-related risks and opportunities are governed in an integrated way.

IFRS S1.27, S2.6

A company needs to:

- **identify the body (or bodies) or individual(s) responsible** for sustainability-related risks and opportunities and disclose how:
  - the company reflects those responsibilities in the terms of reference, mandates, role descriptions and other company policies;
  - it determines whether the company has access to the appropriate skills and competencies to oversee the company's strategies around sustainability-related matters or how they will be developed;
  - it stays informed about sustainability-related risks and opportunities, including how often it is informed;
  - it considers the risks and opportunities when overseeing company strategy, decisions on major transactions and risk management processes and policies, and whether it considers trade-offs between risks and opportunities; and
  - it oversees how the company sets sustainability-related targets and monitors progress towards these, including if and how sustainability-related metrics are included in remuneration policies; and
- **describe management's role** in monitoring, managing and overseeing sustainability-related risks and opportunities, including:
  - whether specific roles are delegated to a management-level position or committee and, if so, how oversight is maintained; and
  - whether management has implemented processes and controls to support oversight and how these controls are integrated with other functions.



### Do companies need to change their governance structures or activities?

No. There are no requirements in the standards on how to manage or govern a company.

For example, the standards require a company to disclose how sustainability-related risks and opportunities affect remuneration, but do not require it to introduce any direct link between sustainability-related performance and remuneration.

However, the nature of disclosures and potential scale of the change to existing reporting practice for some companies may trigger additional scrutiny and cause management to reconsider the structures it has in place, as well as the company's processes and controls over sustainability-related financial disclosures.

In addition to disclosures in this content area, there are elements of the strategy (see [Section 3.3](#)) and risk management (see [Section 3.4](#)) content areas that relate to governance processes.



**Can companies report if they do not have separate committees and processes devoted to individual areas of sustainability-related risks or opportunities?**

Yes. The standards require companies to disclose information about what they do in practice – to help investors understand the governance processes, controls and procedures for monitoring, managing and overseeing sustainability-related risks and opportunities. A company does not need to establish separate committees or processes dedicated to individual areas of sustainability-related risks or opportunities to do this.

### 3.3 Strategy

IFRS S1.28, S2.8

The **objective** of disclosures in the strategy content area is to help investors understand the company’s strategy for managing **sustainability-related risks and opportunities**.

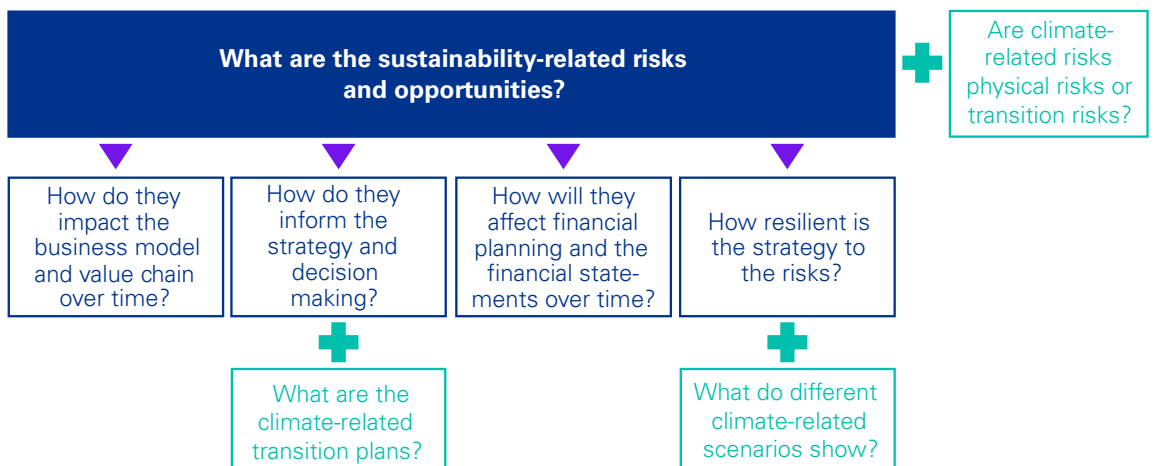
IFRS S1.29, S2.9

The standards include requirements to:

- **identify and describe sustainability-related risks and opportunities** (see 3.3.1);
- provide information that enables investors to understand the effects of those risks and opportunities on:
  - the **business model** and **value chain** over time (see 3.3.2);
  - the **strategy and decision making** (see 3.3.3); and
  - **financial planning** and the current and anticipated effects on **financial position, performance and cash flows** (see 3.3.4); and
- explain the **resilience** of the strategy and business model to the identified risks (see 3.3.5).



There are additional requirements in the climate standard that relate specifically to **climate-related risks, transition plans** and **scenario analysis**.



IFRS S2.23




To prepare disclosures about the effects of climate-related risks and opportunities and resilience, the climate standard requires companies to refer to and consider both cross-industry metrics (see 3.5.2) and industry-specific guidance (see 3.5.3).


### 3.3.1 Identifying and describing sustainability-related risks and opportunities

*IFRS S1.29(a), S2.9(a)* A company needs to disclose the information in the table below to help investors understand the sustainability-related risks and opportunities that could reasonably be expected to affect its prospects (either positively or negatively).

*IFRS S1.31* Short-, medium- and long-term time horizons may vary from company to company depending on industry-specific characteristics and other factors, including the company’s internal planning horizons.

*IFRS S1.B6(a), S2.11*  To identify its sustainability-related risks and opportunities to report, a company uses all reasonable and supportable information that is available to it at the reporting date without undue cost or effort (see [Section 5.5](#)).


[Section 2.3](#) outlines how to identify sustainability-related risks and opportunities to report.

*IFRS S2.12*  In addition to the general requirements, the climate standard requires companies to refer to and consider the applicability of disclosure topics in the industry-specific guidance.

Information	What to disclose
<b>Identify the risks and opportunities to report</b>	A description of the sustainability-related risks and opportunities, including the time horizon over which each could reasonably be expected to impact the company’s prospects.
<b>Define the time horizons</b>	How the company defines short, medium and long term, including how these definitions link to strategic planning horizons.
<b>Physical or transition risks</b>	Distinguish between climate-related physical risks arising from climate change and climate-related transition risks associated with the transition to a lower-carbon economy.

*IFRS S1.30(a)–(b), S2.10(a), (c)*

*IFRS S1.30(c), S2.10(d)*

*IFRS S2.10(b)* 

*IFRS S2.A* **Climate-related physical risks** relate to the physical impacts of climate change. They could be:

- **acute risks** that relate to more frequent or more severe event-driven disruptions to companies from extreme weather events (e.g. floods and cyclones); or
- **chronic risks** that stem from climatic pattern changes in the longer term (e.g. increases in average temperatures which can lead to rising sea levels).

*IFRS S2.A* **Climate-related transition risks** are commonly categorised as:

- **legal and policy** (e.g. stricter regulations);
- **reputational** (e.g. brand damage from the company’s response being deemed insufficient);
- **technological** (e.g. accelerated obsolescence); or
- **market** (e.g. supply and demand shifts).

**Climate-related opportunities** may also arise from both physical changes (e.g. warmer average temperatures allowing new crops to grow) and transition changes (e.g. developing new technologies to facilitate climate-related adaptation). The climate standard does not categorise climate-related opportunities.



### Example 6 – Defining time horizons

In 20X0, manufacturing company M identifies climate-related risks including:

- **obsolescence of a key product** that it expects will be phased out via government legislation from 20X5 leading to falling demand; and
- **risk of supply chain interruption** for a critical component manufactured solely at a factory in a high flood risk zone.

In its disclosures about its strategy, M defines short term as less than three years, medium term as three to 10 years and long term as more than 10 years. It explains that these periods are in line with its internal strategic planning horizons and forecasting.

M provides the following information.

- Management expects the obsolescence risk to impact the business in the short and medium term. Therefore, M has incorporated the impact of falling demand into the financial plan used to support asset valuations.
- Management expects that supply chain interruption risk could impact the business at any time but will increase over time. It did not model this risk in the three-year forecast because it estimated that any cash flow impact would be immaterial during that period, due to the low chance of occurrence. However, when modelling to inform the 10-year strategy, it includes mitigations – e.g. costs associated with broadening the supply chain. It also includes a cross-reference to further discussion on investment planning and broader supply chain risk-mitigation activities elsewhere in the annual report.



### Does a company need to present granular information on each identified risk?

IFRS S1.B29–B30

It depends. The objective of disclosures that identify and describe risks and opportunities is to help inform investors' assessments of the company's future cash flows. Management determines the level of detail needed as part of its assessment of materiality (see [Section 2.4](#)). Sometimes, individually immaterial information could become material when it is aggregated. In this case, aggregated information may be more relevant to investors than granular information.

The level of granularity is also likely to depend on the nature of the risk identified. Some risks may be understandable when they are disclosed at the overall group level (e.g. costs from high energy use), whereas others may be highly localised (e.g. water scarcity leading to supply chain disruption).

When risks are highly localised, disclosing information about specific geographical areas of concern may be useful, whilst information across other locations may not be. Aggregating information across all locations may obscure relevant information in this case, which is not appropriate.



### Will a group disclose information about the same topics as its subsidiary reporting in its own right?

Not necessarily. The assessments of materiality are made from the different perspectives of a consolidated group and a subsidiary that is also required to report in its own right. Information about a topic that is needed to understand a subsidiary's future cash flows might not be material to an understanding of the group's future cash flows.

**Example 7 – Climate-related risks identified by a utility company**

Water utility company W identifies its climate-related risks and opportunities and discloses information about them in a table. The following extract summarises information about two of W's identified risks and related opportunities.

Risk*	Flooding	Energy efficiency
<b>Description</b>	Disruption to availability of water treatment plants caused by flooding from rivers and flash floods	Replacing energy-intensive equipment used in treating and pumping water
<b>Time horizon**</b>	Short term, growing in severity in the medium term	Short and medium term
<b>Nature</b>	Physical risk (acute)	Transition risk and opportunity
<b>Concentrations</b>	Plants built near water, comprising 60% of infrastructure assets	All equipment not yet replaced, comprising 40% of operational assets

**Notes:**

\* This example shows aggregated risks. Depending on its judgements about materiality, W may need to disclose more detail for some or all of these items.

\*\* The disclosure of defined time horizons is illustrated in [Example 6](#).

This information links to W's disclosures about the impact of identified risks and opportunities on its business model (see [3.3.2](#)), strategy and decision making (see [3.3.3](#)), effects on the financial position, performance and cash flows (see [3.3.4](#)) and resilience (see [3.3.5](#)).

**3.3.2****Disclosing effects on the business model and value chain**

*IFRS S1.29(b), S2.9(b)*

Once a company has identified its sustainability-related risks and opportunities (see [Section 2.3](#)), it explains its assessment of how they have impacted the business model and the value chain that underpins it, as well as how these may be impacted in the future.

*IFRS S1.32, S2.13*

A company discloses the current and anticipated effects of sustainability-related risks and opportunities on its business model and value chain, including where these sustainability-related risks and opportunities are concentrated (e.g. geographical areas, facilities or types of assets).

Judgement is required to determine the level of information needed for investors to understand how and when changes would have an impact.

**Example 8 – Impacts on the value chain of an electronics manufacturer**

The value chain of electronics manufacturer E includes, among other resources and relationships:

- raw material mining and processing companies;
- component suppliers;
- own workforce, know-how and production capabilities; and
- distributors and retailers.

When identifying its sustainability-related risks and opportunities, E identifies the impact of human rights issues in its supply chain across all time horizons. E establishes that the risks are particularly concentrated in the operations of raw material mining companies in its supply chain.

When disclosing information about how this risk impacts the business model and value chain, E discusses that:

- there is a concentration of human-rights-related risks amongst suppliers with mining operations;
- its products are dependent on key minerals from these suppliers;
- it anticipates that this will remain the case for the short to medium term due to the lack of alternative suppliers; and
- the company’s business model includes significant research and development activities. Reducing the long-term dependence on certain minerals is a key focus area for its current research.

E then provides information about its strategy for managing the identified risk and related actions (see 3.3.3), including the:

- policies applied;
- actions taken to assess and monitor the risks, both globally and in the high-risk locations; and
- actions taken to address the identified risks.



#### Does a company need to connect disclosures to other information about its overall business model or strategy?

Probably. Descriptions of the company’s overall business model and strategy typically provide essential context for understanding the effect of sustainability-related risks and opportunities on specific features of its business model or strategy.

Many companies are already required to provide this information by local reporting regulations. Companies disclosing their overall business model or strategy need to:

- check that the overall descriptions provide sufficient context for the sustainability-related features to be understood; and
- consider how to present sustainability-related financial disclosures and other information as a well-integrated whole (see Section 4.2).

### 3.3.3

#### Disclosing effects on strategy and decision making

*IFRS S1.29(c), S2.9(c)*

Companies disclose information to help investors understand how sustainability-related risks and opportunities have affected their strategy and decision making.

To do this, companies need to identify the individual aspects of their overall strategy that are directly or indirectly related to sustainability-related issues. Because different aspects of the strategy are interconnected, it may be challenging to isolate sustainability-related matters from other matters, as well as different sustainability matters from each other. For example, a strategy to diversify the supply chain may have benefits for business continuity in addition to supporting climate-related objectives.

*IFRS S1.33*

The general standard provides a high-level overview of the type of information required, as shown in the table below.

*IFRS S2.14*



The climate standard builds on these requirements by including more granular disclosures and explicitly linking disclosure about changes in strategy and decision making to a company’s **transition plan** and climate-related **targets**.



IFRS S1.33(a)



IFRS S2.14(a)(i)

IFRS S2.14(a)(ii)–(iii)

IFRS S2.14(a)(iv)–(v)

IFRS S2.14(b)

IFRS S1.33(b), S2.14(c)

IFRS S1.33(c)

Information	What to disclose
<b>Strategic response</b>	The response to sustainability-related risks and opportunities – covering relevant past and future planned activities.
<b>Climate-specific strategic response</b>	
<b>Changes to the business model</b>	<p>Information about current and anticipated changes to the business model, including changes in resource allocation (e.g. plans for carbon-, energy- and water-intensive assets or operations, acquisitions or divestments, or plans for capital expenditure or research and development spend).</p> <p>For example, if a company holds energy-intensive assets but is adapting its business model to support the transition to a lower-carbon economy, then it discloses how these assets impact its plans, including any material decommissioning obligations and associated capital expenditure required.</p>
<b>Adaptation and mitigation</b>	<p>Information about current and anticipated direct and indirect adaptation and mitigation efforts.</p> <p>Adaptation efforts include how a company changes its activities in response to identified climate-related risks and primarily relate to physical risks. Mitigation efforts relate to activities that prevent further increases in climate-related risks and primarily relate to transition risks.</p> <p>Direct efforts could include changes in a company's own production processes or workforce, while indirect efforts could include working with customers or supply chains and adapting procurement practices.</p>
<b>Transition plan</b>	<p>Information about plans to transition to a lower-carbon economy, including:</p> <ul style="list-style-type: none"> <li>• key assumptions and dependencies; and</li> <li>• how the company plans to achieve any climate-related targets, including greenhouse gas emissions targets.</li> </ul> <p>For example, carbon reduction plans often rely on carbon reduction within the supply chain and new technology becoming available. Investors need to understand what the key assumptions and dependencies are to evaluate the transition plan's viability and a company's future cash flows.</p> <p>Transition plans are connected to a company's targets – i.e. they represent the plan of action to achieve those targets. A transition plan commonly includes interim targets to appropriately measure performance and will sometimes use carbon credits (see 3.5.4).</p>
<b>Resourcing</b>	Information about the company's current and anticipated resourcing of its climate-related strategy and transition plan.
<b>Progress since prior periods</b>	Quantitative and qualitative information about the progress of plans disclosed in prior reporting periods.
<b>Trade-offs</b>	<p>Information about trade-offs considered by management in its decision making. For example, a company exits a particular market to manage a sustainability-related risk, but thereby abandons a customer base and loses the opportunity to generate associated revenue and profit.</p> <p>These trade-offs are important in understanding the connectivity between different sustainability-related risks and opportunities, and in enabling investors to build a complete understanding of the company's overall exposure.</p>



### Does a company need to align its strategy with the Paris Agreement?

IFRS S2.BC144

No. The climate standard requires disclosures on the company's strategy. This includes whether and how the latest international agreement on climate change (i.e. the Paris Agreement<sup>6</sup> or equivalent Nationally Determined Contributions (NDCs)<sup>7</sup>) informed its targets, but does not require companies to include alignment as part of their strategy. The standards do not require companies to adopt any particular strategies or targets.

For some companies, the local jurisdictional disclosure requirements may go further than the climate standard. For example, an increasing number of jurisdictions are implementing regulations requiring companies to consider transition plans or set climate-related goals that include a commitment to achieve the goals of the Paris Agreement or equivalent NDCs.



## Transition plans

IFRS S2.14(a)(iv)

The climate standard links disclosure about changes in strategy and decision making to a company's transition plan and climate-related targets. It requires companies to disclose their transition plan, including how they have chosen to respond to local regulations.

IFRS S2.A

A **transition plan** is an aspect of the company's strategy setting out its planned targets and actions to transition to a lower-carbon economy – e.g. how it will reduce its gross greenhouse gas emissions and how this will be resourced.

Transition plans are an important part of the company's wider corporate strategy because they connect published climate-related ambitions to clear, time-bound actions and targets. Effective disclosure on transition plans helps investors understand the impact of climate-related ambitions on the future financial position and performance of the business.



### Example 9 – Transition plan for a commercial real estate company

Company T operates in commercial real estate and in 2022 published its plan for transitioning to a lower-carbon economy on its external website. T's general purpose financial reports explain the key features of the plan and disclose its progress and all other material information related to the plan.

T's transition plan includes a mix of short- and long-term actions, prioritising direct emissions reductions over purchase of carbon credits. Key information disclosed about the targets:

- applies to all operations and value chain of the company;
- is designed using a sectoral decarbonisation approach in line with the Science Based Targets initiative (SBTi) Corporate Net-Zero Standard;
- is externally validated by SBTi;
- uses scenarios aligned with the latest international agreement on climate change;
- uses a base period of 2018; and
- uses a reduction period of 2018 to 2050.

6. The Paris Agreement is an international treaty on climate change. It was adopted by 196 signatories at COP21 in Paris and entered into force on 4 November 2016. Its central aim is to limit global warming to well below 2°C (above pre-industrial levels) and pursue efforts to limit it to 1.5°C. The standards refer to the "latest international agreement on climate change", which represents the Paris Agreement at the time of publication of the climate standard.

7. NDCs are individual signatories' action plans to reduce emissions and adapt to climate-related impacts.

Milestone	Target
2030	<ul style="list-style-type: none"> <li>• <b>Absolute Scope 1 and 2 emissions:</b> 50% reduction from 2018 base period</li> <li>• <b>Absolute Scope 3 emissions:</b> 30% reduction from Category 1 Purchased Goods and Category 13 Downstream Leased Assets from 2018 base period</li> <li>• <b>Renewable energy:</b> 30% of direct energy consumed (kWh) sourced from renewable energy</li> </ul>
2050	<ul style="list-style-type: none"> <li>• <b>Absolute Scope 1 and 2 emissions:</b> 90% reduction from 2018 base period</li> <li>• <b>Absolute Scope 3 emissions:</b> 90% reduction in Category 1–15 from 2018 base period</li> <li>• <b>Value chain:</b> reach net-zero greenhouse gas emissions across the value chain*</li> <li>• <b>Renewable energy:</b> 90% of direct energy consumed (kWh) sourced from renewable energy</li> </ul>

The main objectives of the transition plan are to mitigate the worst impacts of climate change and conform to expected future government energy and construction regulations. The plan and targets are supported by T's transition plan working group and include the following initiatives:

- improving existing building energy efficiency;
- switching to renewable energy sources;
- on-site renewable generation and storage;
- low-carbon new builds (e.g. Green Steel & Cement and Green Building Design);
- tenant and supply chain engagement; and
- training and education.

Performance against targets is disclosed annually and includes a trend analysis performed by management, concluding that improvements since the 2018 base period are primarily due to increased energy efficiency of existing buildings and transition to renewable energy sources.

T identified installation of electric heat pumps in selected properties as a key action for meeting the 2030 targets. T disclosed the anticipated installation costs of heat pumps in these properties and the expected percentage reduction in emissions as a result by 2030.

Reducing Scope 3 emissions is expected to pose a significant challenge due to the extensive use of steel and cement, and being in the early stages of competitive low-carbon alternatives. T is working with suppliers to identify low-carbon alternatives and piloting certain alternatives on upcoming construction projects. The success of low-carbon alternatives is considered a critical dependency for achieving T's Scope-3-related targets.

T includes disclosures on its process to review its transition plan together with its overall governance and risk management disclosures.

\* Residual greenhouse gas emissions in 2050 are expected to be offset by the purchase of carbon credits. T discloses all material information about its planned use of carbon credits.

### 3.3.4

#### Disclosing current and anticipated financial effects

IFRS S1.29(d), S2.9(d)

Investors need to understand how sustainability-related risks and opportunities – and the strategies that management implements to manage these – may impact the financial statements. This is relevant for both the current period (i.e. financial impacts already occurred) and future periods (i.e. anticipated financial impacts). Investors also need to understand the potential financial exposures arising from the company's business model – e.g. by gaining a greater understanding of the supply chain or other resources and relationships upon which the company relies.

*IFRS S1.34, S2.15*

The standards require companies to provide information that enables investors to understand how sustainability-related risks and opportunities impact financial position (e.g. assets and liabilities), financial performance (e.g. revenue and expenses) and cash flows. This information needs to cover the effects identified within the financial statements for the current reporting period and those anticipated over the short, medium and long term, and enable investors to understand how the identified risks and opportunities impact financial planning.

When making these disclosures, companies are required to provide both qualitative and quantitative information, including the following.

*IFRS S1.35(a)–(b),  
S2.16(a)–(b)*

Information	What to disclose
<b>Linkage with the most recent financial statements</b>	<p>The impact of sustainability-related risks and opportunities on the most recent financial performance, financial position and cash flows.</p> <p>Information about the sustainability-related risks and opportunities identified by management that pose a significant risk of material adjustment to the carrying amounts of assets and liabilities reported in the financial statements in the next financial year.</p>
<b>Changes in financial position</b>	<p>How management expects the financial position to change over time, in line with the strategy. To do this, a company considers:</p> <ul style="list-style-type: none"> <li>• investment and disposal plans (e.g. major acquisitions or divestments, business transformations or innovations, and joint ventures to support sustainability-related strategies), including plans that are not contractually committed; and</li> <li>• planned sources of funding to implement strategies that address the company's sustainability-related risks and opportunities – e.g. sustainability-linked financing arrangements.</li> </ul>
<b>Changes in financial performance and cash flows</b>	<p>How management expects the financial performance and cash flows to change over time, in line with the strategy.</p> <p>For example, a company might provide insight into:</p> <ul style="list-style-type: none"> <li>• its exposure to changes in revenue or expenses from products and services that management plans to introduce in support of its lower-carbon economy strategy;</li> <li>• the size of an alternative market the company is entering into, that market's industry margins and the company's current and target market share;</li> <li>• costs and anticipated savings from business transformation projects to support workforce retention strategies; and</li> <li>• current and anticipated costs of identified climate-related adaptation or mitigation activities.</li> </ul>

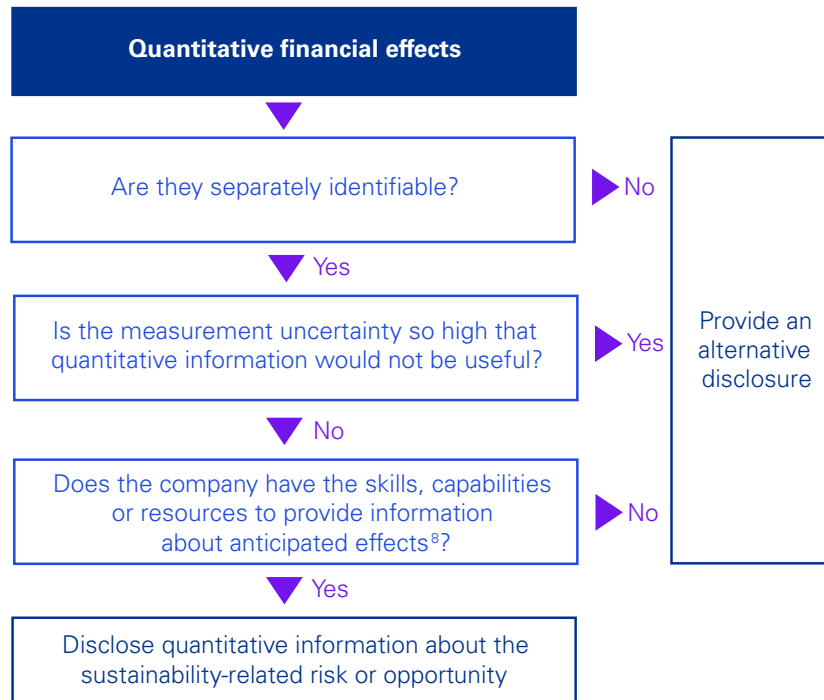
*IFRS S1.35(d), S2.16(d)*

*IFRS S1.36, S2.17*

When disclosing quantitative information about current and anticipated financial effects, a company may provide either a single amount or a range.

IFRS S1.38–39,  
S2.19–20

In some cases, a company does not need to provide quantitative information about the current or anticipated financial effect of individual sustainability-related risks and opportunities. To determine if this is required, companies apply the framework below.



IFRS S1.40, S2.21

If a company provides an **alternative disclosure**, then it discloses:

- an explanation of why it does not provide quantitative information on the individual sustainability-related risk or opportunity;
- qualitative information on the individual sustainability-related risk or opportunity, including financial statement line items, totals and subtotals that have been affected or are likely to be affected; and
- quantitative information on the combined financial effect of sustainability-related risks and opportunities and other factors, unless that information is not useful.

IFRS S1.37,  
S2.18



**Do the standards provide guidance on how to measure anticipated financial effects?**

Yes. The standards explain that:

- the level of information expected to be reported is proportionate to a company's circumstances, considering the available skills, capabilities and resources of the company; and
- a company uses all reasonable and supportable information available at the reporting date without undue cost or effort (see [Section 5.5](#)).



8. A lack of necessary skills, capabilities or resources is permitted as a reason for excluding quantitative information about anticipated financial effects, but not current financial effects. Where this applies but the other criteria for exclusion of quantitative information do not, companies would still quantify information included within the financial statements for the reporting period – i.e. the current financial effects.

This means that companies need to:

- develop methodologies and processes to ensure that the information they communicate is relevant and faithfully represents what it is supposed to represent; and
- in some cases, source new data or connect different sources of existing data to identify how sustainability-related risks and opportunities affect their financial position, performance and cash flows.

Companies need to take particular care when including quantitative information – i.e. the assumptions, methodology and judgements need to be sufficiently clear to enable investors to assess the impact of the sustainability-related risks and opportunities disclosed.



### Example 10 – Current and anticipated effects: Introduction of new policy

Company X manufactures products that will be affected by new regulations specifying minimum energy-efficiency criteria. To meet the criteria, some of X's key products will need to be redesigned and require new production facilities for their manufacture. A proposed extension to the regulations expected to be clarified next year could require similar changes for X's other products.

X discloses its current and anticipated financial effects by providing the following information.

Current financial effects	<ul style="list-style-type: none"> <li>• An explanation of how X is expected to be affected by the regulation, identifying the fact that current production facilities need to be redesigned</li> <li>• The impairment loss relating to those facilities recorded in the financial statements, linking to its disclosures under IAS 36 <i>Impairment of Assets</i></li> <li>• An explanation of the assumptions X has made about potential extensions to the regulation, linking these to IAS 1 <i>Presentation of Financial Statements</i> disclosures about X's impairment judgements</li> </ul>
Anticipated financial effects	<ul style="list-style-type: none"> <li>• An explanation of X's investment plans to address the regulations</li> <li>• An indication of the level of investment required, the timing of the investment and how it could be funded</li> <li>• An explanation of the uncertainties about X's future cash flows arising from changes to its established product range, including:               <ul style="list-style-type: none"> <li>- an indication of the proportion of X's sales and cost of goods sold attributable to products that it expects to require redesign; and</li> <li>- a description of industry analysts' published forecasts of the new regulation's potential impact on the market for X's product types that were used in developing the company's financial plans</li> </ul> </li> </ul>

**Example 11 – Anticipated effects: When effects are not quantifiable**

Company Y depends on a raw material whose cost and availability are affected by incoming pollution-related regulations.

Y discloses its anticipated financial effects by providing the following information.

Anticipated financial effects	<ul style="list-style-type: none"> <li>• An explanation that quantitative information about the anticipated financial effects attributable to the regulations cannot be provided because the effect of the regulations cannot be separately identified from other market factors</li> <li>• An explanation that the change is expected to affect the costs of raw materials (affecting cost of sales and inventory), but that the resulting impact on gross margin and profit before tax will be dependent on the:             <ul style="list-style-type: none"> <li>- availability of alternative raw materials;</li> <li>- success and cost of research and development efforts to diversify and move away from this type of raw material; and</li> <li>- price elasticity of the sold product in the market when the new regulations are introduced</li> </ul> </li> <li>• Qualitative information about how suppliers are responding to the regulation and the historical capacity of Y's market to absorb any cost increases</li> <li>• Quantitative information about the historical volume of raw material purchased by Y so that investors can assess Y's exposure to potential cost changes</li> </ul>
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**3.3.5****Describing a company's resilience**

*IFRS S1.29(e), 41, S2.9(e)*

A company discloses information to enable investors to understand the resilience of the strategy and business model to sustainability-related risks. Disclosures include how the analysis was completed and the time horizon, as well as qualitative (and, where applicable, quantitative) information.

*IFRS S1.41*

Disclosing an analysis of resilience helps investors to understand the company's business model flexibility and its ability to respond to uncertain future events. Providing details about the company's modelling and results helps investors to compare management's assumptions and plans with their own.

*IFRS S1.42*

The general standard does not specify the type of information that a company needs to provide in explaining its resilience to specific sustainability-related risks. It explains that this will be defined by other IFRS Sustainability Disclosure Standards (e.g. the climate standard), including whether or not scenario analysis is required.

*IFRS S2.22, B1–B18*  

The climate standard requires companies to use scenario analysis to assess resilience and provides guidance about how to do this. Although scenario analysis is required, the method used by a company is commensurate with its circumstances as at the time the analysis was performed – i.e. it takes into consideration both the company's exposure to climate-related risks and opportunities and its available skills, capabilities and resources. Companies are required to include all reasonable and supportable information available at that date without undue cost or effort (see [Section 5.5](#)).

*IFRS S2.BC59*

The standards differentiate between scenario analysis and resilience assessments. A scenario analysis is a 'what-if' analysis of the potential impacts from sustainability-related risks and assumptions, whereas a resilience assessment builds on this to explain the 'so what' – considering the implications of the analysis for the company's strategy and its capacity to respond.

**Is there a difference between forecasting and scenario analysis?**

Yes. Forecasting and scenario analysis can be complementary processes, but they do differ.

Forecasting projects how a business is expected to perform during a future reporting period. It is based on historical information and forward-looking trends.

Although scenario analysis usually uses forecasts and other data to simulate how the business would perform if certain events occur, it represents an analysis of 'what-if' questions, rather than a forecast of what is expected to happen.

**Does a company need to use scenario analysis to determine anticipated financial effects?**

No. The requirements to provide information that enables investors to understand anticipated financial effects can be applied independently from the requirements to disclose information about resilience or perform scenario analysis. However, a company may find its resilience assessment and scenario analysis useful when preparing its other disclosures, including on anticipated financial effects.

In addition to anticipated financial effects, resilience assessment and scenario analysis may be useful to inform a company's identification and assessment of risks and opportunities (see [3.3.1](#)) and its transition plans (see [3.3.3](#)).

Companies do need to disclose whether and how scenario analysis is used to inform its identification of sustainability-related risks, as well as whether and how climate-related scenario analysis is used to inform its identification of climate-related opportunities (see [Section 3.4](#)).

*IFRS S1.BC113,  
S2.BC69*

**Climate-related scenario analysis**

Climate-related scenarios allow a company to understand how climate-related events (and their associated risks and opportunities) may impact its business, strategy and financial performance over time. Other scenarios can be used to model the impact of non-climate-related events.

*IFRS S1.A*

Scenario analysis represents a process for management to identify and assess uncertain outcomes in a range of hypothetical situations, based on its view of the risks and opportunities affecting the business.

Financial statement balances sometimes depend on expected value assessments, which will also be based on management's view of the risks and opportunities underlying the business. However, because the scenarios presented are hypothetical, it is unlikely that any particular one would represent an appropriate basis for preparing the financial statements.

*IFRS S2.22, B2*

Companies need to perform scenario analysis to support investors' assessments of resilience under the climate standard. The scenario analysis performed is based on a company's circumstances and considers the exposure to climate-related risks and opportunities, as well as the company's skills, capabilities and resources for performing the scenario analysis.

*IFRS S2.B8, B11*

Determining an approach to scenario analysis involves both selecting inputs and making analytical choices when carrying out the analysis. When selecting inputs, a company may use both qualitative and quantitative information, as well as information developed internally or from an external party. Publicly available scenarios are considered to be available without undue cost or effort.

*IFRS S2.22*

When companies use climate-related scenario analysis to support their resilience assessment, they need to present information about that analysis. This includes differentiating between scenarios used to test physical and transition risks, where they are material.



The climate standard requires the following specific disclosures about both the scenario analysis performed and the subsequent resilience assessment.

Subject	What to disclose
<i>IFRS S2.22(b), BC59</i>	<b>Scenario analysis: How and when the analysis was performed</b>
<i>IFRS S2.22(b)(i)</i>	<p><b>Inputs</b></p> <ul style="list-style-type: none"> <li>• The scenarios selected, including information about their sources and diversity.</li> <li>• Whether scenarios are associated with climate-related transition risks or climate-related physical risks.</li> <li>• Confirmation on whether management included a scenario aligned with the latest international agreement on climate change – i.e. a ‘Paris-aligned’ scenario<sup>9</sup>.</li> <li>• Why management selected particular scenarios to support its assessment of resilience.</li> <li>• The time horizons and scope of operations used for the analysis.</li> </ul>
<i>IFRS S2.22(b)(ii)</i>	<p><b>Key assumptions</b></p> <ul style="list-style-type: none"> <li>• Details of management’s assumptions about the way it expects transition to a lower-carbon economy to affect the company, including policy assumptions for its jurisdictions, macroeconomic trends, national- or regional-level variables, energy usage and mix, and technology assumptions.</li> </ul>
<i>IFRS S2.22(b)(iii)</i>	<p><b>Timing of analysis</b></p> <ul style="list-style-type: none"> <li>• The reporting period in which the analysis was performed.</li> </ul>
<i>IFRS S2.22(a), BC59</i>	<b>Resilience assessment: Discussion of the scenario analysis results and their implications</b>
<i>IFRS S2.22(a)(i)</i>	<p><b>Implications of the findings</b></p> <p>Information to allow investors to understand the implications of the scenario analysis results for the strategy and business model.</p> <p>This includes how the company would need to respond to the identified effects of different climate-related transition paths and to the transition assumptions it modelled.</p>
<i>IFRS S2.22(a)(ii)</i>	<p><b>Areas of uncertainty</b></p> <p>The significant areas of uncertainty considered by management.</p>
<i>IFRS S2.22(a)(iii)</i>	<p><b>Capacity to adapt</b></p> <p>Information to explain the company’s flexibility in adapting or adjusting its strategy and business model over the short, medium and long term. This includes considering its ability to:</p> <ul style="list-style-type: none"> <li>• be flexible to rely on existing financial resources or redirect resources to take advantage of climate-related opportunities; and</li> <li>• redeploy, repurpose, upgrade or decommission existing assets.</li> </ul> <p>It also includes considering the effect of current or planned climate-related investments (e.g. to support climate-related mitigation, adaptation or opportunities).</p>

9. A ‘Paris-aligned’ scenario is a scenario with inputs that would be consistent with limiting global warming to well below 2°C, and pursuing efforts to limit warming to 1.5°C, compared with pre-industrial levels.

IFRS S2.B1-B17

**Do all companies need to perform sophisticated scenario analysis?**

No. The expected level of sophistication depends on the company's exposure to climate-related risks and the skills and resources it has available. This means that the scenario analysis could range from narrative descriptions to quantitative information. The ISSB expects companies to improve their scenario analysis over time.

For example, a company identifying lower gross exposure to climate-related risks could use a simpler method of analysis than a company facing greater climate-related risks that pose significant threats to the feasibility of its business model in the future.



When determining the inputs to the scenario analysis, a company considers all reasonable and supportable information that is available at the reporting date without undue cost or effort (see [Section 5.5](#)).

**Is it necessary to present technical details about climate-related scenario models used?**

It depends. For the assessment of resilience to be understandable, companies need to provide sufficient detail about how the supporting scenario analysis was performed, in addition to the results and conclusions reached during the resilience assessment. This is set out in the table above.

Although referencing any external climate-related scenario models used may be useful information, it is also important for companies to explain how they applied a chosen scenario to their circumstances.

Disclosures could be misleading or interpreted as a prediction of future events that are inherently uncertain if they provide management's assessment alone – i.e. they do not explain how and why management performed the calculations and the significant uncertainty involved. This is particularly important given the level of uncertainty that generally exists in scenario modelling and the high number of potential pathways that could be included.

**Do the standards identify which scenarios companies need to model?**

IFRS S2.BC66-BC67

No. The requirement is to provide information that enables investors to understand the resilience of the company's strategy and business model to climate-related changes and uncertainties.

To achieve this, companies consider scenarios that are likely to impact their financial position significantly, which may be a diverse range. The number and type of scenarios is not defined and depends on the specifics of the company – including its level of exposure and its available skills and resources. A relevant set of scenarios could include those that investigate different levels of warming (e.g. 1.5°C or 4°C), as well as other factors (e.g. the speed of global response).

For example, many companies may use a 1.5°C warming climate-related scenario. However, for businesses with material exposure to weather-related disasters – e.g. property and casualty insurance companies – using scenarios that investigate physical risks and result in a larger than 1.5°C temperature increase could also be helpful. A company may also consider modelling different policy responses – e.g. whether global governments implement policies in the short term to meet climate-related goals in a measured way, or whether they wait until significant impacts from physical risks trigger a more disorderly transition.



**Does a company need to perform scenario analysis at each reporting date?**

IFRS S2.B18

No. Companies need to disclose information about their climate-related resilience at each reporting date, but may perform scenario analysis in line with their strategic planning cycle. That cycle may be yearly, or may be a multi-year planning cycle (e.g. three to five years).

Therefore, disclosures on how a company performed its scenario analysis may stay the same from year to year. However, a company’s disclosures about its resilience to climate-related risks need to be updated for the reporting period to reflect updated insight into the implications of climate uncertainty for the company’s business model and strategy and the conditions as at the period end – e.g. to reflect changes to legislation, carbon taxes and any related government announcements.

### 3.4 Risk management

IFRS S1.43, S2.24

The **objective** of risk management disclosures is to help investors **understand the company’s processes** to identify, assess, prioritise and monitor sustainability-related risks and opportunities. This enables investors to **assess the company’s overall risk profile and risk management processes**. Disclosures also aim to help investors understand whether and how these processes are **integrated** into the company’s overall risk management processes.

IFRS S1.44, BC119, S2.25

Disclosure is required for both risks and opportunities but, as set out below, the specific requirements differ in some areas. For example, the standards generally require more detail for risks than for opportunities.

This section covers disclosures about the processes that companies use. Guidance on how to identify sustainability-related risks and opportunities is included in [Section 2.3](#).

IFRS S1.B42(b), S2.26

Companies need to avoid unnecessary duplication when providing disclosures in this area. This can be relevant in multiple ways, including the following.

- Information about management of risks and opportunities could be related to disclosures about a company’s governance processes (see [Section 3.2](#)) or strategy (see [Section 3.3](#)). For example, in the governance content area, a company describes the activities of the body responsible for sustainability-related risks and strategies, including how it considers the risks and opportunities when overseeing company risk management processes and related policies. This information is likely to be linked to a description of the risk management processes themselves.
- Companies may also use the same processes to manage climate-related risks and opportunities as other sustainability-related risks and opportunities.

IFRS S1.44(a), S2.25(a)

Information	What to disclose
<b>Risk processes</b>	<p>How the company identifies, assesses, prioritises and monitors identified sustainability-related risks. This includes disclosing:</p> <ul style="list-style-type: none"> <li>• the inputs and parameters that the company used in its risk assessment process – e.g. the data sources and scope of operations covered by the processes disclosed;</li> <li>• whether and how the company uses scenario analysis to inform the identification of sustainability-related risks;</li> <li>• how the company assesses the nature, likelihood and impact of identified sustainability-related risks – e.g. qualitative factors and quantitative thresholds used;</li> </ul>

IFRS S1.44(b), S2.25(b)

IFRS S2.25(b)



IFRS S1.44(c), S2.25(c)

Information	What to disclose
	<ul style="list-style-type: none"> <li>• whether and how the company prioritises sustainability-related risks relative to other types of risks;</li> <li>• how the company monitors sustainability-related risks; and</li> <li>• whether and how the company's risk assessment processes have changed since the prior reporting period.</li> </ul>
<b>Opportunity processes</b>	<ul style="list-style-type: none"> <li>• How the company identifies, assesses, prioritises and monitors identified sustainability-related opportunities.</li> </ul>
<b>Climate-related opportunity processes</b>	<ul style="list-style-type: none"> <li>• Whether and how climate-related scenario analysis is used to inform its identification of climate-related opportunities.</li> </ul>
<b>Integration of processes</b>	<ul style="list-style-type: none"> <li>• The extent to which sustainability-related risk or opportunity management processes are integrated into and inform the company's overall management processes.</li> </ul>



#### Do companies disclose risk management processes together for each topic identified?

IFRS S1.B42(b), S2.26

It depends. The risk management disclosures in both standards focus on process-oriented information and provide transparency around how a company identifies, assesses, prioritises and monitors sustainability-related risks and opportunities. An important part of these requirements includes reporting on how risk management activities are integrated into the overall risk management processes.

Companies are required to avoid unnecessary duplication in how information is presented. The climate standard explicitly requires that companies consider how to avoid unnecessary duplication when providing information about climate-related risk and opportunity management processes. Therefore, where companies have integrated governance and/or risk management processes across different topics, they will need to carefully consider how to present this information to avoid unnecessary duplication.

Investors may find information on these processes more useful if it is presented at the level at which they are managed by the business. In some cases, this may be at the group, division or geographical region level, rather than for each topic identified individually (e.g. climate-related risk separate from biodiversity-related risk).



#### Do companies need to use the same process to identify, assess, prioritise and monitor both sustainability-related risks and opportunities?

No. The disclosures need to reflect the processes that companies use in practice to identify, assess, prioritise and monitor both sustainability-related risks and opportunities. However, companies do not need to use the same processes for their risks and their opportunities. For many companies, the processes currently used for opportunity identification, assessment and management may be less mature than those used for risks.

## 3.5 Metrics and targets

IFRS S1.45, S2.27

Disclosures on metrics and targets need to help investors understand the company’s performance in managing its sustainability-related risks and opportunities, including progress towards any targets it has set or is required to meet by law or regulation.

IFRS S1.46

Companies disclose the metrics (where material) for each identified sustainability-related risk and opportunities that could reasonably be expected to affect a company’s prospects (see 2.3.1):

- used to measure and monitor sustainability-related risks and opportunities and measure performance towards their targets (see 3.5.1); and
- otherwise required by IFRS Sustainability Disclosure Standards, even if not used by management in monitoring performance.

IFRS S1.48–49

Companies need to include metrics that are characteristic of their specific business model or the industry (or industries) that they operate in. When metrics disclosed are from a source other than IFRS Sustainability Disclosure Standards, companies need to identify the source and the metric taken.

IFRS S1.52–53

All targets and related metrics need to be:

- clearly and meaningfully labelled; and
- consistently defined and calculated over time.

See Section 5.7 for guidance on the disclosures required when metrics need to be redefined or replaced.

Companies need to use both standards together to report metrics as follows.



IFRS S2.28(a)

IFRS S2.28(b)

IFRS S1.50

Type of metric	General standard	Climate standard
<b>Cross-industry</b>	Using sources of guidance for metrics relating to topics not (yet) covered by an IFRS Sustainability Disclosure Standard (see Section 2.3)	Using seven categories of cross-industry metrics (see 3.5.2)
<b>Industry-specific</b>		Using industry-specific metrics (see 3.5.3)
<b>Company-defined</b>	Following guidance on disclosing metrics that the company has defined itself, rather than calculated in line with an existing standard or framework (see 3.5.1)	Following guidance in the general standard

IFRS S1.46(b)(iii), S2.28(c)

Companies are required to link information about metrics to information about targets that the company has set, or is required to meet by law or regulation (see 3.5.4).

IFRS S2.37



When identifying and disclosing metrics used in setting and monitoring progress towards targets, the climate standard requires companies to refer to and consider the applicability of both industry-specific and cross-industry metrics.

### 3.5.1 Company-defined metrics

Companies use IFRS Sustainability Disclosure Standards (e.g. the climate standard) to identify metrics to disclose, and other sources of guidance (see Section 2.3) for topics not (yet) covered by an IFRS Sustainability Disclosure Standard. However, companies may also need to disclose other metrics, including climate-related metrics, where they are used to measure and monitor sustainability-related risks and opportunities. This is particularly relevant when a target relies on a metric that the company has defined itself.

The general standard includes guidance for disclosing the company’s own metrics – i.e. those that it has developed. This is to help companies provide information that is most relevant to their business, and also support consistency and comparability.

	Information	What to disclose
<i>IFRS S1.50(a)–(b)</i>	<b>Definition</b>	How the metric is defined, including: <ul style="list-style-type: none"> <li>• whether it is disclosed in absolute terms, in relation to another metric (normalised<sup>10</sup>) or qualitative (e.g. a red, amber or green rating); and</li> <li>• if it is defined by adjusting a metric from a source other than IFRS Sustainability Disclosure Standards, the source used and how the metric differs from the source metric.</li> </ul>
<i>IFRS S1.50(c)</i>	<b>External validation</b>	Whether the measurement is validated by an external body and, if so, which body.
<i>IFRS S1.50(d)</i>	<b>Methodology</b>	The methodology used to calculate the metric, including its inputs, significant assumptions and limitations.

### 3.5.2



#### Cross-industry climate-related metrics

*IFRS S2.29*

Companies need to disclose seven categories of cross-industry climate-related metrics, which are set out in the table below. These metrics are designed to be generally applicable to all companies, regardless of their industry and business model.

*IFRS S2.B65*

Although detailed cross-industry guidance is included on the reporting of greenhouse gas emissions, the other six categories include less detailed guidance applicable across all industries. However, companies are provided with general guidance to follow when selecting metrics to disclose for these categories, including requirements to consider:

- whether there are any relevant industry-specific metrics in the industry-specific guidance that could meet the requirements of these categories, or whether they have relevant company-defined metrics;
- the time horizons for when the effects of climate-related risks and opportunities could reasonably be expected to occur;
- where risks and opportunities are concentrated in the business model and value chain; and
- making links between these cross-industry metrics and information disclosed about the current and anticipated financial statement effects (see 3.3.4) and in the related financial statements (see 4.2.3 and Section 5.2).

*IFRS S2.30, B39*



Companies use all reasonable and supportable information that is available at the reporting date without undue cost and effort (see Section 5.5) to report Scope 3 greenhouse gas emissions and metrics relating to physical and transition climate-related risks and climate-related opportunities.

10. A normalised metric is expressed in relation to another metric. For example, an absolute metric could be Scope 1 greenhouse gas emissions. A related normalised metric could be Scope 1 greenhouse gas emissions per unit of revenue.

IFRS S2.29(a),  
B24,  
B26-B33,  
B55



IFRS S2.29(b),  
30



IFRS S2.29(c),  
30



Type of metric	What to disclose
<p><b>Greenhouse gas emissions</b></p> <p>See <a href="#">Appendix 3</a> for information on greenhouse gas emissions accounting and the GHG Protocol Standards<sup>11</sup> and <a href="#">Example 12A–12B</a> below</p> <p>See <a href="#">Section 6.2</a> for transition reliefs relating to greenhouse gas emissions measurement and disclosure</p>	<p>Absolute gross Scope 1, 2 and 3 emissions expressed as metric tonnes of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e), calculated in line with the GHG Protocol Corporate Standard, unless an alternative methodology is required by a jurisdiction or exchange.</p> <p>Information about the selected measurement approach (i.e. the equity share, operational control or financial control methods in the GHG Protocol Corporate Standard), inputs and assumptions and the reasons for those choices.</p> <p>Any changes made to the measurement approach, as well as inputs and assumptions, along with the reasons for those changes.</p> <p>There are specific requirements for each Scope.</p> <ul style="list-style-type: none"> <li>• Disaggregate Scope 1 and 2 emissions between: <ul style="list-style-type: none"> <li>- the consolidated accounting group (e.g. for companies using IFRS Accounting Standards this includes the parent company and its consolidated subsidiaries); and</li> <li>- any unconsolidated investees (e.g. for companies using IFRS Accounting Standards this includes associates, joint ventures and unconsolidated subsidiaries).</li> </ul> </li> <li>• Calculate Scope 2 emissions using the location-based approach, but also present information about any contractual instruments related to managing energy the company has purchased. Providing market-based Scope 2 emissions may form part of the disclosure to fulfil this requirement.</li> <li>• For Scope 3 emissions: <ul style="list-style-type: none"> <li>- describe the categories included, as set out in the GHG Protocol Value Chain Standard, considering which parts of the upstream and downstream value chain are relevant; and</li> <li>- provide additional information about financed emissions, if the company's activities include commercial banking, insurance or asset management (see <a href="#">3.5.3</a>).</li> </ul> </li> </ul>
<p><b>Transition risks</b></p>	<p>The amount and percentage of assets or business activities vulnerable to transition risks – i.e. risks arising from transition to a lower-carbon economy.</p> <p>For example, for a bank, this could include the concentration of credit risk exposure to industries vulnerable to climate-related change.</p>
<p><b>Physical risks</b></p>	<p>The amount and percentage of assets or business activities vulnerable to physical risks – i.e. risks relating to the physical impacts of climate change.</p> <p>For example, for a property company, this could include the amount and percentage of property, infrastructure or other assets in areas subject to flooding.</p>

11. The *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)* (the GHG Protocol Corporate Standard) provides guidance for companies preparing a greenhouse gas emissions inventory. The *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011)* (the GHG Protocol Value Chain Standard) provides guidance on the categories of Scope 3 emissions. In this publication, they are referred to as the GHG Protocol Standards. Measurement of greenhouse gas emissions under the climate standard is determined with reference to the GHG Protocol Corporate Standard. See [Appendix 3](#) for further information.

IFRS S2.29(d),  
30

Type of metric	What to disclose
<b>Climate-related opportunities</b>	<p>The amount and percentage of assets or other business activities aligned with climate-related opportunities.</p> <p>For example, for an automobile manufacturer, this could include the number and proportion of zero-emissions vehicles, hybrid vehicles and plug-in hybrid vehicles sold.</p>
<b>Capital deployment</b>	<p>The amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities.</p> <p>For example, for an agricultural company, this could include the amount and percentage of investment in climate adaptation measures – e.g. soil health, irrigation and technology.</p>
<b>Internal carbon prices</b>	<p>The price for each metric tonne of greenhouse gas emissions that the company uses to assess the cost of its emissions (in presentation currency, per tCO<sub>2</sub>e).</p> <p>A description of whether and how the company is applying the carbon price in its decision making – e.g. investment decisions, transfer pricing and scenario analysis.</p>
<b>Remuneration</b>	<p>The proportion of executive management remuneration linked to climate-related considerations in the current period.</p> <p>A description of whether and how climate-related considerations factor into executive remuneration.</p>

IFRS S2.29(e)

IFRS S2.29(f)

IFRS S2.29(g)



### Could companies be seen as greenwashing if metrics are insufficiently explained or defined?

Yes. It is important for companies to include clear descriptions of the scope and methodology used to calculate metrics. This helps investors to understand what each metric represents and to avoid misinterpretation of any information provided.

In calculating climate-related metrics such as those in the table above, a company is likely to make significant assumptions and judgements. Companies might also define the metrics in each cross-industry category differently from their peers. This means that describing the methodology they have used is important for investors' understanding, supporting comparability and providing more transparency.



### Does the climate standard specify how to measure greenhouse gas emissions?

IFRS S2.29(a)(iii),  
29(a)(v), B21–B22,  
B26, B29, B40–B42

No. The climate standard requires that companies measure greenhouse gas emissions using the GHG Protocol Corporate Standard (subject to reliefs), but this allows a choice between different measurement approaches. See [Appendix 3](#) for further details.

However, the climate standard does specify that companies:

- convert emissions into a CO<sub>2</sub> equivalent value using global warming potential values based on the latest Intergovernmental Panel on Climate Change assessment and on a 100-year time horizon;



- select appropriate emission factors, providing sufficient information to enable investors to understand the inputs, assumptions and estimates used, why these are relevant and any changes to techniques during the reporting period<sup>12</sup>;
- use the location-based approach for Scope 2 emissions measurement and present information about contractual instruments related to managing purchased energy; and
- use guidance provided to support identifying relevant inputs for Scope 3 emissions disclosures (see observation below).



### Does the climate standard provide guidance on how to identify relevant inputs for Scope 3 emissions disclosures?

IFRS S2.B38–B57

Yes. The climate standard includes a framework to support companies in prioritising available data sources and providing useful information to investors about their calculations.

Companies prioritise data that:

- is based on direct measurement;
- is from specific activities in the value chain;
- is timely;
- faithfully represents the relevant locations and technology used for the activities; and
- is verified.

To support investors to understand what inputs the company used, a company discloses:

- the extent of Scope 3 emissions measured using inputs from specific activities in the value chain (i.e. rather than estimated based on third party or proxy data);
- the extent of data that has been prepared using verified inputs; and
- how it is managing Scope 3 emissions where the company decides it is impracticable to estimate.



### Can information from a company in the value chain with a different reporting period be used to measure Scope 3 emissions?

IFRS S2.B19

It depends. A company is only allowed to use value chain information from a reporting period that differs from its own if the following conditions are met:

- the company uses the most recent data available without undue cost or effort;
- the length of reporting periods is the same; and
- the company discloses the impact of any significant events or changes that have occurred between the reporting dates of the two companies.

For example, a company reporting its Scope 3 emissions for the 12-month period ended 31 December 20X7 can include information from a major value chain partner that reported emissions for a 12-month period ended 31 October 20X7, provided that more recent data is not reasonably available and the company is not aware of significant events or changes occurring between the period-end dates.

12. Despite the requirement to use global warming potential values based on the latest Intergovernmental Panel on Climate Change, the climate standard explains that companies are not required to recalculate emission factors that have already converted the constituent gases into CO<sub>2</sub> equivalent in order to use these emission factors.

**Example 12A – Organisational boundary for greenhouse gas emissions**

Company E has investments in multiple non-wholly owned companies.

- The group prepares its financial statements under IFRS Accounting Standards.
- The group applies the GHG Protocol Corporate Standard and elects to use the operational control approach<sup>13</sup>. Under this approach, investments in other operations or companies are included within the organisational boundary, and therefore Scope 1 or 2, if E has operational control.

The following table illustrates the consolidation principles applied for a selection of E's investments.

Investment	Accounting policy under IFRS Accounting Standards	Operational control approach
<b>O Ltd</b> 80%-owned subsidiary; E has operational control	Full consolidation*	100% included
<b>I Pty Ltd</b> 50%-owned joint venture; E does not have operational control	Equity accounting**	0% included
<b>L GmbH</b> 50%-owned joint venture; E has operational control	Equity accounting**	100% included

E's disclosures relating to Scope 1 and 2 emissions include (in metric tonnes of CO<sub>2</sub>e):

- Scope 1 and 2 emissions:
  - on an absolute basis;
  - disaggregated into emissions from the consolidated accounting group and those from investees not included in the consolidated group; and
  - disaggregated by most significant geographical locations, explaining that this shows potential exposure to future carbon taxes, which management considers may be material to future financial performance; and
- an explanation that E uses the operational control approach because it is consistent with its peer group and its own historical reporting; and
- further information about the inputs and assumptions used to measure Scope 1 and 2 emissions, and confirmation that this is unchanged from the prior year.

**Notes:**

\* As an 80% subsidiary, O Ltd is consolidated in full in E's financial statements. The 20% owned by other parties is reflected as a non-controlling interest in equity. 100% of O Ltd's revenue is included in revenue in E's consolidated financial statements.

\*\* Under the equity accounting method, E includes its share of the net assets and net income of I Pty Ltd and L GmbH. It does not consolidate its percentage ownership on a line-by-line basis, meaning that some financial metrics (e.g. revenue in E's consolidated financial statements) exclude results from equity-accounted investees.

13. See [Appendix 3](#) for further information on the operational control approach to greenhouse gas accounting.



### Example 12B – Scope 3 greenhouse gas emissions disclosures

Extending Example 12A, Company E also provides disclosures about its Scope 3 emissions. Company E's activities do not include commercial banking, insurance or asset management.

When determining what to disclose, E uses the GHG Protocol Value Chain Standard and includes:

- its indirect (Scope 3) emissions and those of its subsidiary O and joint venture L (which are under operational control and therefore their Scope 1 and 2 emissions are reported in E's consolidated Scope 1 and 2 emissions); and
- the Scope 1, 2 and 3 greenhouse gas emissions of joint venture I (excluded from E's consolidated Scope 1 and 2 emissions).

E's disclosures might:

- explain that its Scope 3 emissions included Category 1 (purchased goods and services), Category 5 (waste generated in operations), Category 6 (business travel) and Category 15 (investments) because these are the only categories identified as material;
- describe its measurement approach, inputs and assumptions used to measure each category of Scope 3 emissions, with justification and information about the types of sources included, and explaining that:
  - the scope of emissions is the same as the prior year, because management did not identify any significant events in the year that require reassessment;
  - Category 1 emissions were calculated using a hybrid method. E obtained verified data directly from its 12 largest suppliers as it has a procurement data-sharing process with them. The remaining suppliers do not have this process and therefore R used sector-average estimates to calculate these remaining Category 1 emissions;
  - Category 5 emissions were calculated using a supplier-specific method. E obtained company activity data from third party waste hauliers and applied emission factors;
  - Category 6 emissions were calculated using a spend-based method. E generated data from its purchases ledger and expenses system, which is assured by its external assurance provider, and applied emission factors; and
  - Category 15 emissions were calculated using an investment-specific method. E obtains greenhouse gas emissions data directly from its investments and allocates it based on the proportional share of equity E has in each investee.

### 3.5.3



### Industry-specific climate-related metrics

IFRS S2.28(b), 32

Companies need to provide industry-specific information where relevant. When a company undertakes activities across various industries, it may identify disclosure topics and, therefore, metrics from more than one industry.

IFRS S2.32

The climate standard provides illustrative definitions and measurement guidance for industry-specific metrics across 11 sectors, comprising 68 industries. Companies are required to refer to and consider the applicability of these metrics in disclosing industry-specific information that describes their performance or how they manage and measure climate-related risks and opportunities.

These illustrative metrics are organised by disclosure topics. The disclosure topics and metrics for each industry differ. For each industry, activity metrics are also suggested, because these can be useful to investors in normalising data.

IFRS S2.BC138

For the comprehensive list of illustrative industry-specific disclosure topics and metrics, see the climate standard's industry-specific implementation guidance. Though this is illustrative guidance, the ISSB plans to make it mandatory in the future, subject to further consultation.

For illustrative purposes, the metrics suggested for the 'E-commerce' industry include the following.

IFRS S2.IBG Volume 4

Disclosure topic	Metrics to consider	Reporting unit
<b>Hardware infrastructure, energy and water management</b>	<ul style="list-style-type: none"> <li>Total energy consumed, split by percentage of grid electricity and percentage renewable</li> <li>Total water withdrawn and total water consumed, with the percentage of each in regions with high or extremely high baseline water stress</li> <li>Discussion of integrating environmental considerations into strategic planning for data centre needs</li> </ul>	Gigajoules (GJ), percentage (%) Thousand cubic meters (m <sup>3</sup> ), percentage (%) N/A
<b>Product packaging and distribution</b>	<ul style="list-style-type: none"> <li>Total greenhouse gas emissions footprint of product shipments</li> <li>Discussion of strategies to reduce the environmental impact of product delivery</li> </ul>	tCO <sub>2</sub> e N/A

In addition, the activity metrics suggested for the 'E-commerce' industry include the following.

Activity metrics	Reporting unit
<ul style="list-style-type: none"> <li>A company-defined measure of user activity suitable for its business activities (e.g. monthly active users)</li> </ul>	Number
<ul style="list-style-type: none"> <li>Data processing capacity and the percentage outsourced</li> </ul>	Quantitative
<ul style="list-style-type: none"> <li>Number of shipments</li> </ul>	Number



### Do the industry-specific metrics align with the SASB Standards?

Yes. The industry-specific metrics guidance provided in the climate standard is derived from the 77 industry-specific SASB Standards<sup>14</sup>. However, the ISSB has adapted the SASB Standards to:

- ensure international applicability, by removing any US-specific terminology (e.g. ENERGYSTAR® rating); and
- reflect a climate-related scope only, limiting the metrics to those directly or indirectly related to climate-related matters (e.g. water quality).

When the ISSB released the climate standard, it also updated the SASB Standards to reflect the changes to ensure international applicability.

14. There are fewer categories in the climate standard than in the SASB Standards because certain SASB Standards (e.g. advertising and marketing) do not include climate-related metrics.



### Is there overlap between cross-industry metrics and industry-specific metrics?

IFRS S2.B65(d)

Yes. There is some overlap, particularly for greenhouse gas emissions. These are required as an industry-specific metric for many industries, as well as being a cross-industry metric.

In some cases the required metrics will be similar, but the industry-specific guidance provides additional detail that goes beyond the cross-industry guidance. For example, for Scope 1 emissions, the 'Coal Operations' industry-specific guidance requires further disclosure of the percentage of Scope 1 emissions within areas subject to emissions-limiting regulations.

The climate standard provides guidance on this overlap, explaining that companies consider the industry-specific metrics when identifying relevant metrics to present for the other categories of cross-industry metrics.



### Are companies required to disclose all topics or metrics in the industry-specific implementation guidance?

IFRS S2.32

No. However, they are required to consider whether the disclosure topics and related metrics included in the industry-specific guidance for their industry or industries are relevant to their business. Depending on their specific facts and circumstances, companies may determine that only some disclosure topics in the industry-specific guidance apply.

This means that companies will need to implement a process for assessing whether the guidance is relevant and to demonstrate that they have done so.

## Financed emissions disclosures

IFRS S2.29(a)(vi)(2),  
B37, B58–B63

The climate standard requires companies with activities in commercial banking, insurance or asset management to disclose additional information about their financed emissions.

A company with the above activities discloses the following as part of its Scope 3 Category 15 (investments) reporting.

	Commercial banking and insurance activities	Asset management activities	
IFRS S2.B61(a), B62(a), B63(a)	<b>Absolute gross financed emissions</b>	for each industry <sup>15</sup> by asset class disaggregated by Scope 1, 2 and 3	disaggregated by Scope 1, 2 and 3
IFRS S2.B61(b), B62(b), B63(b)	<b>Associated amounts in presentation currency – i.e.</b>	gross exposure to each industry <sup>15</sup> by asset class (including funded amounts and undrawn loan commitments)	amount of total assets under management
IFRS S2.B61(c), 62(c), 63(c)	<b>Percentage of</b>	gross exposure included in the financed emissions calculation <sup>16</sup>	total assets under management included in the financed emissions calculation <sup>16</sup>
IFRS S2.B61(d), B62(d), 63(d)	<b>A description of the methodology used, including the method of investment or gross exposure allocation</b>		

15. Industry classification using the Global Industry Classifications System (GICS®).

16. If the percentage of gross exposure or total assets under management included in the financed emissions calculation is less than 100 percent, companies are required to disclose information that explains the exclusions, including the type of assets excluded.

**Does the climate standard specify how to measure financed emissions?***IFRS S2.BC125*

No. The climate standard provides detailed reporting requirements to support companies in providing financed emissions disclosures, but does not prescribe a measurement methodology.

This is to drive consistency and comparability, while continuing to allow for innovation. This enables the market to collaborate on the convergence of existing or emerging methodologies like the Partnership for Carbon Accounting Financials (PCAF) standards.

**3.5.4****Targets***IFRS S1.46(b)(iii), S2.28(c)*

A company provides detailed descriptions of its own sustainability-related targets, linked to the metrics it uses to measure and monitor them. It also needs to disclose targets that it is required to meet by law or regulation.

There is no prescribed format to present this information. However, clear connectivity of disclosures between strategy and the related metrics and targets is important.

*IFRS S2.14(a)(iv)–(v)*

For example, companies will need to make sure that investors can understand how they plan to achieve climate-related targets when explaining their strategic response to climate-related risks and opportunities (see 3.3.3). In addition, many transition plans will include long-term goals – e.g. achieving net-zero carbon emissions by 2050. To achieve these goals, transition plans often include interim targets and milestones, which need to be disclosed – e.g. reducing emissions by 40% below 20X0 levels by 2030.

The table below summarises the required disclosures for each quantitative or qualitative target the company has set or is required to meet.

*IFRS S1.51(a), S2.33(a), 34(c)**IFRS S1.51(b)**IFRS S1.51(c), S2.33(d)**IFRS S1.51(d), S2.33(e)**IFRS S1.51(e), S2.33(f)**IFRS S1.51(f), S2.35**IFRS S1.51(g), S2.34(d)**IFRS S2.33(b)*

Subject	What to disclose
<b>Related metric</b>	The metric used to set and monitor progress towards the target.
<b>Target</b>	The specific quantitative or qualitative target.
<b>Timeframe</b>	The period over which the target applies.
<b>Base period</b>	The base period from which progress is measured.
<b>Milestones or interim targets</b>	Information about key milestones or interim targets set.
<b>Performance</b>	How the company has performed against the target. Analysis of trends or changes in performance.
<b>Revisions</b>	Whether there have been revisions to the target and explanations of those.
<b>Additional information about climate-related targets</b>	
<b>Objective</b>	The objective of the target – e.g. climate-related mitigation, adaptation or conformance with science-based initiatives.  The topics of climate-related mitigation and adaptation are discussed in 3.3.3.

	Subject	What to disclose
<i>IFRS S2.33(c), 36(a)–(b)</i>	<b>Scope</b>	Information on the scope of the targets – i.e. whether they relate to the whole business or to specific areas only.  Information on which Scopes (i.e. Scope 1, 2 and 3) and which gases (i.e. all seven gases covered by the GHG Protocol Corporate Standard, or a subset of those gases) are covered by an emissions target*.
<i>IFRS S2.33(g), 36(d)</i>	<b>Nature</b>	If quantitative, whether the target is absolute or based on intensity.  Whether the target is derived using a sectoral decarbonisation approach*.
<i>IFRS S2.33(h)</i>	<b>Comparability</b>	How the latest international agreement on climate change (i.e. the Paris Agreement) informed any climate-related targets set.  This includes jurisdictional commitments linked to an international agreement – e.g. NDCs.
<i>IFRS S2.34(a)</i>	<b>Verification</b>	Whether the target and its methodology have been validated by a third party.
<i>IFRS S2.34(b)</i>	<b>Process</b>	The process for reviewing the target.
<i>IFRS S2.36(c), B68–69</i>	<b>Gross or net*</b>	Whether the target is gross or net. For any net targets, disclose a related gross target.
<i>IFRS S2.36(e), B70</i>	<b>Carbon credits*</b>  See below for further information about carbon credits.	The company's planned use of carbon credits to offset emissions to meet net targets.  Information about the extent to which and how achieving targets relies on the use of carbon credits, including the type of carbon credit and whether they are: <ul style="list-style-type: none"> <li>• nature-based or based on technological carbon removals; and</li> <li>• designed to offset through carbon reduction or removal.</li> </ul> Which third party scheme will verify or certify the carbon credits.  Any other information necessary to understand credibility and integrity of planned carbon credits (e.g. assumptions around permanence of the carbon offset).
* Disclosures relevant for greenhouse gas emissions targets only.		



## Carbon credits

*IFRS S2.A*

**Carbon credits** – a common type of carbon offset – are emissions units issued by carbon crediting programmes. By purchasing carbon credits, a company can compensate for emissions from its own direct or indirect activities, to achieve any net emissions targets or meet regulatory requirements.

These are commonly generated by third parties which remove greenhouse gases from the atmosphere through either **nature-based solutions** (e.g. planting trees) or **technological** means (e.g. using chemical reactions to remove CO<sub>2</sub> via direct air capture). They may also represent emissions reduction rather than removal (e.g. renewable energy credits).

Carbon credits are **transferable or tradable instruments**. These are uniquely serialised, issued, tracked and cancelled through electronic registries. Some companies generate carbon credits via cap and trade schemes; others purchase them to offset their emissions.

As there is uncertainty over the effectiveness of some carbon-removal technology and the future prices of carbon credits, discussing the planned use of carbon credits is an important part of the disclosure on transition plans and emissions reduction targets. Investors need to understand the extent of the company’s plan or targets it intends to achieve via emissions reduction activities or solely through purchasing carbon credits.



### Science-based targets and the sectoral decarbonisation approach

Targets are ‘science-based’ when they follow the most recent climate-related science to identify how a company can help meet the decarbonisation goals of the Paris Agreement. This means limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit it to 1.5°C.

The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature (WWF). Together they have defined a methodology, called the Sectoral Decarbonisation Approach, to support companies in specific sectors to define where, how much and how quickly they need to reduce their greenhouse gas emissions to align with the Paris Agreement.



#### Do the standards provide guidance on what the target level should be for any metric?

No. Both standards give conceptual guidance on the types of metrics and targets to disclose but do not specify the target level for any metric. The climate standard provides detail about specific metrics that may be material, but no related thresholds.

However, local jurisdictions or regulators may set target levels to meet public policy objectives – e.g. commitment to align with the Paris Agreement.

IFRS S1.BC121



# 4 Presentation

Companies follow key principles when preparing sustainability-related financial disclosures

This chapter explains two principles that are important to understand when preparing sustainability-related financial disclosures – **fair presentation** and **connected information**. It also explains companies' flexibility in deciding the **location of information** in their **general purpose financial reports**.

## 4.1 Fair presentation

*IFRS S1.10, 13, D, BC66*

Companies need to provide useful information with both fundamental and enhancing characteristics. To meet the fundamental characteristics, companies provide information that is:

- **relevant**: capable of influencing investors' decisions; and
- a **faithful representation**: a complete, neutral and accurate depiction of the sustainability-related risk or opportunity it purports to represent.

*IFRS S1.15(a)*

To meet the enhancing characteristics, companies provide information that is:

- **comparable**: can be compared with prior periods' disclosures or with other companies' disclosures;
- **verifiable**: possible to corroborate by a knowledgeable and independent observer;
- **timely**: available to investors in time to be capable of influencing their decisions; and
- **understandable**: clear and concise.

*IFRS S1.15(b)*

Providing a faithful representation includes reporting sufficient information on sustainability-related risks and opportunities to enable investors to assess their effect on a company's future cash flows (see [Section 2.4](#)).



### Will all companies in a particular industry provide the same information?

No. Companies provide information that is specific to their unique facts and circumstances. Adapting a disclosure to align with industry peers that would result in less relevant information would not meet with the requirements for providing useful information.

For example, if all companies in a particular industry provide information on global water usage, but one company has a specific sustainability-related risk affecting a water-stressed site, then that company would provide material information specific to that site, even if all its peers did not make a similar disclosure.

**Does all information companies disclose need to be perfectly precise?***IFRS S1.D15*

No. Sustainability-related financial disclosures need to be accurate, but that does not mean they need to be perfectly precise in all respects. The level of precision depends on the nature of the information and the matters to which the information relates. Accuracy does require that:

- there are no material errors made:
  - in factual information; or
  - in selecting and applying an appropriate process for developing a forecast, estimate or approximation;
- forecasts, estimates and approximations are clearly identified as such;
- descriptions are precise;
- assertions and inputs used in developing estimates are reasonable and based on information of sufficient quality and quantity; and
- information on judgements about the future faithfully reflects the information the judgements are based on and the judgements themselves.

## 4.2 Connected information

*IFRS S1.21, B39*

Companies need to ensure that users of their general purpose financial reports are able to understand the connections between both:

- the underlying business issues – e.g. their identified sustainability-related risks and opportunities (see [4.2.1](#)); and
- the related information about those underlying business issues, including:
  - within their sustainability-related financial disclosures (see [4.2.2](#)); and
  - across their financial statements, sustainability-related financial disclosures and other general purpose financial reports (see [4.2.3](#)).

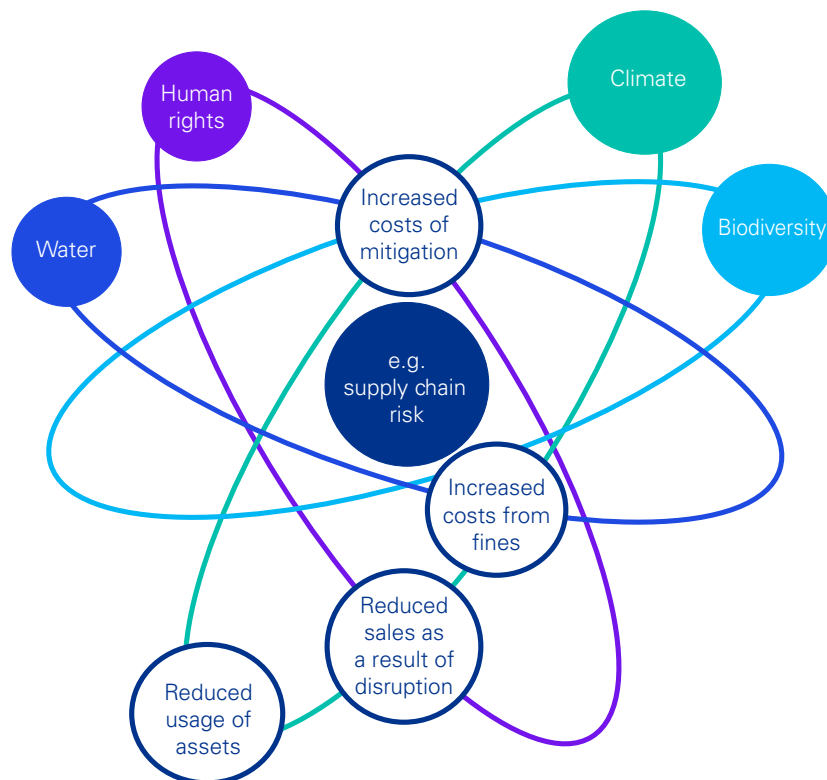
Companies also need to decide how to present information to ensure that relevant connections are visible and understandable (see [Section 4.4](#)).

## 4.2.1 Underlying business issues

Business issues, including sustainability-related risks and opportunities are often connected, with inter-reliance and trade-offs arising between different matters in a company's decision making.

*IFRS S1.21(a), B40*

Integrating information about different sustainability-related risks and opportunities can give investors an understanding of the overall picture, rather than isolated pieces they need to put together themselves. For example, when disclosing information about its strategy, a company provides information about trade-offs that it considered (see 3.3.3).



For example, a company might identify exposure to supply chain risks relating to water, human rights, climate and biodiversity. The risks impact its current and anticipated future production costs and revenue streams, and are driving changes to the business model, strategy and risk management processes. To meet the requirements on connected information, the company decides to present its water, human rights, climate and biodiversity risks in a coherent narrative that explains their combined effect on its supply chain.

## 4.2.2 Sustainability-related financial disclosures

IFRS S1.25

For each sustainability-related risk and opportunity, the standards require disclosures on:

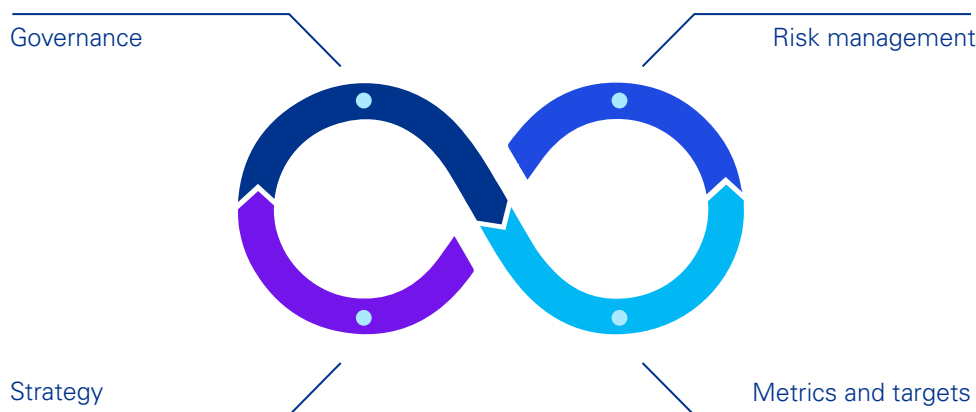
- governance (see Section 3.2);
- strategy (see Section 3.3);
- risk management (see Section 3.4); and
- metrics and targets (see Section 3.5).

IFRS S1.21(b)(i)

A company needs to connect these disclosures to ensure that an investor can assess the overall effect on the company's future cash flows. This includes connections between information across the four content areas for an individual sustainability-related risk or opportunity and across various other sustainability-related risks and opportunities. This could include cross-references, locating relevant information together and using icons to indicate connections.

IFRS S1.B41(b),  
B42(b), S2.7

When providing these disclosures, a company needs to avoid unnecessary duplication. For example, if it has an integrated oversight function for all sustainability-related risks and opportunities, then it provides integrated governance disclosures, rather than individual governance disclosures for each sustainability-related risk or opportunity.



### Example 13A – Connectivity in sustainability-related financial disclosures

Steel manufacturer Q has identified a sustainability-related risk from decreasing demand for traditional steel, driven by increasing demand for low-CO<sub>2</sub> steel. This presents an opportunity for growth in the emerging market of low-CO<sub>2</sub> steel production.

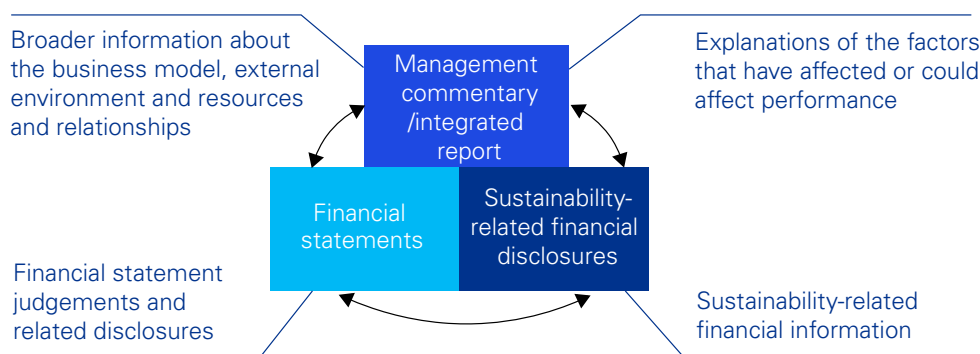
As part of its sustainability-related financial disclosures, Q includes information on its **strategy** to reduce the CO<sub>2</sub> intensity of its production process, including the current and anticipated effects of this strategy.

This information is connected to the description of the **governance** activities of the company's board, including review and approval of its transition plan and associated greenhouse gas emissions reduction **targets**. In addition, Q connects to a summary of existing **risk management** processes to prioritise and monitor climate-related transition risks. To measure progress towards targets, management reports Scope 1, 2 and 3 emissions **metrics** and compares against a base period.

### 4.2.3 General purpose financial reports

IFRS S1.21(b)(ii)

Companies need to ensure that the information they provide enables investors to understand the connections across their general purpose financial reports, including their general purpose financial statements, sustainability-related financial disclosures and other general purpose financial reports.



Management commentary or an integrated report is commonly used to bring information about financial, sustainability and other factors together into a coherent narrative.

For example, a company's management commentary might describe its strategy to grow the business in a particular market. It explains that access to that market is dependent on its progress towards managing a human rights risk and connects to information about the risk.

IFRS S1.23, B42(c)

The general standard requires that the sustainability-related financial disclosures are derived from data and assumptions consistent with those used to prepare the financial statements where it is appropriate to do so, and for companies to explain any differences. Companies will need to consider how to achieve clear and understandable connections (see [Section 5.2](#)).



#### Example 13B – Connectivity in general purpose financial reports

Continuing Example 13A, steel manufacturer Q provides the following information in its general purpose financial reports.

In its **sustainability-related financial disclosures**, Q discloses information about the current and anticipated financial effects of the risk and opportunity. Q also describes its board-approved transition plan, which includes greenhouse gas emissions reduction targets and actions to achieve them. The transition to low-CO<sub>2</sub> steel production, and decommissioning of traditional steel production, are key actions of Q's strategy to meet its emissions reduction targets.

In its **management commentary**, Q describes management's strategy. A key component of this disclosure includes decommissioning its existing traditional production facilities and equipment by 2040 and constructing new facilities and investing in new equipment for the production of low-CO<sub>2</sub> steel starting in 2030.

In its **financial statements**, Q’s accounting policy is to hold property, plant and equipment for 25 years and depreciate on a straight-line basis. Q reviews its existing assets based on its forward-looking business plan and reduces the useful life of its relevant property, plant and equipment from 25 years to 15 years due to the anticipated decommissioning of existing production facilities and equipment. This results in a higher depreciation expense in current and future periods. Information on the change in accounting estimate is disclosed in the financial statements, along with the expected effect on future periods from the change in depreciation – e.g. on earnings per share. Based on indicators of impairment, at the end of the reporting period Q also tests its relevant property, plant and equipment for impairment however determines that no impairment is required.

Q ensures its disclosures are connected throughout its general purpose financial reports by reporting information consistently and drawing connections between:

- the current and anticipated financial effects reported in the sustainability-related financial disclosures and financial statements;
- the transition plan and management’s strategy; and
- management’s strategy and the useful lives used to measure depreciation in the financial statements.



#### Does a company need to prepare its financial statements under IFRS Accounting Standards to achieve connectivity?

IFRS S1.22

No. Companies are not required to apply IFRS Accounting Standards to report under IFRS Sustainability Disclosure Standards. However, they are required to identify and connect to the related financial statements.

## 4.3 Location of information

IFRS S1.60

A company discloses sustainability-related financial information as part of its general purpose financial reports, prepared at least annually. See 5.1.1 for a discussion of interim reporting.

IFRS S1.61–63

The general standard does not specify a single location for disclosures. This means that information could be presented, for example:

- **in the same document as the company’s other general purpose financial reports:**
  - **integrated through the front part** of the report, which includes management commentary, with clear linkage to the financial statements (see Section 4.4, Illustration 1);
  - in a **separate section with clear connectivity** to other report content – e.g. management commentary and the financial statements; or
- **cross-referenced** from another document – e.g. a separate sustainability report (subject to certain conditions).

Some companies also release other documents in addition to their general purpose financial reports. This could include separate sustainability reports, supplementary data sheets or special-purpose reports prepared to satisfy the needs of wider stakeholders.

*IFRS S1.63, B45–B47* Cross-referencing to a document that does not otherwise form part of the company's general purpose financial reports is permitted if a company meets all of the following conditions.

- Cross-referencing does not make the information within the complete set of sustainability-related financial disclosures less understandable.
- The other report is available to users on the same terms and at the same time as the sustainability-related financial disclosures.
- The location of the cross-referenced information and explanation of how to access it is included in the company's sustainability-related financial disclosures.
- Cross-references are precise and refer to a specific location, not to general sections.
- Any information included by cross-reference becomes part of the complete set of sustainability-related financial disclosures and is subject to the requirements of the standards, including the requirements for information to be relevant, faithfully represented, comparable, verifiable, timely and understandable.
- Those who authorise the general purpose financial reports for issue take the same degree of responsibility for the information included by cross-reference.

Companies may find these conditions challenging to meet. Therefore, they may prefer to avoid the inclusion of information by cross-reference. In some jurisdictions, cross-referencing of material information outside the document is prohibited (e.g. in the UK). Elsewhere, companies need to consider whether the general purpose financial reports would be understandable and have a coherent narrative if information was included solely via cross-referencing.



#### Can information required by a local regulator be presented alongside information required by IFRS Sustainability Disclosure Standards?

*IFRS S1.62, B27, BC28*

Yes. Although the standards are designed to meet the needs of investors, the general standard allows companies to report additional information to meet public policy objectives or to meet the needs of other stakeholders. However, the information required by the standards needs to be clearly identifiable and not obscured by the additional information.



#### Can companies continue to publish a separate sustainability report to meet the needs of wider stakeholders?

Yes. Currently, many companies use a sustainability report to provide information for a wide group of stakeholders about their impacts on the economy, environment or society, and information about sustainability-related risks and opportunities, strategy and governance.

However, sustainability-related financial disclosures need to be included within the general purpose financial reports.

The standards will not change the demand for broader sustainability reporting and, as such, many companies may choose to continue to provide it via a separate report. However, companies will need to manage the level of duplication between reports carefully and also ensure that the information required by the standards is clearly identifiable and not obscured by the additional information.

## 4.4 Presentation structure

Companies are free to determine the most appropriate structure for reporting that is coherent and facilitates linkage with any broader sustainability reporting to avoid unnecessary duplication.

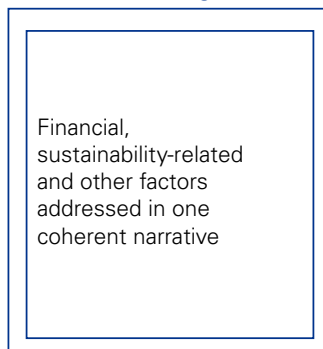
*IFRS S1.B42(b)*

The standards are structured around four content areas of governance, strategy, risk management, and metrics and targets (see [Chapter 3](#)). However, companies are not required to follow this structure when presenting their disclosures. The general standard specifies that companies should avoid duplication if different IFRS Sustainability Disclosure Standards require common pieces of information.

When designing the presentation structure, key decisions include whether to:

- **include all information within a single general purpose financial report** or to cross-refer;
- **present information on the content areas separately** (i.e. structuring the presentation into the four content areas of governance, strategy, risk management, and metrics and targets); or
- **integrate content from different topics** within existing sections of the general purpose financial report or keep it separate (see Illustrations 3 below).

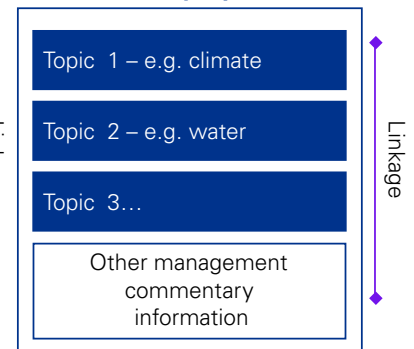
**Illustration 1: Integrated**



**Illustration 2: By content area**



**Illustration 3: By topic**



In the integrated approach (Illustration 1), management presents disclosures that contain information about sustainability-related risks and opportunities and other topics as a coherent whole. This may be more appropriate when the company manages sustainability-related risks and opportunities as an integral part of its overall strategy and risk management processes. Jurisdictions requiring companies to prepare a separate sustainability report may require the 'by topic' approach (Illustration 3). This may also be a less complex approach for first-time adopters.





### Do companies that previously adopted TCFD need to change their presentation structure?

It depends. A structure commonly employed by TCFD adopters is to present information in relation to each content area separately (i.e. a TCFD report split into governance, strategy, risk management, and metrics and targets sections). If this structure is duplicated for all relevant topics presented under the standards (e.g. climate, biodiversity, water and human capital), it may become more challenging to demonstrate linkages between topics and across content areas – e.g. strategy, business model and risks.

Instead, when planning their presentation structure, companies may consider which elements:

- are consistent across all disclosure topics (e.g. certain governance and risk management information);
- cut across multiple topics but relate to specific content areas (e.g. strategic plans to mitigate supply chain risk may be linked to climate-related, human rights and water topics); and
- are topic specific.



If companies choose to take the transition relief to report only on climate-related topics in the first year of application (see [Section 6.2](#)), then they will need to decide how to plan for future reporting across other topics too when setting their presentation structure.



### Are companies required to use the content areas as a presentation structure?

IFRS S1.B41(b), B42(b)

No. Under the standards, disclosures are required on each content area (governance, strategy, risk management, and metrics and targets). However, the standards do not require that companies use this as a presentation structure.

If companies choose to report separately on each relevant topic and each content area, then there is a risk of information duplication. This would be the case where, for example, the governance and risk management of multiple topics are managed on an integrated basis. There is also a risk that this would lead to fragmented reporting.

The standards indicate that duplication could be avoided by integrating the disclosure of common information. Companies need to determine the most appropriate presentation structure for their circumstances.

# 5 Practicalities of reporting

The general standard outlines requirements and guidance to support companies in providing comparable and connected information

Companies need to implement effective processes to enable them to produce compliant sustainability-related financial disclosures. For example, reporting at the same time as the financial statements and for the same period, subject to temporary transition relief (see [Section 6.2](#)), will be a change for many companies and may require significant incremental effort and cross-functional collaboration.

This chapter covers:

- the **reporting period** – i.e. when to report and for what period (see [Section 5.1](#));
- preparing **interim reports** (see [5.1.1](#));
- **consistency of data and assumptions** (see [Section 5.2](#));
- using **judgements** (see [Section 5.3](#));
- using **estimates** (see [Section 5.4](#));
- identifying **reasonable and supportable information** (see [Section 5.5](#));
- disclosing **commercially sensitive information** (see [Section 5.6](#));
- disclosing **comparative information** (see [Section 5.7](#)); and
- disclosing and correcting **errors** and **changes in estimates** (see [Section 5.8](#)).

## 5.1 Reporting period

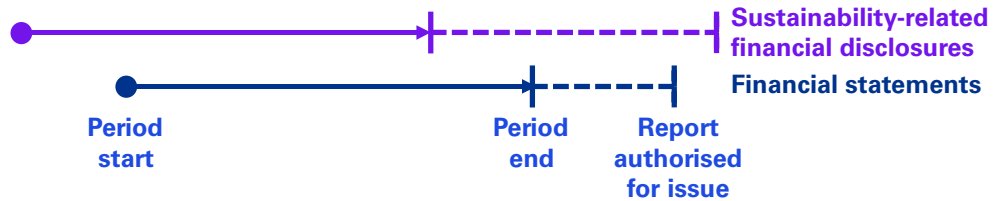
IFRS S1.64



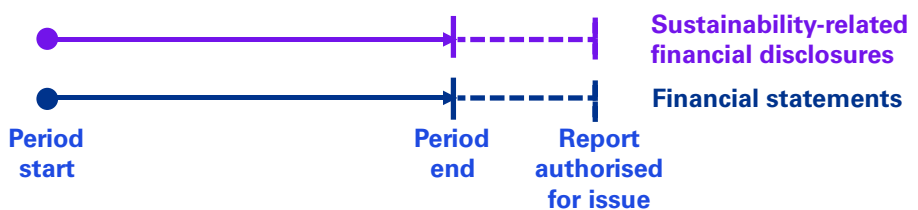
A company reports sustainability-related financial disclosures for the same period and at the same time as its annual financial statements, subject to temporary transition relief (see [Section 6.2](#)).

Common current practice – i.e. before application of the IFRS Sustainability Disclosure Standards – is to report sustainability-related financial information after the financial statements are issued, using estimated figures for the final quarter of the year or disclosing information relating to an earlier reporting period.

**Current practice illustration:**



**Under the standards:**



Preparing sustainability-related financial disclosures at the same time as the financial statements may require substantial effort across the company and affect departments beyond financial and sustainability reporting – e.g. legal, HR, procurement, sales and IT. Companies need sufficiently rigorous processes and controls to generate high-quality information (see [Appendix 4](#)).



### Can companies use estimates in place of directly measuring information for a portion of the reporting period?

IFRS S1.79, B8–10



It depends. The standard does not explicitly allow companies to use estimated information for a portion of the reporting period (e.g. fourth-quarter information) in place of directly measuring it.

However, companies can use estimated information (see [Section 5.4](#)) if its use is adequately explained. The standards also make use of the concept of all reasonable and supportable information that is available to it at the reporting date without undue cost or effort (see [Section 5.5](#)).

For example, a company disclosing its water consumption based on actual data may be unable to collate fourth-quarter information before publishing its sustainability-related financial disclosures. When this is the case, it may be necessary to estimate the missing data to provide material information to investors.



### Do companies need to report information obtained right up to the date the report is authorised for issue?

IFRS S1.67–68

Yes, if material. However, only information about conditions that existed at the end of the reporting period is used to adjust sustainability-related financial disclosures, such as metrics. This is consistent with the approach taken for adjusting and non-adjusting events in IFRS Accounting Standards.

Conversely, if an event, transaction or change of conditions occurs after the period end but before the report is authorised for issue that does not give evidence of conditions that existed at the period end, a company would disclose information about the new transaction, event or other condition if it could reasonably be expected to influence the decisions that investors make.

For example, if a company estimated information about its greenhouse gas emissions for the last quarter of the year, but before the report's authorisation for issue it obtained information about its actual emissions for the last quarter, it would adjust its greenhouse gas emissions metrics, if material. However, if a significant change in the value chain occurred after the period end, a company would not adjust its metrics for the reporting period to take account of the change but would disclose material information about the change.

## 5.1.1

### Interim reporting

IFRS S1.69

The standards do not require companies to prepare interim sustainability-related financial disclosures. However, local laws and regulations may require interim reports, or a company could choose to prepare interim reporting on a voluntary basis using IFRS Sustainability Disclosure Standards.

IFRS S1.B48

When prepared using the general standard, interim sustainability-related financial disclosures are intended to provide an update on the latest complete set of annual disclosures, focusing on new information, events and circumstances. Such interim disclosures may be more condensed than in annual sustainability-related financial disclosures, but can include a full set of disclosures.

The general standard is not prescriptive about what should be included in interim sustainability-related financial disclosures prepared using IFRS Sustainability Disclosure Standards.

## 5.2 Consistency of data and assumptions

IFRS S1.23, B42(c)

Achieving connectivity between sustainability-related financial disclosures and the financial statements is important. Management's views on each sustainability-related risk or opportunity need to inform both sustainability-related financial disclosures and the financial statements. Although the data and assumptions used in sustainability-related financial disclosures may differ from the financial statements, they need to be consistent to the extent possible, and information about significant differences need to be disclosed. This is required regardless of whether financial statements are prepared under IFRS Accounting Standards or other generally accepted accounting principles (GAAP).

For example, if a company makes and discloses climate-related commitments in the front part of the annual report, then the assumptions used in the financial statements need to be consistent, to the extent possible, considering the recognition and measurement requirements of the applicable financial reporting framework.

Below are some examples of sustainability-related financial disclosures for which connectivity with disclosures in the financial statements may be important.

Content area	Illustrative connections between	
	Sustainability-related financial disclosures	Financial statements
<b>Governance</b>	Whether and how sustainability-linked performance metrics are included in remuneration policies disclosed in the remuneration report – e.g. long-term incentive plans.	Share-based payment arrangement measurement and disclosures, including relevant terms and conditions.
<b>Strategy</b>	Anticipated effects of sustainability-related risks or opportunities on the company's financial position, financial performance and cash flows.	The disclosed approach and assumptions used for future cash flow projections in asset impairment analysis.
<b>Risk management</b>	Process(es) to identify sustainability-related risks.	Descriptions of how risks arising from financial instruments (e.g. credit risk) are managed.
<b>Metrics and targets</b>	The sources and nature of estimation uncertainty about the amount of CO <sub>2</sub> e emitted as part of the company's operations in the reporting period.	For a cap and trade emissions scheme, an indication of the uncertainties about the amount of a provision in relation to CO <sub>2</sub> e emitted above the limit in the reporting period.



### Are companies likely to identify situations in which data and assumptions are not consistent with the financial statements?

Yes. The data and assumptions used in sustainability-related financial disclosures and the financial statements may differ because of different requirements in IFRS Accounting Standards or other GAAP. In these cases, a company discloses information about significant differences in the data and assumptions – helping investors to understand and reconcile the information in the sustainability-related financial disclosures to the financial statements.

For example, under IAS 36 *Impairment of Assets*, cash flow projections based on the most recent financial budgets or forecasts cover a maximum period of five years when estimating the recoverable value in use of an asset (or cash-generating unit) in the impairment analysis, unless a longer period can be justified<sup>17</sup>. In the absence of such a time limit under the IFRS Sustainability Disclosure Standards, it may be appropriate for a company to consider a longer explicit forecasting period before any extrapolation for sustainability-related financial disclosures. In such a case, companies would need to disclose information about the differences in the assumptions.



### Do the standards require better connectivity with the financial statements compared to current sustainability reporting?

Yes. For example, the standards include requirements to disclose the impact of sustainability-related risks and opportunities on a company's current financial position, performance and cash flows (see 3.3.4).

KPMG's 2022 Global Survey of Sustainability Reporting<sup>18</sup> showed that only 64% of the world's largest 250 companies' reports included disclosures about the potential impact of climate change and only 17% of those companies' reports provided financial quantification of these potential impacts.

Although disclosing the impact on financial position and performance is one example of financial statement connectivity, this survey demonstrated that even among the world's largest companies (which may be among the most advanced in this regard) significant improvements in connectivity are needed to meet the requirements under the standards.

## 5.3 Use of judgement

IFRS S1.74–75

Companies will use judgement in applying the standards. They need to provide disclosures about such judgements to help investors understand their impact on the sustainability-related financial disclosures.

IFRS S1.75

Companies disclose the judgements made when preparing sustainability-related financial disclosures that have the most significant effect on the information reported. This includes judgements relating to estimating amounts (see Section 5.4) and judgements made when, for example:

- identifying sustainability-related risks and opportunities that could reasonably be expected to affect the company's prospects (see 2.3.1);
- determining how to apply sources of guidance (see 2.3.1 and 2.3.2);
- identifying material information to be disclosed (see 2.3.2); and
- assessing whether an event or change in circumstances is significant and requires the scope of all affected sustainability-related risks and opportunities in the company's value chain to be reassessed (see 2.3.1).

17. Further, under IAS 36 *Impairment of Assets*, cash flow projections beyond the period covered by the company's most recent budgets or forecasts are estimated by extrapolating the projections based on the budgets or forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified.

18. For further discussion on reporting trends, see KPMG's publication [Big shifts, small steps](#).

**Do companies need to provide disclosures describing all judgements made?**

No. The general standard includes a threshold to focus on judgements with ‘the most significant effect’. This is intended to support investors’ understanding of the information presented in the company’s sustainability-related financial disclosures.

A similar principle is applied in the financial statements. Under paragraphs 122–124 of IAS 1, a company discloses the judgements made in applying its accounting policies that most significantly affect the amounts recognised in the financial statements.

## 5.4 Use of estimates

*IFRS S1.79*

Estimates are a fundamental part of preparing sustainability-related financial disclosures. They do not undermine the usefulness of the information and are needed, for example, when information is forward looking, or because there is a lack of relevant historical data or more accurate measurement techniques.

*IFRS S1.80*

Estimates often require management to make difficult, subjective or complex judgements. The number of variables and assumptions affecting those judgements means that there is uncertainty underlying many estimates. Measurement uncertainty could arise either when presenting historical information or in management’s predictions of future outcomes.

*IFRS S1.77–78*

Investors need information to understand the most significant uncertainties in the amounts a company reports. To provide this information, a company discloses the:

- amounts disclosed that are subject to a high level of measurement uncertainty;
- sources of that measurement uncertainty; and
- assumptions, approximations or other judgements that the company made.

*IFRS S1.78(b)(i)*

Sources of measurement uncertainty may include measurement techniques, dependence on future events and the quality or availability of data from the value chain.

The requirements on providing disclosures about judgements and estimates are similar to those in IAS 1.

**Example 14 – Disclosures about estimates with uncertainties**

Company C discloses information about the exposure of its biological assets to flooding risks, which it describes as climate-related physical risks. Because the extent of the risks depends on the expected severity of flooding in the future, C needs to estimate the level of its exposure. It also determines that disclosures are necessary about its high level of measurement uncertainty.

C discloses the source of the measurement uncertainty by reporting the range of reasonably possible future outcomes. C also discloses the sensitivity of the disclosed amount, illustrating the impact from changing key inputs by a certain percentage.

## 5.5 Reasonable and supportable information

IFRS S1.B8, BC17



The standards introduce the concept of ‘reasonable and supportable information that is available to the company at the reporting date without undue cost or effort’ to support companies in understanding the appropriate types and sources of inputs to use for their disclosures. This is designed as a relief measure to give companies confidence when reporting less than perfect information that results from ‘best efforts’ endeavours. However, the concept still requires that companies use the information they do reasonably have access to.

IFRS S1.B8-B10

The concept can be explained as follows.

Concept	What does it mean?
Reasonable and supportable information	<p>Companies need to have a reasonable basis for using the information and it needs to be relevant to what is being reported.</p> <p>Appropriate governance and controls need to be in place to ensure that the information is supportable.</p>
Available without ‘undue cost or effort’	<p>Companies need to consider all information that is ‘reasonably available’ to them. This also means that they could not disregard any information they already have or know about.</p> <p>This means that if a company is aware of exposure to a risk or opportunity that could materially affect its prospects, it is likely that some disclosure of information would be required.</p> <p>However, they do not need to undertake an exhaustive search for information. ‘Undue cost or effort’ weighs the costs and benefits of information and is proportional to the company, considering the:</p> <ul style="list-style-type: none"> <li>• degree of the company’s exposure to risks and opportunities;</li> <li>• skills, capabilities and resources available to a company; and</li> <li>• benefits of the resulting information for investors.</li> </ul> <p>This assessment can change over time as the company’s circumstances change.</p>
At the reporting date	<p>Where relevant, companies consider information about past events, current conditions and forecasts of future conditions as at the reporting date.</p> <p>The information available, particularly forward-looking information, will change over time.</p>

IFRS S1.BC10

This concept is adapted from IFRS 9 *Financial Instruments* and IFRS 17 *Insurance Contracts* and can be particularly useful for requirements that involve high levels of judgement or uncertainty. It is used in the standards when:

IFRS S1.B6

- identifying sustainability-related risks and opportunities and determining the scope of the value chain in relation to each (see 2.3.1);

IFRS S2.B36, B39

- applying value-chain-related requirements specifically related to Scope 3 greenhouse gas emissions (see 3.5.2);

*IFRS S1.37(a),  
S2.18(a)*

- determining anticipated effects on a company’s financial performance, financial position and cash flows (see 3.3.4);

*IFRS S2.B1*

- applying climate-related scenario analysis (see 3.3.5); and

*IFRS S2.30*

- calculating the amount and percentage of assets or business activities that are vulnerable to transition or physical risks, or aligned with climate-related opportunities (see 3.3.1).



#### Is information used for other purposes available without undue cost or effort?

*IFRS S1.B9*

Yes. Information from existing systems or information that is otherwise available for financial reporting, business operations, strategy setting and risk management purposes is considered available without ‘undue cost or effort’.

In some instances, companies will need to source additional information reasonably available to them for their sustainability-related financial disclosures. This information may be internal or external and can include external ratings, reports and statistics or industry and peer group experience.

## 5.6 Commercially sensitive information

*IFRS S1.B34–B35,  
BC83*

The standards include an exemption from reporting information about sustainability-related opportunities when that information is commercially sensitive. The exemption is applied only in limited circumstances, when:

- the company has a competitive advantage because the information is not publicly available – e.g. via investor presentations or marketing materials; and
- it would be impossible to disclose the information without seriously prejudicing the economic benefits a company could otherwise realise from the opportunity.

*IFRS S1.B36*

To apply the exemption, a company is required to consider if it could resolve the issue by disclosing it in a different way – e.g. providing less granular information. If this cannot be achieved, the company could exclude the information, provided that it:

- discloses that it has applied the exemption for that piece of information; and
- reassesses at each reporting date whether the exemption remains appropriate.

*IFRS S1.B37*

This exemption applies only to sustainability-related opportunities – no exemption applies for sustainability-related risks.



## 5.7 Comparative information

IFRS S1.70,  
B49



Companies need to disclose comparative information for the previous period for all amounts disclosed in the reporting period. Companies also include comparative information for narrative and descriptive disclosures when the information is useful to the investors' understanding of the current period's disclosures.

IFRS S1.71, BC147

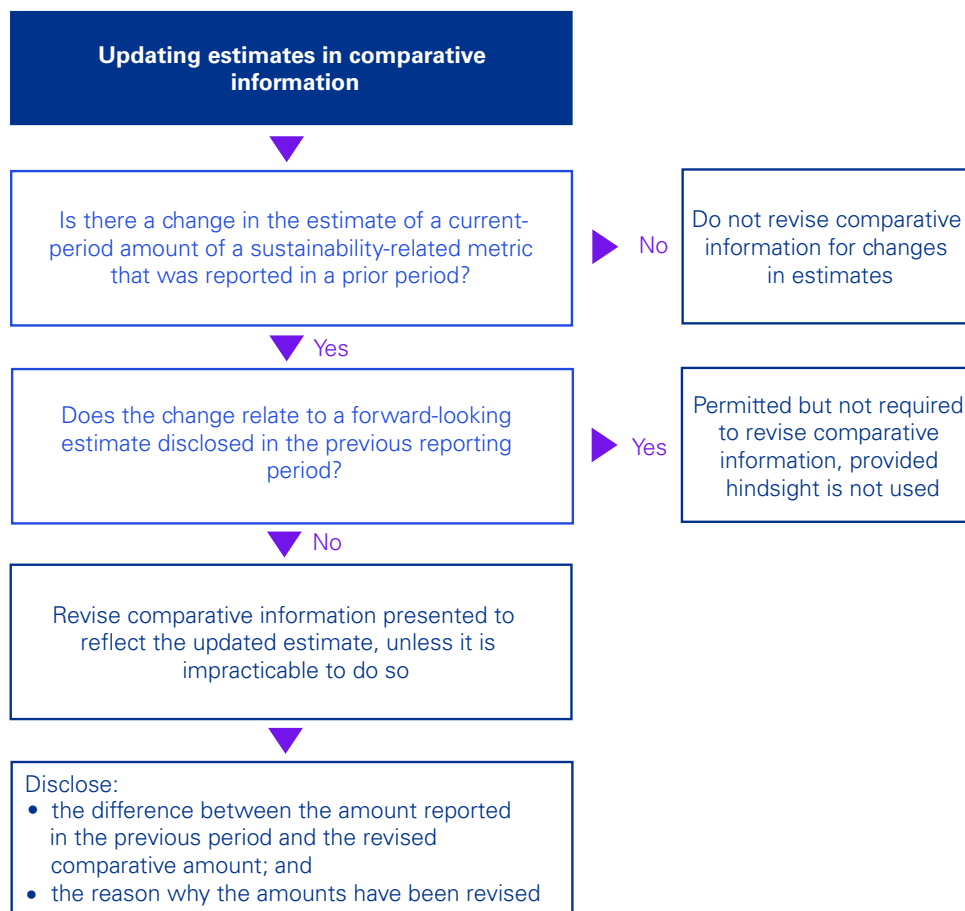
Amounts include, but are not limited to, metrics and targets a company discloses. Amounts may also relate to current and anticipated financial effects of sustainability-related risks and opportunities.

IFRS S1.E3

There is an exemption from providing comparative information which is available in the first year that companies apply the standards (see [Section 6.2](#)).

IFRS S1.B50–B51

If a company identifies new information about circumstances that existed in the preceding period that would affect an estimated metric that was disclosed in the preceding period, then it may need to revise the comparative amount.



IFRS S1.BC150

This differs from the IFRS Accounting Standards which, apart from the correction of errors (see [Section 5.8](#)), require that a change in estimate is reflected only prospectively in the financial statements (i.e. comparative information is not restated). The ISSB justifies the different treatment on the basis that:

- metrics in sustainability-related financial disclosures are not part of a double-entry model that affects reported equity;
- revising comparative information provides more useful information than knowingly misstating the current-period information; and
- it provides the best possible information about trends.

*IFRS S1.B52*

When a company changes, replaces or stops disclosing a metric that was disclosed in the previous period, it discloses:

- an explanation of the change;
- the reason for the change, including why the replacement metric is more useful; and
- its restated comparatives, unless this is impracticable.

*IFRS S1.B53*

When a company introduces a new metric, it discloses a comparative amount for that metric, unless that is impracticable.

*IFRS S1.B54*

When it is impracticable to revise comparative amounts, companies need to disclose that fact.



### Example 15 – Change in estimates: Disclosure of comparatives

Retailer M discloses metrics based on average hourly wages by location for certain low-paid employee groups to illustrate its sustainability-related risk of financial penalties from minimum wage legislation breaches.

M estimates its average hourly wage figures based on total wages paid to employees, excluding overtime pay, in the lowest pay grades at each location, divided by actual working hours, excluding overtime hours, and compares this to minimum wages in each location. For 20X3, M obtained actual employee working hour data from the working time management system, which records information for completed hours – i.e. rounding down to the nearest completed hour.

In 20X4, M implemented a new working time management system to record exact working hour data by minute. This followed an inspection in late 20X3 which identified potential breaches of minimum wage legislation caused by poor record keeping.

In 20X3, management estimated that the fine for breaches of minimum wage legislation could be 3,000 and obtained initial estimates of 4,000 for the new system's required capital expenditure. In 20X4, a fine of 2,000 was imposed and M incurred expenses of 4,500 to purchase and implement the new system.

In its sustainability reports in 20X3 and 20X4, M discloses the items as follows.

#### 20X3

Comparative period 20X2	Current period 20X3
20X2 average hourly wage figures using working hour data from the original system, compared to minimum wages by location.	20X3 average hourly wage figures using working hour data from the original system, compared to minimum wages by location.  Discussion of the results of the inspection and planned response, including the planned future capital expenditure of 4,000.  Cross-reference to the financial statements where a provision for the fine of 3,000 was discussed.

## 20X4

Comparative period 20X3	Current period 20X4
<p>20X3 average hourly wage figures using the old system, including an explanation that although in 20X4 it was discovered that the 20X3 estimate was understated compared to new methodology, it was impracticable to update the estimate because updated data for 20X3 had not been recorded at the time.</p> <p>The planned future capital expenditure of 4,000.</p> <p>Cross-reference to the financial statements, where the comparatives include a 3,000 provision for the potential fine (not revised).</p>	<p>20X4 average hourly wage figures using working hour data from the new system, compared to minimum wages by location.</p> <p>Discussion of the response to the 20X3 inspection, including the incurred expenditure on the new system of 4,500, noting that this had risen compared to the prior-year estimate of 4,000.</p> <p>Cross-reference to the financial statements where the imposed fine of 2,000 was recorded as paid and the related provision released.</p>



### Example 16 – Change in Scope 3 emissions estimates

Telecommunications Company T estimates and discloses its Scope 3 emissions. In 20X0, T assessed seven of the 15 categories of Scope 3 emissions described in the GHG Protocol Value Chain Standard to be material. The remaining eight categories were immaterial.

During 20X1, T starts reporting its Scope 3 emissions using a more accurate estimation process resulting in a material change in its Scope 3 emissions estimates.

T's sustainability-related financial disclosures for these periods includes explanations of the items below.

20X0	<ul style="list-style-type: none"> <li>The methodology used to calculate its emissions, including the fact that the Scope 3 emissions reported are from seven categories only</li> </ul>
20X1	<ul style="list-style-type: none"> <li>That T revised its comparatives, explaining that this was to make use of a more accurate estimation process</li> <li>The difference between the restated comparative amounts and the amounts disclosed in the preceding period</li> </ul>

Note: Other disclosures are also required relating to Scope 3 emissions (see 3.5.2).

## 5.8 Errors and changes in estimates

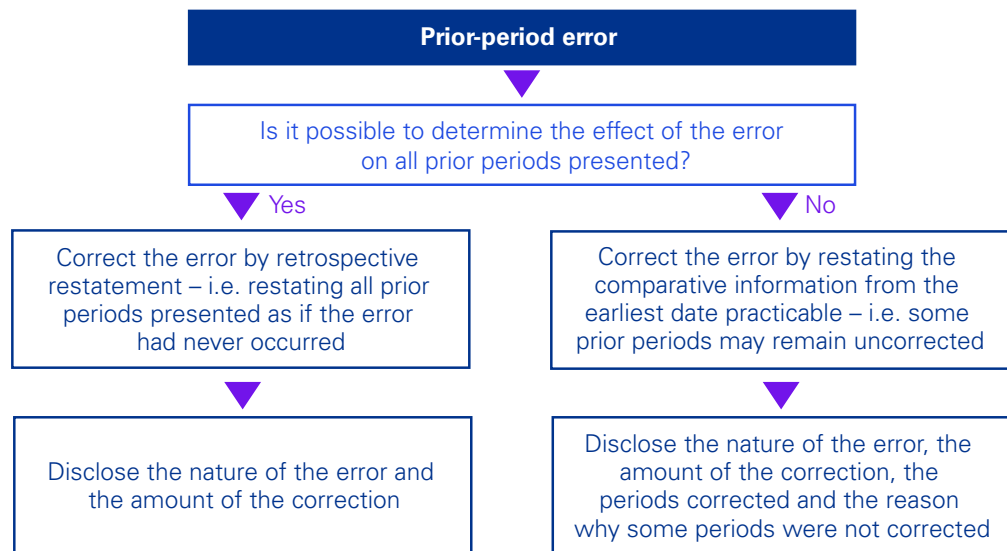
*IFRS S1.84*

Prior-period errors are omissions from, and misstatements in, a company's sustainability-related financial disclosures for one or more periods. These errors arise from misuse of or failure to use reliable information that:

- was available when the sustainability-related financial disclosures for those periods were authorised for issue; and
- the company could reasonably have obtained and considered in preparing those disclosures.

*IFRS S1.83, B58–B59*

The general standard includes requirements for disclosing identified prior-period errors.



*IFRS S1.85*

Changes in estimates are different from corrections of prior-period errors. A change in estimate results from new information or new developments, rather than from omissions or misstatements. For further information on updating estimates in comparative information, see [Section 5.7](#).

When correcting errors, there may be cases where a company also needs to apply the guidance on updating estimates (see [Section 5.7](#)).

# 6 Effective date and transition

Both standards include a 1 January 2024 effective date and transition reliefs for companies first applying the standards

Companies need to understand when the standards will impact them, and how they will transition.

## 6.1 Effective date

*IFRS S1.E1, S2.C1*

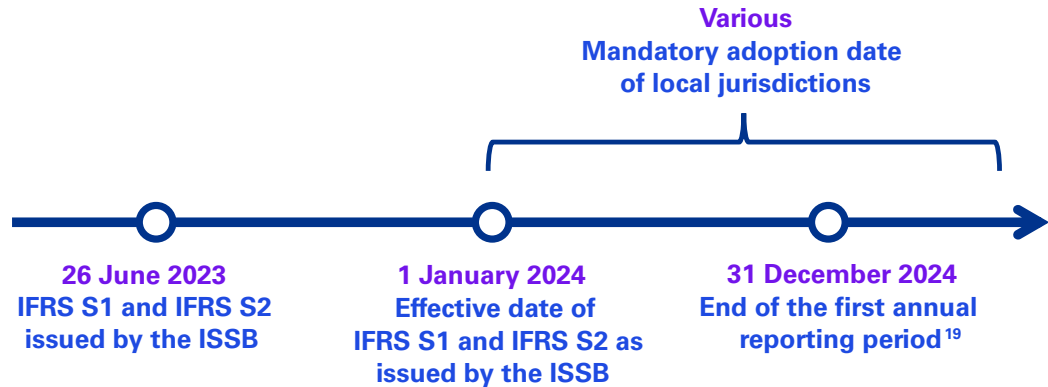
The standards are effective for annual reporting periods beginning on or after 1 January 2024. Early application is permitted, provided that companies disclose this fact and apply both standards at the same time.

*IFRS S1.BC169, S2.BC161*

However, it is up to local jurisdictions to determine when to mandate adoption of IFRS Sustainability Disclosure Standards, or for companies to decide to apply the standards voluntarily.

*IFRS S1.72–73, B33*

Companies complying with all the relevant requirements would include a statement of compliance with the standards. This statement can still be included if disclosures were complete except for information that is prohibited by local laws or regulations. In this situation, a company identifies the type of information omitted and explains why it is restricted from providing it.



### Are the standards mandatory?

It depends. The standards will only be mandatory in countries that choose to adopt them.

Countries need to decide whether, when and how to incorporate the standards into local requirements. IOSCO will also consider whether to endorse them.

It does not automatically follow that companies applying IFRS Accounting Standards will also be required to or will choose to apply IFRS Sustainability Disclosure Standards.

<sup>19</sup>. This timeline assumes that the company has a 31 December period end.

**Can companies apply some of the requirements but not all?**

Yes. For example:

- a company can apply certain requirements from the standards but not all, provided that it does not include a statement claiming compliance with the standards and that this is permitted by its local jurisdiction; and
- there is a transition relief allowing companies to include information on climate-related risks and opportunities only in the first year of reporting (see [Section 6.2](#)).

After the first year, a company providing all disclosures required under the climate standard, but not providing all material information about other sustainability-related risks and opportunities, is not permitted to include a statement of compliance with the standards. This is because the general standard requires companies to include all material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the company's prospects.



## 6.2 Transition reliefs

When companies first apply the standards, there are various reliefs available to help them transition. These reliefs are available only in the first annual reporting period for which the company applies the standards; they are not available in subsequent reporting periods.



IFRS S1.E3,  
S2.C3



First-year relief	How it applies
<b>Comparative information (see <a href="#">Section 5.7</a>)</b>	<p>Disclosures are not required for any period before the date of initial application. This means that comparative information is not required in the first annual reporting period.</p> <p>Companies may have previously reported similar information under other frameworks. Therefore, it may be useful to provide comparative information when it is available, provided it is made clear when this is prepared on a different basis.</p>
<b>Non-climate-related risks and opportunities (see <a href="#">Sections 3.1–3.5</a>)</b>	<p>Disclosure of information about sustainability-related risks and opportunities other than those that are climate-related is not required in the first annual reporting period.</p> <p>If companies take this relief, they need to disclose this fact.</p> <p>Companies may find it challenging to report all their sustainability-related risks and opportunities in the first year of reporting and therefore can focus on disclosures about climate-related risks and opportunities first.</p> <p>When companies take this relief, they are also permitted to exclude comparative information on non-climate-related risks and opportunities in their second year of reporting. This means that they are not required to collate information about non-climate-related risks and opportunities in the first year of reporting.</p>

IFRS S1.E5–E6



First-year relief	How it applies
	<p>Even if a company takes this relief, it may still be useful to provide information about some, but not all, non-climate-related risks and opportunities to the extent it has the information to do so. Otherwise, the effect of the relief could be that a company stops reporting relevant content that it disclosed under alternative standards in prior years, because it is not able to fully comply with all the requirements of the IFRS Sustainability Disclosure Standards. However, even if incomplete information about non-climate-related risks and opportunities is reported, the company still needs to disclose that it has taken the relief.</p>
<p>IFRS S1.E4 </p> <p><b>Timing of reporting (see Section 5.1)</b></p>	<p>Companies are allowed to publish sustainability-related financial disclosures after the related general purpose financial statements for the first annual reporting period in which they apply IFRS Sustainability Disclosure Standards.</p> <p>If a company takes this relief, then it reports its first annual sustainability-related financial disclosures alongside its next interim general purpose financial reports – i.e. interim general purpose financial reports published during its second annual reporting period. Depending on what interim information a company provides, the requirements for applying this relief change.</p> <div style="display: flex; flex-direction: column; align-items: flex-start;"> <div style="display: flex; align-items: center; margin-bottom: 10px;"> <div style="background-color: #003366; color: white; padding: 5px; text-align: center; width: 200px;">Is the company required to report at interim?</div> <div style="margin: 0 10px;">▶ Yes</div> <div style="border: 1px solid #003366; padding: 5px; text-align: center; width: 150px;">Report at the same time as half-year/ second-quarter general purpose financial reports</div> </div> <div style="text-align: center; margin-bottom: 10px;">▼ No</div> <div style="display: flex; align-items: center; margin-bottom: 10px;"> <div style="background-color: #003366; color: white; padding: 5px; text-align: center; width: 200px;">Does the company voluntarily report at interim?</div> <div style="margin: 0 10px;">▶ Yes</div> <div style="border: 1px solid #003366; padding: 5px; text-align: center; width: 150px;">Report at the same time as half-year/ second-quarter general purpose financial reports, but no later than nine months after end of the reporting period</div> </div> <div style="text-align: center; margin-bottom: 10px;">▼ No</div> <div style="display: flex; align-items: center;"> <div style="background-color: #003366; color: white; padding: 5px; text-align: center; width: 200px;">The company is not required (and does not voluntarily) report at interim</div> <div style="margin: 0 10px;">▶ Yes</div> <div style="border: 1px solid #003366; padding: 5px; text-align: center; width: 150px;">Report no later than nine months after the end of the reporting period</div> </div> </div>
<p>IFRS S2.C4(b), C5 </p> <p><b>Scope 3 greenhouse gas emissions (see 3.5.2)</b></p>	<p>Disclosures of Scope 3 greenhouse gas emissions<sup>20</sup> are not required for the first annual reporting period a company applies the climate standard.</p> <p>However, some companies may already be reporting on certain categories of Scope 3 emissions and therefore it may be useful to continue to provide this information in the year of initial application provided it is made clear it is not complete.</p> <p>When companies take this relief, they are also permitted to exclude comparative information on Scope 3 emissions in their second year of reporting. This means that they are not required to collate information about Scope 3 emissions in the first year of reporting.</p>

20. This relief includes disclosure of additional information about financed emissions, required by companies with activities in asset management, commercial banking or insurance.

IFRS S2.C4(a),  
C5

First-year relief	How it applies
<p><b>The use of the GHG Protocol (see 3.5.2)</b></p>	<p>Companies are allowed to continue to use their existing measurement method for Scope 1, 2 or 3 greenhouse gas emissions (i.e. methodology other than the GHG Protocol Corporate Standard) for the first annual reporting period they apply the climate standard.</p> <p>When taking this relief, the method used needs to be consistent with any reporting in the annual reporting period immediately before the date of initial application.</p> <p>Where a company uses this relief, it is permitted to continue to use the same method when presenting its first-year information within comparative information disclosed in subsequent reporting periods.</p>



#### Do the reliefs apply to comparative information in the second annual reporting period?

IFRS S1.E6(b), S2.C5

Yes. In the second year of reporting under the IFRS Sustainability Disclosure Standards, companies are not required to provide comparative information for requirements that they did not disclose in the first year because they elected to take first-year transition reliefs.

This means that companies taking first-year transition reliefs relating to disclosing information about non-climate-related risks and opportunities, Scope 3 greenhouse gas emissions and using the GHG Protocol Corporate Standard are not required to disclose the related comparative information in their second year of reporting.

Therefore, provided they take this relief, companies do not need to collate data from the date of initial application to ensure they have adequate comparative information in their second annual reporting period under the IFRS Sustainability Disclosure Standards.



# Appendix 1: Other sustainability reporting bodies

These tables introduce other relevant bodies involved with sustainability reporting

## A1.1 Investor-focused sustainability reporting bodies

The standards draw on content created by other bodies, including those introduced in the table below. The general standard sets out sources of guidance, including from some of these bodies, that companies “shall” consider or “may” consider when preparing their reporting. See [Section 2.3](#) for more information.

Source	Type	Coverage	Key points
<b>TCFD</b> Recommended disclosures, supporting guidance	Narrative and metrics	Narrow – climate-related topics only	The standards fully incorporate the recommendations of the TCFD and follow its four-pillar structure.  There is strong alignment between the climate standard and detailed guidance contained in the TCFD publications.  The IFRS Foundation will take over monitoring of climate-related disclosures from the TCFD from 2024.  See <a href="#">Appendix 2</a> for further detail.
<b>SASB</b> 77 industry-specific standards	Metrics	Broad – sustainability-related topics	The SASB Standards feature significantly in the standards (see <a href="#">Section 2.3</a> or a summary in <a href="#">Appendix 2</a> ).  SASB was formerly part of the VRF <sup>21</sup> .
<b>IIRC</b> Framework for effective integration of value-relevant information	Narrative	Comprehensive – wider corporate reporting	The Integrated Reporting Framework published by the IIRC provides useful guidance for avoiding duplication and fragmentation of disclosure, with clear focus on what is material to value creation over the short, medium and long term.  It is complementary to content-based frameworks – e.g. TCFD and SASB. Concepts from the framework informed the development of the general standard.  The IIRC was also formerly part of the VRF <sup>21</sup> .

21. The VRF was formed in 2021 with the merger of SASB and the IIRC. In August 2022, the VRF was merged into the IFRS Foundation.

Source	Type	Coverage	Key points
<b>CDSB</b> Framework application guidance for disclosure of environmental and social information	Narrative	Broad – climate-related, water, biodiversity, social topics	There is strong alignment between the CDSB and TCFD frameworks.  Unlike TCFD, the CDSB Framework application guidance covers other topics in addition to climate-related topics.  The CDSB was consolidated into the IFRS Foundation in January 2022.
<b>World Economic Forum (WEF)</b> Stakeholder Capitalism Metrics (SCM)	Metrics	Broad – people, planet, prosperity, principles of governance	The WEF SCM provide illustrative cross-industry metrics based on existing frameworks (e.g. GRI).

## A1.2 Broader sustainability reporting bodies

Some sustainability reporting bodies focus on the information needs of wider stakeholders, in addition to existing and potential investors, lenders and other creditors. The table below summarises three examples.

Source	Type	Coverage	Key points
<b>GRI</b> Broad suite of reporting standards	Narrative and metrics	Broad – sustainability-related topics	GRI has historically been a widely adopted sustainability-related framework.  Its focus is the company's impact on the economy, environment and society.  See <a href="#">Appendix 2</a> for further detail.
<b>ESRSs</b> European Sustainability Reporting Standards	Narrative and metrics	Broad – sustainability-related topics	ESRs are due to be finalised by August 2023 and will be mandatory for certain EU registered or listed companies. There is a phased introduction from 2024, with later requirements for groups with non-EU parents and significant operations in the EU.  They adopt a broad definition of materiality (referred to as 'double materiality' – see <a href="#">2.4.4</a> ) and include granular reporting requirements covering public policy objectives (e.g. alignment with the Paris Agreement), process guidance and disclosures.  The ISSB and EU bodies have worked together to align the standards and ESRs where possible.

Source	Type	Coverage	Key points
<p><b>Task Force on Nature-related Financial Disclosures (TNFD)</b></p> <p>Framework for nature-related risk management and disclosure</p>	<p>Narrative and metrics</p>	<p>Narrow – natural capital and biodiversity only</p>	<p>TNFD released a draft framework on natural capital and biodiversity in March 2022, which is due for finalisation in September 2023.</p> <p>The framework has strong links to TCFD.</p>

# Appendix 2: Transition

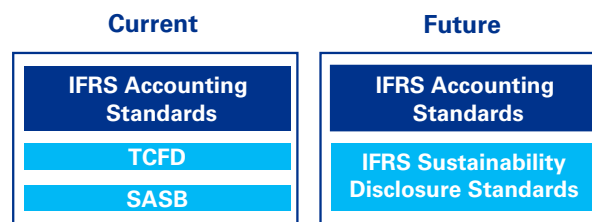
This appendix includes high-level guidance for companies which have previously adopted other frameworks

The formation of the ISSB represented a consolidation of major investor-focused sustainability reporting bodies. However, other types of sustainability reporting are outside the scope of IFRS Sustainability Disclosure Standards but remain important. This includes reporting to meet public policy and other stakeholder needs. The ISSB's objective is not to replace all sources of broader guidance or broader sustainability reporting standards, but to create a global baseline of reporting that other bodies and local jurisdictions can build on.

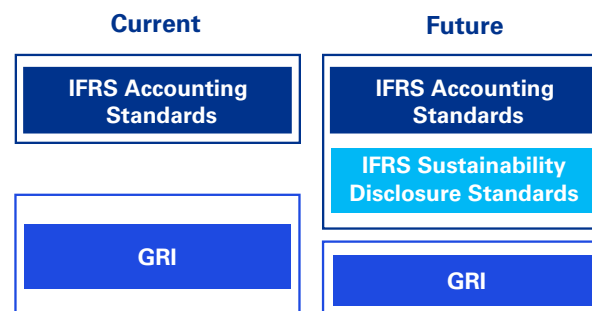
Information required by IFRS Sustainability Disclosure Standards is allowed to be presented in the same location as information disclosed for other purposes. However, the disclosures need to be clearly identifiable and not obscured by other information (see [Section 4.3](#)).

The diagram below illustrates two different ways that companies may currently report and how these may evolve when applying IFRS Sustainability Disclosure Standards. They exclude additional reference materials that a company may host on its website to supplement the information included in its general purpose financial reports.

**Illustration 1:  
Single report**



**Illustration 2:  
Separate sustainability report**



## A2.1 Transitioning from TCFD

TCFD's materials<sup>22</sup> include recommended disclosures and a wealth of practical guidance, educational materials and illustrative examples. The standards are strongly aligned with and build on TCFD's 11 recommended disclosures, and draw from its more detailed guidance; however, they do not duplicate its practical application support. Companies that use the TCFD's guidance materials still need to assess whether the resulting disclosures are relevant and compliant with requirements in the climate standard.

22. In 2017, the TCFD released its final report *Recommendations of the Task Force on Climate-related Financial Disclosures*. This was accompanied by an annex document *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures* that was subsequently updated in 2021. These documents have been supplemented with annual status reports as well as additional practical guidance materials. The full suite of guidance is available at [Publications | Task Force on Climate-related Financial Disclosures \(fsb-tcfd.org\)](#).

For companies transitioning from full compliance with TCFD to IFRS Sustainability Disclosure Standards, key actions include the following.

Area	Illustrative actions
<b>General</b>	<ul style="list-style-type: none"> <li>• Ensure that your reporting processes are appropriate to enable reporting on all sustainability-related risks and opportunities (not just those that are climate-related) for the same period and at the same time as the financial statements are published (see <a href="#">Appendix 4</a>).</li> <li>• Design an appropriate structure for reporting across all topics that ensures connectivity between topics and with other areas of general purpose financial reports, including the financial statements.</li> <li>• For climate-related reporting specifically, prepare for more granular disclosures, and align the bases of calculation and presentation to the climate standard.</li> <li>• Understand the areas where the climate standard builds on the TCFD-recommended disclosures. These particularly include the approach to reporting on transition plans as part of strategy (see <a href="#">3.3.3</a>), the specificity of disclosures around resilience (see <a href="#">3.3.5</a>), the reporting of greenhouse gas emissions and industry-specific metrics (see <a href="#">3.5.3</a>) and details required about targets (see <a href="#">3.5.4</a>).</li> </ul>
<b>Governance and risk management</b>	<ul style="list-style-type: none"> <li>• Ensure that your governance and risk management structures are equipped to cover disclosure on all sustainability-related risks and opportunities.</li> </ul>
<b>Strategy</b>	<ul style="list-style-type: none"> <li>• Undertake a robust assessment to identify all sustainability-related risks and opportunities and identify material information for disclosure.</li> <li>• Consider how to disclose information about resilience to non-climate-related risks.</li> </ul>
<b>Metrics and targets</b>	<ul style="list-style-type: none"> <li>• Identify the data requirements for effective reporting across all identified sustainability-related risks and opportunities.</li> </ul>

## A2.2 Transitioning from SASB

SASB Standards are relevant in many ways to companies applying the standards.

- The ISSB encourages companies to use the SASB Standards in advance of applying IFRS Sustainability Disclosure Standards.
- Companies “shall” consider SASB Standards when identifying sustainability-related risks and opportunities and material information to disclose (see [Section 2.3](#)).
- The industry-specific guidance for the climate standard is consistent<sup>23</sup> with climate-related metrics in the SASB Standards (see [3.5.3](#)).
- The ISSB plans to use SASB Standards when developing future industry-specific requirements.

23. The ISSB based its industry-specific guidance for the climate standard on the SASB Standards, but made updates to ensure international applicability of the climate-related metrics. The SASB Standards were updated in June 2023 to incorporate these changes, ensuring that they remain consistent with the industry-specific guidance.

If adopters of SASB Standards have not previously applied TCFD or other narrative reporting frameworks, then they need to develop reporting on the more strategic and process-related requirements related to governance, strategy and risk management, as set out in [Chapter 3](#) of this publication.

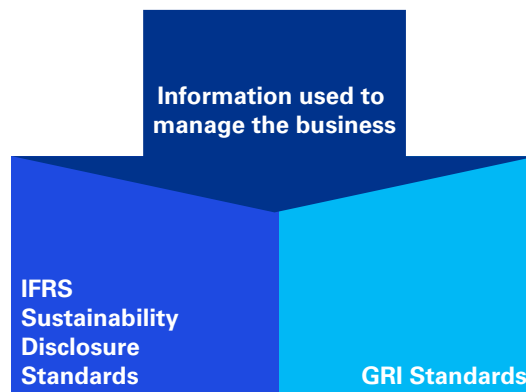
## A2.3 Transitioning from GRI

Reporting under GRI Standards has a broader objective than IFRS Sustainability Disclosure Standards – i.e. to provide transparency on how a company contributes or aims to contribute to sustainable development. To do this, the GRI Standards aim to provide an understanding of the most significant impacts that the company has on the economy, the environment and society, and therefore reflect a wider set of stakeholder needs.

It is likely that many of the topics identified as material under GRI Standards – i.e. because they are important to wider stakeholders – could also affect the company’s future cash flows and could therefore be material to investors. However, differences may arise in the type of information required – e.g. investors typically want to understand the magnitude of the company’s exposure to an issue and how this interacts with other aspects of the company’s strategy. This enables them to understand the issue’s effect on the company’s future cash flows. Other stakeholders want to understand how the topic affects their circumstances.

The general standard allows companies to consider GRI Standards when identifying material information to disclose about topics not covered by IFRS Sustainability Disclosure Standards (see [2.3.2](#)).

A company is likely to derive information required by both sets of standards from the same data sets and systems it uses to manage the business.



Using IFRS Sustainability Disclosure Standards with GRI Standards as complementary standards would facilitate reporting under a two-pillar structure, with:

- IFRS Sustainability Disclosure Standards informing investor-focused reporting as part of general purpose financial reports; and
- GRI Standards continuing to be used for broader sustainability reporting (either in a separate report, in online disclosures or as a GRI index).

However, in some jurisdictions (e.g. the EU), requirements may mandate a broader approach to general purpose financial reports that include information relevant for other stakeholders (similar to GRI requirements), as well as investor-relevant information.

For existing adopters of the GRI Standards, it is important to design a coherent suite of reporting that meets the needs of existing and potential investors, lenders and other creditors, as well as other stakeholders that the company reports to.

Key actions for existing adopters include the following.

Area	Illustrative actions
<b>General</b>	<ul style="list-style-type: none"> <li>• Map your existing GRI disclosures against the IFRS Sustainability Disclosure Standards to identify areas of common disclosure, areas that are relevant under GRI Standards only, and areas where additional disclosure is required. In particular, identify information reported under GRI Standards that is material under the ISSB’s approach and, therefore, is required to be disclosed under IFRS Sustainability Disclosure Standards.</li> <li>• Understand and reflect elements of the IFRS Sustainability Disclosure Standards that have not previously been reported under GRI Standards – e.g. requirements around scenario analysis and disclosing impacts on financial performance, position and cash flows.</li> <li>• Design an appropriate reporting suite structure that includes sustainability-related financial disclosures in general purpose financial reports (either directly or via cross-reference) and that provides a coherent document for disclosure of broader sustainability-related information.</li> <li>• Ensure that reporting processes are in place to facilitate reporting on all relevant topics for the same period and at the same time as the financial statements are published.</li> </ul>
<b>Governance and risk management</b>	<ul style="list-style-type: none"> <li>• Ensure that governance and risk management structures are equipped to cover all sustainability-related risks and opportunities and are connected to financial reporting.</li> </ul>
<b>Strategy</b>	<ul style="list-style-type: none"> <li>• Undertake a robust assessment to identify sustainability-related risks and opportunities that could reasonably be expected to affect the company’s prospects. This includes risks and opportunities that are relevant individually and in aggregate.</li> </ul>
<b>Metrics and targets</b>	<ul style="list-style-type: none"> <li>• Ensure that measurement methodology for existing reporting remains appropriate under IFRS Sustainability Disclosure Standards.</li> </ul>

# Appendix 3: Greenhouse gas emissions

This appendix provides a high-level introduction to accounting for greenhouse gas emissions

The climate standard requires companies to disclose their greenhouse gas (GHG) emissions using existing methodology and guidance from the Greenhouse Gas Protocol, including the following standards<sup>24</sup>.

- The [Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard \(2004\)](#) (the GHG Protocol Corporate Standard) provides guidance and methodology for companies preparing an inventory of their greenhouse gas emissions.
- The [Greenhouse Gas Protocol Corporate Value Chain \(Scope 3\) Accounting and Reporting Standard \(2011\)](#) (the GHG Protocol Value Chain Standard) provides further guidance on Scope 3 emissions.

For further information about measuring greenhouse gas emissions under the GHG Protocol Standards, see our [Handbook](#).

## A3.1 Scope 1, 2 and 3 greenhouse gas emissions

The GHG Protocol Corporate Standard defines three emissions ‘scopes’. Companies are required to report on all three under the climate standard.

- **Scope 1:** Direct GHG emissions from sources owned or controlled by the company (e.g. direct emissions from fuel burned for heating the company’s premises).
- **Scope 2:** Indirect GHG emissions from the generation of purchased electricity (including steam, heat and cooling) consumed by the company – e.g. electricity purchased for own use. This is defined as electricity (including steam, heat and cooling) purchased or brought into the organisational boundary of the company.
- **Scope 3:** All indirect emissions not otherwise included in the company’s Scope 2 emissions that occur in the upstream and downstream activities of the company’s value chain. The GHG Protocol Value Chain Standard sets out 15 categories of Scope 3 emissions (see [A3.3](#) below).

In all three scopes, emissions include seven greenhouse gases: carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), nitrogen trifluoride (NF<sub>3</sub>), perfluorocarbons (PFCs) and sulphur hexafluoride (SF<sub>6</sub>). For comparability, each of these are then converted to carbon dioxide equivalent (CO<sub>2</sub>e) using global warming potential factors.

## A3.2 Setting boundaries

When setting the basis of preparation for accounting for GHG emissions, a company determines its **organisational boundary** and **operational boundary**. This allows the company to determine what to include in its GHG inventory on a consistent and comparable basis.

24. In this publication, the GHG Protocol Corporate Standard and the GHG Protocol Value Chain Standard are referred to collectively as the GHG Protocol Standards.



### Organisational boundary

A company's **organisational boundary** determines which emissions-producing activities are owned or controlled by the company and therefore included in its Scope 1 and 2 emissions. The GHG Protocol Corporate Standard requires that the organisational boundary is determined consistently using one of the three approaches described below.

- Equity share: Emissions are included based on the percentage of equity owned.
- Financial control: Emissions are included if the company has financial control. Financial control arises when the company is able to direct the financial and operating policies with a view to gaining economic benefits. When a company has joint financial control, then the equity share is included.
- Operational control: Emissions are included if the company has operational control. Operational control arises if the company has the full authority to introduce and implement its own operating policies.

The descriptions of equity share, financial control and operational control in the GHG Protocol Corporate Standard may vary from definitions used under financial reporting standards.

### Operational boundary

Once a company has chosen its organisational boundary, it needs to define its **operational boundary**, which determines the direct and indirect emissions associated with operations owned or controlled by the company. A company identifies which operations and sources cause direct or indirect emissions and decides which indirect (Scope 3) emissions to include.

Depending on the organisational boundary selected, emissions from certain investments may fall within a different category of the operational boundary (i.e. Scope 1, 2 or 3). For example, when an investment is identified as being outside the organisational boundary rather than inside it, emissions that would otherwise have been classified as Scope 1 or 2 are included in Scope 3. When an investment is inside the organisational boundary, then certain emissions from the investment are included within Scope 1 or 2.

## A3.3 Categories of Scope 3 emissions

The definition of Scope 3 emissions in the climate standard includes the following 15 categories of emissions. These are consistent with the GHG Protocol Value Chain Standard. Under the climate standard, a company discloses which of the following categories were included in its measure of Scope 3 emissions.

Upstream	Downstream
1 – Purchased goods and services	9 – Downstream transportation and distribution
2 – Capital goods	10 – Processing of sold products
3 – Fuel- and energy-related activities not included in Scope 1 greenhouse gas emissions or Scope 2 greenhouse gas emissions	11 – Use of sold products
4 – Upstream transportation and distribution	12 – End-of-life treatment of sold products
5 – Waste generated in operations	13 – Downstream leased assets
6 – Business travel	14 – Franchises
7 – Employee commuting	15 – Investments
8 – Upstream leased assets	

# Appendix 4: Putting it into practice

This appendix illustrates some of the practical considerations of applying the IFRS Sustainability Disclosure Standards, as introduced in [Section 1.6](#)

To meet reporting requirements under the IFRS Sustainability Disclosure Standards, companies need a clear reporting strategy, supported by sufficiently rigorous processes and controls to generate high-quality information in a timely manner.

Building on the actions identified in [Section 1.6](#), three of the areas to consider are:

- cross-functional collaboration (see [A4.1](#));
- data collection and the reporting close process (see [A4.2](#)); and
- an internal assurance framework (see [A4.3](#)).

## A4.1 Cross-functional collaboration

Effective sustainability-related financial disclosures are the output of a robust process to embed sustainability-related topics into all aspects of running a business. The quality of reporting can be strengthened through an effective board-led governance structure, supported by co-ordination, collaboration and utilisation of cross-functional teams. Teams that may be important to the sustainability reporting process include the following.

Team	Responsibilities
Sustainability	Provides expertise on sustainability-related risks and opportunities that could reasonably be expected to affect a company's prospects
Finance	Provides expertise on the financial statement close process, connectivity to the financial statements and modelling of future financial impacts
Strategy	Provides expertise on how sustainability-related matters are affecting the enterprise strategy and the impact of certain scenarios on business performance
Risk management	Provides expertise on risk management, including its integration with wider business and strategic priorities
Information technology	Provides expertise on current and future data and systems
Investor relations (IR)	Provides expertise on communication with investors
Legal	Monitors existing or new regulatory compliance developments
Internal audit	Provides a line of defence through review and testing of processes and controls
Other central functions – e.g. HR, Payroll	Provides background on policies, programmes, remuneration and incentives or social-related data

With cross-functional collaboration, roles and responsibilities need to be clear, in line with the company's governance structure and effectively communicated so that each team and individual understands the overall sustainability-related financial disclosure objectives and can deliver on their mandate. For many companies this will require a change in the target operating model to deliver on the additional reporting requirements.

The board is responsible for holding management accountable for their efforts towards sustainability-related financial disclosure objectives and the strategic actions being taken. Given the transparency the standards will bring to reported information, there will be additional focus on this activity. The board and management require the necessary knowledge and skills to provide effective oversight and review of sustainability-related financial information, processes and controls.

Companies may need to consider how to train or recruit individuals with sustainability-related knowledge at both the board and management levels.

## **A4.2 Data collection and reporting close process**

Challenges from reporting sustainability-related financial disclosures at the same time as the financial statements include dealing with incomplete data, external data of uncertain or variable quality, making complex estimates and time-consuming data collation processes.

The increased data collection requirements will be demanding for unprepared companies. It is important to understand and document the sources of new data streams across the value chain and monitor the reliability of underlying internal and external data collected and used for disclosing metrics. Companies may need to design and implement appropriate controls and test their effectiveness. Where possible, companies could leverage existing financial reporting processes and controls to create this audit trail.

As the reporting process develops and matures, companies may need to consider new tools. For example, as a company's experience of reporting develops, it may increase the sophistication of emissions calculations and/or automate its data collation and calculation process.

Companies will need to design or implement an effective reporting process for sustainability-related financial disclosures with appropriate controls to report accurate and timely data. Similar to financial reporting, sustainability-related financial disclosures will need an effective reporting close process, which includes a review of information to be disclosed and finalisation of reporting.

## A4.3 Internal assurance framework

The individual or body that is responsible for sustainability-related financial disclosures needs to be comfortable with the information being produced and published. Risk management and compliance along with internal audit can play a significant role in increasing this confidence.

Risks (i.e. what could go wrong) need to be considered across many areas of the sustainability-related financial disclosure process, for example:

- controls over third party data;
- estimates and assumptions;
- policies and procedures; and
- IT general controls and application controls.

Once risks have been considered, processes can be mapped and controls assessed. The ongoing effectiveness of key controls in the reporting process will be critical to achieving investor-grade reporting. Internal audit may need to develop a controls testing strategy to determine the level of monitoring based on risk assessment. Clear documentation is also needed to assess the effectiveness of any processes and controls used.

Ongoing monitoring of identified control deficiencies is key to improving the control environment and providing the responsible body or individual with information to deliver necessary oversight.

# Appendix 5: Glossary

## A5.1 Key terminology

The following key terms are used throughout this publication.

<b>Disclosure topics</b>	<b>Disclosure topics</b> are set out in IFRS Sustainability Disclosure Standards and SASB Standards. They relate to specific sustainability-related risks or opportunities arising from the activities of companies in a particular industry.
<b>General purpose financial reports</b>	<b>General purpose financial reports</b> provide information about the company that is useful for investors who are making decisions about providing resources to the company. It includes the financial statements and <b>sustainability-related financial disclosures</b> and may also contain other information such as management commentary.
<b>Investors</b>	In this publication, ' <b>investors</b> ' is used to refer to the primary users of general purpose financial reports – i.e. a company's potential and actual investors, lenders and other creditors.
<b>Investors' assessments of a company's future cash flows</b>	In this publication, ' <b>investors' assessments of a company's future cash flows</b> ' is used to discuss investors' assessments of the amount, timing, and uncertainty of future net cash inflows over the short, medium, and long term and management's stewardship of economic resources. These assessments are made so investors can make decisions around providing resources to a company or influencing management's actions.
<b>Material sustainability-related financial information (material information)</b>	Information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide information about a specific reporting entity.
<b>Prospects</b>	A company's cash flows, access to finance or cost of capital over the short, medium or long term.
<b>Reporting entity</b>	A <b>reporting entity</b> prepares general purpose financial statements and is the same for financial statements and <b>sustainability-related financial disclosures</b> .  If the reporting entity is a group, then under the standards both its consolidated financial statements and its sustainability-related financial disclosures are for the parent and its subsidiaries.
<b>Sustainability-related financial disclosures</b>	<b>Sustainability-related financial disclosures</b> provide information to investors about all <b>sustainability-related risks and opportunities</b> that could reasonably be expected to affect a company's prospects. They provide a complete set of information required by IFRS Sustainability Disclosure Standards.

**Sustainability-related risks and opportunities**

**Sustainability-related risks and opportunities** arise from a company's dependencies and impacts on resources and relationships. IFRS Sustainability Disclosure Standards require a company to disclose information about all **sustainability-related risks and opportunities** that could reasonably be expected to affect the company's cash flows, access to finance or cost of capital over the short, medium or long term. These risks and opportunities may be referred to as '**sustainability-related risks and opportunities** that could reasonably be expected to affect the company's prospects'. They may often be the sustainability-related matters that management monitors and manages when running the business.

**Sustainability reporting**

In this publication, **sustainability reporting** refers to **sustainability-related financial disclosures** as well as disclosures provided to meet wider stakeholder needs – e.g. reporting under GRI Standards. See [Section 2.4](#) and [Appendix 2](#) for further information.

**Value chain**

The **value chain** includes the full range of interactions, resources and relationships related to a company's business model and the external environment in which it operates. It includes interactions, resources and relationships within the company itself (e.g. human resources), along the supply, marketing and distribution channels, and in the external environment (e.g. financing, geographical, geopolitical and regulatory environments).

## A5.2 Acronyms

The following acronyms are used in the publication.

CDSB	Climate Disclosure Standards Board
ESRSs	European Sustainability Reporting Standards
GHG	Greenhouse gas
GICS	Global Industry Classifications System
GRI	Global Reporting Initiative
IOSCO	International Organization of Securities Commissions
IASB	International Accounting Standards Board
ISSB	International Sustainability Standards Board
IIRC	International Integrated Reporting Council
NDCs	Nationally Determined Contributions
PCAF	Partnership for Carbon Accounting Financials
SASB	Sustainability Accounting Standards Board
SBTi	Science Based Targets initiative
SCM	Stakeholder Capitalism Metrics (developed by the World Economic Forum)
SICS	Sustainable Industry Classification System
TCFD	Task Force on Climate-related Financial Disclosures
TNFD	Task Force on Nature-related Financial Disclosures
VRF	Value Reporting Foundation (which housed the Integrated Reporting Framework and the SASB Standards)
WEF	World Economic Forum
WWF	World Wide Fund for Nature

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# About this publication

This publication has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited).

This edition considers the requirements of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, both issued by the ISSB in June 2023.

Further analysis and interpretation will be needed for a company to consider the impact of IFRS S1 and IFRS S2 in light of its own facts, circumstances and individual transactions. The information contained in this publication is based on initial observations developed by the KPMG International Standards Group and these observations may change. Accordingly, neither this publication nor any of our other publications should be used as a substitute for referring to the standards and interpretations themselves.

The examples included within this publication are for illustrative purposes only. They are intended to help companies to prepare and present sustainability-related financial disclosures under IFRS Sustainability Disclosure Standards by illustrating one possible format or approach. The information contained within the examples is of a general nature and not intended to address the circumstances of any particular company.

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