
# Need to know

## ISSB publishes first IFRS Sustainability Disclosure Standards

## Contents



This *Need to know* outlines IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* published by the International Sustainability Standards Board (ISSB) in June 2023.

- The ISSB has published its first two IFRS Sustainability Disclosure Standards:
  - IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information;* and
  - IFRS S2 *Climate-related Disclosures.*
- IFRS S1 sets out overall requirements for sustainability-related financial disclosures with the objective to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.
- IFRS S2 sets out the requirements for identifying, measuring and disclosing information about climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.
- Both Standards are effective for annual periods beginning on or after 1 January 2024, with substantial transitional reliefs to allow preparers more time to align reporting of sustainability-related financial disclosures and financial statements.
- In the first annual reporting period in which an entity applies IFRS S1, the entity is permitted to disclose information on only climate-related risks and opportunities (in accordance with IFRS S2).

### Background

The ISSB was established in November 2021 to develop high-quality sustainability disclosure standards that meet investors' information needs with the objective to create a comprehensive global baseline of sustainability-related disclosures. IFRS S1 and IFRS S2 are the first IFRS Sustainability Disclosure Standards and result from a consultation process started in March 2022.

**For more information please see the following websites:**

www.ukaccountingplus.co.uk
www.deloitte.co.uk

**Jurisdictional efforts towards sustainability reporting requirements**
The first IFRS Sustainability Disclosure Standards are published at a time of significant policy and regulatory developments. The ISSB's standards are intended to be used to create a global baseline, which can be supplemented (and therefore be interoperable) by jurisdictional requirements. Jurisdictional developments include the following:

**In the EU**, the European Commission (EC) published its **Corporate Sustainability Reporting Directive (CSRD)** in December 2022 that includes a provision for mandatory European Sustainability Reporting Standards (ESRS). In June 2023, the EC launched a consultation for the **draft regulation** that specifies the text of these ESRS which are to be mandatory for entities, as specified in the CSRD, from 1 January 2024.

**In the US**, the Securities and Exchange Commission (SEC) issued a proposed rule on 21 March 2022 titled *The Enhancement and Standardization of Climate-related Disclosures for Investors.*

**Implications for UK companies**
In March 2023, the UK government published a new policy paper, ***Green Finance Strategy—Mobilising Green Investment*** ("the 2023 Strategy"), building on the previous Green Finance Strategy which was published in July 2019. The 2023 Strategy re-emphasises the government's commitment to the sustainability disclosure requirements set out in its ***Greening Finance: A Roadmap to Sustainable Investing*** ("the Roadmap"), which explains how the government intends to 'green' the financial system and align it with the UK's commitment to reach net zero greenhouse gas (GHG) emissions by 2050.

A key aspect of the 2023 Strategy is to ensure that market participants have the information and data they need to manage risks and allocate capital. Central to this are the government's plans for the Sustainability Disclosure Requirements (SDR) which were first introduced in the Roadmap. The SDR aim to create a streamlined disclosure framework bringing together new and existing sustainability reporting disclosure requirements for UK businesses, the financial sector and investment products. The government aims to introduce the SDR in a way that complements the UK's wider non-financial reporting framework, minimises duplication with other forms of corporate reporting and gives businesses enough time to implement the new requirements.

The UK has already taken a number of steps in developing the SDR, including the Financial Conduct Authority (FCA)'s **Listing Rule for premium and standard listed companies to make disclosures consistent with the TCFD Recommendations,** and **government legislation to require certain AIM-listed and unlisted companies and LLPs to include climate-related financial disclosures in the annual report.**

The 2023 Strategy reaffirms the government's intention to adopt the ISSB sustainability standards for use in the UK following a formal assessment of the standards. The government is establishing two advisory committees to support this assessment: the first will consider public policy while the second will be supported by the Financial Reporting Council (FRC) and will consider how the standards will sit alongside existing UK reporting requirements. The aim is for an endorsement decision on the ISSB standards to be made within 12 months of publication. The 2023 Strategy also makes clear that the UK government and regulators will continue to support global adoption of the ISSB's standards to drive international interoperability of sustainability reporting requirements and promote high quality sustainability reporting.

For further information, please see our ***Need to know*** discussing the UK Government's Green Finance Strategy—Mobilising Green Investment.

## IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

### Objective

The objective of IFRS S1 is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to the primary users of general purpose financial reports in making decisions relating to providing resources to the entity.

Information about sustainability-related risks and opportunities is useful to primary users because an entity's ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. Together, the entity and the resources and relationships throughout its value chain form an interdependent system in which the entity operates. The entity's dependencies on those resources and relationships and its impacts on those resources and relationships give rise to sustainability-related risks and opportunities for the entity.

**Value chain**
A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption or end-of-life. This includes interactions, resources and relationships in the entity's operations (e.g. human resources); its supply, marketing and distribution channels; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.

IFRS S1 requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. IFRS S1 refers to these risks and opportunities as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

**Observation**
IFRS S1 sets out overall principles for reporting but also includes a requirement for an entity to identify and disclose material information about **all** sustainability-related risks and opportunities, not only climate-related risks and opportunities, that could reasonably be expected to affect its prospects (subject to a transitional relief—see below at **Effective date and transition**). To facilitate complete disclosures, IFRS S1 provides guidance on how to develop disclosures for a topic to which no IFRS Sustainability Disclosure Standard directly applies.

IFRS S1 prescribes how an entity prepares and reports its sustainability-related financial disclosures. It sets out general requirements for the content and presentation of those disclosures so that the information disclosed is useful to primary users in making decisions about providing resources to the entity.

### Scope
An entity applies IFRS S1 in preparing and reporting sustainability-related financial disclosures in accordance with IFRS Sustainability Disclosure Standards. An entity may apply IFRS Sustainability Disclosure Standards irrespective of whether the entity's related general purpose financial statements are prepared in accordance with IFRS Accounting Standards or other generally accepted accounting principles or practices (GAAP).

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

### Conceptual foundations
For sustainability-related financial information to be useful, it must be relevant and faithfully represent what it purports to represent. These are fundamental qualitative characteristics of useful sustainability-related financial information. The usefulness of sustainability-related financial information is enhanced if the information is comparable, verifiable, timely and understandable. These are enhancing qualitative characteristics of useful sustainability-related financial information.

**Observation**
The ISSB's approach is rooted in key concepts of the IASB *Conceptual Framework*. The consistency of the expected attributes of the reported information with the IASB's approach is intended to facilitate greater connectivity and consistency between the sustainability disclosures and the financial statements.

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

Applying IFRS Sustainability Disclosure Standards, with additional information disclosed when necessary, is presumed to result in sustainability-related financial disclosures that achieve fair presentation.

### Materiality

An entity is required to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity.

An entity need not disclose information otherwise required by an IFRS Sustainability Disclosure Standard if the information is not material. This is the case even if the IFRS Sustainability Disclosure Standard contains a list of specific requirements or describes them as minimum requirements.

Law or regulation might specify requirements for an entity to disclose sustainability-related information in its general purpose financial reports. In such circumstances, the entity is permitted to include in its sustainability-related financial disclosures information to meet legal or regulatory requirements, even if that information is not material. However, such information should not obscure material information.

If an entity determines that information about a sustainability-related opportunity is commercially sensitive, the entity is permitted in limited circumstances (which are specified in IFRS S1) to omit that information from its sustainability-related financial disclosures. Such an omission is permitted even if information is otherwise required by an IFRS Sustainability Disclosure Standard and the information is material.

### Reporting entity and connected information

An entity's sustainability-related financial disclosures are required to be for the same reporting entity as the related financial statements.

An entity is required to provide information in a manner that enables users of general purpose financial reports to understand the following types of connections:

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

An entity is required to identify the financial statements to which the sustainability-related financial disclosures relate.

Data and assumptions used in preparing the sustainability-related financial disclosures are required to be consistent—to the extent possible considering the requirements of IFRS Accounting Standards or other applicable GAAP—with the corresponding data and assumptions used in preparing the related financial statements.

#### Observation

By including the requirements on connected information, the ISSB intends entities to make integrated disclosures instead of siloed disclosures. This is already a familiar concept to entities that have applied the principles of integrated reporting and thinking. Some of the fundamental concepts of the **Integrated Reporting Framework**, which is now maintained under the auspices of the IFRS Foundation, have been incorporated in IFRS S1.

### Core content

Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise in specified circumstances, an entity is required to provide disclosures about:

- governance—the governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities;
- strategy—the approach the entity uses to manage sustainability-related risks and opportunities, including:
  - business model and value chain;
  - strategy and decision making;
  - financial position, financial performance and cash flows; and
  - resilience of the entity's strategy and its business model;
- risk management—the processes the entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities; and
- metrics and targets—the entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set, or is required to meet by law or regulation.

IFRS S1 sets out objectives for each of these aspects, and disclosure requirements to achieve those objectives.

#### Observation

IFRS S1 includes the requirement that entities should disclose information to enable users of general purpose financial reports to understand the resilience of the entity's strategy and its business model to sustainability-related risks. For each sustainability topic, the ISSB will decide whether the applicable IFRS Sustainability Disclosure Standard should specify the type of information an entity is required to disclose about resilience and how to prepare those disclosures. This includes the decision about whether scenario analysis will be required.

**General requirements**
*Sources of guidance*

| Identifying sustainability-related risks and opportunities | Identifying applicable disclosure requirements |
|---|---|
| • An entity **is required to** apply IFRS Sustainability Disclosure Standards.<br>• An entity **is required to** refer to and consider the applicability of the disclosure topics in the SASB Standards.<br>• An entity **may** refer to and consider the applicability of:<br>– the CDSB Framework Application Guidance for Water- and Biodiversity-related Disclosures;<br>– the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general purpose financial reports; and<br>– the sustainability-related risks and opportunities identified by entities that operate in the same industry(s) or geographical region(s). | • An entity **is required to** apply the IFRS Sustainability Disclosure Standard that specifically applies to that sustainability-related risk or opportunity.<br>• In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity, an entity **is required to** apply judgement to identify information that is relevant to the decision-making of users of general purpose financial reports and faithfully represents that sustainability-related risk or opportunity. In making that judgement, an entity:<br>– **is required to** refer to and consider the applicability of the metrics associated with the disclosure topics included in the SASB Standards; and<br>– **may** refer to and consider the applicability of:<br>» the CDSB Framework Application Guidance for Water- and Biodiversity-related disclosures and the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general purpose financial reports, to the extent that these sources do not conflict with IFRS Sustainability Disclosure Standards;<br>» the information, including metrics, disclosed by entities that operate in the same industry(s) or geographical region(s); and<br>» the Global Reporting Initiative (GRI) Standards and the European Sustainability Reporting Standards (ESRS), to the extent that these sources assist the entity in meeting the objective of IFRS S1 and do not conflict with IFRS Sustainability Disclosure Standards. |

An entity is required to identify:

- the specific standards, pronouncements, industry practice and other sources of guidance that the entity has applied in preparing its sustainability-related financial disclosures, including, if applicable, identifying the disclosure topics in the SASB Standards; and
- the industry or industries specified in the IFRS Sustainability Disclosure Standards, the SASB Standards or other sources of guidance relating to a particular industry or industries that the entity has applied in preparing its sustainability-related financial disclosures, including in identifying applicable metrics.

**Observation**

An entity is required to provide information that is relevant to the decision-making needs of users of general purpose financial reports and that faithfully represents the entity's sustainability-related risks and opportunities. When identifying that information, an entity is required to consider the SASB Standards but is not required to apply them. If the entity determines that the sources of guidance considered do not result in disclosures that meet the requirements of IFRS S1, the entity is not required to apply them.

### Location of disclosures and timing of reporting

An entity is required to provide disclosures required by IFRS Sustainability Disclosure Standards as part of its general purpose financial reports.

An entity is required to report its sustainability-related financial disclosures at the same time as its related financial statements. The entity's sustainability-related financial disclosures are required to cover the same reporting period as the related financial statements.

### Comparative information

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

### Judgements, uncertainties and errors

An entity is required to disclose information to enable users of general purpose financial reports to understand the judgements, apart from those involving estimations of amounts, that the entity has made in the process of preparing its sustainability-related financial disclosures and that have the most significant effect on the information included in those disclosures.

In addition, an entity is required to disclose information to enable users of general purpose financial reports to understand the most significant uncertainties affecting the amounts reported in its sustainability-related financial disclosures.

An entity is required to:

- identify the amounts that it has disclosed that are subject to a high level of measurement uncertainty; and
- in relation to each amount identified, disclose information about:
  - the sources of measurement uncertainty—for example, the dependence of the amount on the outcome of a future event, on a measurement technique or on the availability and quality of data from the entity's value chain; and
  - the assumptions, approximations and judgements the entity has made in measuring the amount.

Furthermore, an entity is required to correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed unless it is impracticable to do so.

## IFRS S2 *Climate-related Disclosures*

### Objective and scope

The objective of IFRS S2 is to require an entity to disclose information about its climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity. These are climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

IFRS S2 applies to:

- climate-related risks to which the entity is exposed, which are climate-related physical risks and climate-related transition risks; and
- climate-related opportunities available to the entity.

### Governance

The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities.

To achieve this objective, an entity is required to disclose information, including the identity, about the governance body or bodies or individual(s) responsible for oversight of climate-related risks and opportunities.

### Strategy

The objective of climate-related financial disclosures on strategy is to enable users of general purpose financial reports to understand an entity's strategy for managing climate-related risks and opportunities.

Specifically, an entity is required to disclose information to enable users of general purpose financial reports to understand:

- the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects;
- the current and anticipated effects of those climate-related risks and opportunities on the entity's business model and value chain;
- the effects of those climate-related risks and opportunities on the entity's strategy and decision-making, including information about its climate-related transition plan;
- the effects of those climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period, and their anticipated effects on the entity's financial position, financial performance and cash flows over the short, medium and long term taking into consideration how those climate-related risks and opportunities have been factored into the entity's financial planning; and
- the climate resilience of the entity's strategy and its business model to climate-related changes, developments and uncertainties—taking into consideration the entity's identified climate-related risks and opportunities.

### Climate resilience

For the preparation of disclosures about climate resilience, the ISSB decided that IFRS S2 should require scenario analysis. That decision was supported by the fact that climate-related scenario analysis is already familiar to entities that apply the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The entity is required to use an approach to scenario analysis that is commensurate with the entity's circumstances. In providing quantitative information, the entity may disclose a single amount or a range. IFRS S2 requires specific disclosures about climate-related scenario analysis, including information about the inputs an entity used (e.g. which climate-related scenarios the entity used for the analysis and the sources of those scenarios, whether the analysis included a diverse range of climate-related scenarios, and whether the entity used, among its scenarios, a climate-related scenario aligned with the latest international agreement on climate change—which is currently the Paris Agreement).

**Risk management**

The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reports to understand an entity's processes to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process.

To achieve this objective, an entity is required to disclose information about:

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

**Metrics and targets**

The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reports to understand an entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.

To achieve this objective, an entity is required to disclose:

- information relevant to the cross-industry metric categories;
- industry-based metrics that are associated with particular business models, activities or other common features that characterise participation in an industry; and
- targets set by the entity, and any targets it is required to meet by law or regulation, to mitigate or adapt to climate-related risks or maximise climate-related opportunities, including metrics used by the governance body or management to measure progress towards these targets.

*Climate-related metrics and targets*

The following table gives an overview of the categories of cross-industry metrics and the associated requirements.

| Cross-industry metric categories | Requirements |
|---|---|
| **Greenhouse gases** | • Disclose the entity's absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of $CO_2$ equivalent, classified as scope 1, 2 and 3 greenhouse gas emissions.<br>• Measure the entity's greenhouse gas emissions in accordance with the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)* unless the entity is required by a jurisdictional authority or an exchange on which it is listed to use a different method for measuring its greenhouse gas emissions.<br>• Disclose the approach the entity uses to measure its greenhouse gas emissions including:<br>– the measurement approach, inputs and assumptions the entity uses to measure its greenhouse gas emissions;<br>– the reason why the entity has chosen the measurement approach, inputs and assumptions it uses to measure its greenhouse gas emissions; and<br>– any changes the entity made to the measurement approach, inputs and assumptions during the reporting period and the reasons for those changes.<br>• For Scope 1 and Scope 2 greenhouse gas emissions, disaggregate emissions between:<br>– the consolidated accounting group (for example, for an entity applying IFRS Accounting Standards, this group would comprise the parent and its consolidated subsidiaries); and<br>– other investees excluded from the consolidated accounting group (for example, for an entity applying IFRS Accounting Standards, these investees would include associates, joint ventures and unconsolidated subsidiaries).<br>• For Scope 2 greenhouse gas emissions, disclose the entity's location-based Scope 2 greenhouse gas emissions, and provide information about any contractual instruments that is necessary to inform users' understanding of the entity's Scope 2 greenhouse gas emissions.<br>• For Scope 3 greenhouse gas emissions, disclose:<br>– the categories included within the entity's measure of Scope 3 greenhouse gas emissions, in accordance with the Scope 3 categories described in the *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011);* and<br>– additional information about the entity's Category 15 greenhouse gas emissions or those associated with its investments (financed emissions), if the entity's activities include asset management, commercial banking or insurance. |
| **Climate-related risks** | Disclose the amount and percentage of assets or business activities vulnerable to climate-related transition risks and climate-related physical risks. |
| **Climate-related opportunities** | Disclose the amount and percentage of assets or business activities aligned with climate-related opportunities. |
| **Capital deployment** | Disclose the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities. |
| **Internal carbon prices** | • Disclose an explanation of whether and how the entity is applying a carbon price in decision-making (for example, investment decisions, transfer pricing and scenario analysis).<br>• Disclose the price for each metric tonne of greenhouse gas emissions the entity uses to assess the costs of its greenhouse gas emission. |
| **Remuneration** | • Disclose a description of whether and how climate-related considerations are factored into executive remuneration.<br>• Disclose the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations. |

An entity is required to disclose the quantitative and qualitative climate-related targets it has set to monitor progress towards achieving its strategic goals, and any targets it is required to meet by law or regulation, including any greenhouse gas emissions targets. For each target, the entity is required to disclose specific information set out in IFRS S2.

### Industry-based guidance

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

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

### Observation

The Exposure Draft proposed that an entity be required to disclose industry-based metrics derived from the SASB Standards. After considering feedback received on this proposal, the ISSB decided not to proceed with the specific industry-based disclosure topics and associated metrics as required disclosures (except for the requirements on financed emissions), and instead to provide those materials as Industry-based Guidance that accompanies IFRS S2. Therefore, IFRS S2 requires that an entity discloses industry-based metrics, but the entity is not required to apply the particular metrics included in the guidance.

However, the entity is required to refer to and consider the applicability of these industry-based materials. This approach is consistent with the requirements in IFRS S1 for an entity to refer to and consider the applicability of SASB Standards in identifying sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects and the disclosure of information about those risks and opportunities, including metrics.

In May 2023, the ISSB published an Exposure Draft that proposes the methodology to revise non-climate-related SASB Standards metrics to improve their international applicability when they contain a jurisdiction-specific reference. For more details, please see our ***Need to know.***

### Effective date and transition

An entity is required to apply IFRS S1 and IFRS S2 for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If an entity applies one Standard earlier, it is required to disclose that fact and apply the other Standard at the same time.

An entity is not required to provide the disclosures specified in IFRS S1 and IFRS S2 for any period before the beginning of the annual reporting period in which an entity first applies IFRS S1 and IFRS S2. Accordingly, an entity is not required to disclose comparative information in the first annual reporting period in which it applies IFRS S1 and IFRS S2.

In the first annual reporting period in which an entity applies IFRS S1, the entity is permitted to report its sustainability-related financial disclosures after it publishes its related financial statements. In applying this transition relief, an entity is required to report its sustainability-related financial disclosures:

- at the same time as its next second-quarter or half-year interim general purpose financial report, if the entity is required to provide such an interim report;
- at the same time as its next second-quarter or half-year interim general purpose financial report, but within nine months of the end of the annual reporting period in which the entity first applies IFRS S1, if the entity voluntarily provides such an interim report; and
- within nine months of the end of the annual reporting period in which the entity first applies IFRS S1, if the entity is not required to and does not voluntarily provide an interim general purpose financial report.

In the first annual reporting period in which an entity applies IFRS S1, the entity is permitted to disclose information on only climate-related risks and opportunities (in accordance with IFRS S2) and consequently apply the requirements in IFRS S1 only insofar as they relate to the disclosure of information on climate-related risks and opportunities. If an entity uses this transition relief, it is required to disclose that fact, however it is not required to disclose comparative information about its sustainability-related risks and opportunities, other than its climate-related risks and opportunities, in the second annual reporting period in which the entity applies IFRS S1.

In the first annual reporting period in which an entity applies IFRS S2, the entity is permitted to use one or both of the following reliefs:

- If, in the annual reporting period immediately preceding the date of initial application of IFRS S2, the entity used a method for measuring its greenhouse gas emissions other than the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)*, the entity is permitted to continue using that other method.

- An entity is not required to disclose its Scope 3 greenhouse gas emissions which includes, if the entity participates in asset management, commercial banking or insurance activities, the additional information about its financed emissions.

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

**Proportionality**

Although most respondents to the Exposure Draft agreed with the proposed requirements, many of these respondents suggested that the ISSB give more consideration to the range of capabilities and preparedness of entities around the world to apply the proposals. The ISSB therefore decided to include the following mechanisms in IFRS S1 (described as 'proportionality'):

- Concept of 'reasonable and supportable information … without undue cost or effort' (included, for example, in the requirement to identify sustainability-related risks and opportunities).

- Consideration of skills, capabilities and resources (included in the requirements on anticipated financial effects).

- Concept of 'unable to do so' (included, for example, in the requirement to report on current financial effects).

- Guidance, educational material and other efforts to facilitate application (included, for example, in the requirement to determine the scope of the value chain).

In addition, the transition reliefs in IFRS S1 and IFRS S2 may provide entities additional time to prepare for providing a full set of disclosures. This may include a full mapping of the value chain and putting processes into place for developing of relevant disclosures.

**Observation**

The ISSB is committed to work with jurisdictions and entities to support adoption. The first steps will be creating a Transition Implementation Group to support entities that apply the Standards and launching capacity-building initiatives to support effective implementation.

The ISSB will also continue to work with jurisdictions wishing to require incremental disclosures beyond the global baseline and with GRI to support efficient and effective reporting when IFRS S1 and IFRS S2 are applied in combination with other reporting standards.

**Deloitte statement of support**

Deloitte **welcomes** the publication of IFRS S1 and IFRS S2 as an important milestone in achieving a global baseline of consistent, high-quality, and comparable sustainability information addressing the needs of capital markets. Adoption of the standards worldwide is needed to help achieve true harmonisation and avoid the risk of a fragmented approach to regulation.

**Further information**

If you have any questions about the new standards, please speak to your usual Deloitte contact.

Deloitte.



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