



# Sustainability Adviser Alert

## Overview of new international sustainability Standards IFRS S1 and IFRS S2

December 2023

### Executive summary

Following the issue of the first two international sustainability disclosure standards (hereafter “the Standards”), IFRS S1 and IFRS S2, by the International Sustainability Standards Board (ISSB), we issued the publication *Overview of IFRS S1 and IFRS S2*.

In Canada, the Canadian Sustainability Standards Board (CSSB) continues to work with the ISSB to drive the adoption of the Standards in Canada. Refer to the “Next steps for Canada” section for more details as well as for some practical next steps to assist you prepare to disclose sustainability-related information.

### Overview

The new publication *Overview of IFRS S1 and IFRS S2* introduces both of the new sustainability Standards IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosure* and explains the key things you need to know about them. It also provides a description of the four pillars of the Task Force on Climate-related Financial Disclosures (TCFD).

The ISSB’s aim is to establish a global baseline of sustainability-related financial disclosures, which creates a common language for disclosing sustainability risks and opportunities in order to achieve global comparability. The Standards become effective for annual reporting periods beginning on or after January 1, 2024. Together, they mark the start of a new era of requiring reporting entities to make sustainability-related disclosures.

### Latest international development

The IFRS Foundation has recently launched the [IFRS Sustainability knowledge hub](#) to support the use of the sustainability Standards. The hub has been designed to help companies preparing their sustainability disclosures, but it will also be useful repository for investors, regulators and other stakeholders. Resources on the hub currently include an introduction to the Standards, a guide for transitioning from a previous sustainability framework, such as the TCFD, to the Standards as well as a set of Frequently Asked Questions (FAQs).



## Next steps for Canada

In Canada, the CSSB continues to work with the ISSB to drive the adoption of the Standards in Canada. As of the date of this publication, no decision has yet been made on whether and when the Standards will be adopted in Canada. To support the implementation process, the CSSB plans to conduct a consultation likely in 2024 to hear from Canadians on IFRS S1 and S2 implementation.

Considering the latest developments, we suggest a series of steps that might be useful to take in order to begin preparing for future sustainability-related information requirements:

**Get Ready** – Be prepared for the possibility of being required to report in the coming years. Remember that sustainability disclosures will most likely be required in Canada at the same time as the release of your financial statements. This will cause increased pressure on each financial reporting period. The ISSB reliefs mentioned in the “Summary of timing and reliefs” section of our publication *Overview of IFRS S1 and IFRS S2* are permitted only in the first financial reporting year, but there is no indication that the local authorities will conclude in the same direction.

**Understand your current position** – Evaluate your current governance structure and sustainability strategy to ensure they are fit for purpose going forwards and perform gap analysis to identify areas where work is needed to enable compliance with the Standards.

**Create a sustainability roadmap** – After understanding your current position, establish how you can address the gaps identified, adopting a timeline of key milestones for your sustainability journey as well as identifying individuals within your organization responsible and any potential constraints.

**Ensure good quality data** – Ensure adequate controls and processes are in place now to help collate and analyze good quality sustainability data that will compliment your disclosures.

**Familiarise yourself with the Standards** – Companies that are already reporting on sustainability information will likely have an advantage but it is important to note there will be some differences in the Standards which you will need to identify. Not having a good understanding of all the applicable Standards could result in lengthy reports containing duplication or omitted information, resulting in non-compliance.

**Educate your organization** – Ensure all levels of your business have a sound understanding on the importance of sustainability to help drive, grow and implement your sustainability strategy, ensuring there is buy-in at the top of your organization to encourage the correct mindset to filter down.

## Resource

The publication *Overview of IFRS S1 and IFRS S2* follows this *Sustainability Adviser Alert*.



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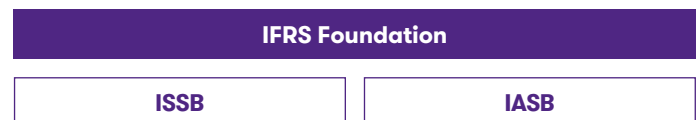
# Overview of IFRS S1 and IFRS S2



On June 26, 2023, the International Sustainability Standards Board (ISSB) released its first two International Sustainability Disclosure Standards (“IFRS SDS” or the “Standards”) that become effective for periods beginning on or after January 1, 2024. Together, they mark the start of a new era of requiring companies to make sustainability-related disclosures.

## Background

The ISSB was launched by the IFRS Foundation at COP26 with the aim of improving the consistency and quality of sustainability reporting across the globe, by matching the importance of sustainability reporting with the current regulations around financial reporting. To reinforce this message, the ISSB sits alongside the International Accounting Standards Board (IASB) and is overseen by the trustees of the IFRS Foundation and the Monitoring Board.



The ISSB brings together the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF), the name behind the Integrated Reporting Framework and the Sustainability Accounting Standards Board (SASB) Standards.

“The global economy needs common reporting standards to reduce fragmentation and drive comparability in climate-related financial data. Built upon the foundation of the TCFD framework, the ISSB Standards provide a global baseline for companies to disclose decision-useful, climate-related financial information—information that is critical for creating more transparent markets, helping achieve a smooth low-carbon transition, and building a more resilient and sustainable global economy.”

**Mary Schapiro, Head of the Task Force on Climate-related Financial Disclosures (TCFD) Secretariat and Vice Chair for Global Public Policy at Bloomberg L.P.**

# International support for global standards

Sustainability reporting is becoming increasingly important for stakeholders, with many larger companies already adopting some form of sustainability reporting to accommodate the demands of their key stakeholders. One of the key challenges faced by many investors and other stakeholders is they have not had access to good quality and globally comparable sustainability information, a stark difference to financial data. The developments being made by the ISSB are, therefore, game changing for sustainability reporting globally.

This is recognized by the international community. The ISSB has international support and is backed by the G7, G20, the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board, among others.

The Standards issued by the ISSB will help combat the challenges of companies “greenwashing”, meaning stakeholders will be able to make better-informed decisions with confidence.

## Key things to know about IFRS SDS

| Headline                                | Description  |
|---|--|
| <b>Same reporting date</b>              | Reporting will be required at the same time and for the same period as the financial statements.   |
| <b>Materiality – investor focused</b>   | Materiality is the same as the IFRS definition, commonly referred to as “Financial Materiality”. Information is deemed material if omitting, misstating or obscuring it could reasonably be expected to influence the users decision.                                    |
| <b>Location of disclosures</b>          | The sustainability disclosures will be included as part of a company’s general purpose financial reports. The location of the disclosures in a company’s general purpose financial report will be subject to regulatory or other requirements that apply to the company. |
| <b>Forward-looking information</b>      | Disclosures will need to provide information on the impact of sustainability-related risks and opportunities on the company’s strategy, business model and financial statements over the short, medium and long-term.  |
| <b>TCFD-aligned</b>                     | The four pillars of TCFD (governance, strategy, risk management, and metrics and targets) have been used to develop the Standards. See page 4 for more details on the four pillars.  |
| <b>Statement of compliance</b>          | A company will be required to make an explicit and unreserved statement of compliance when the sustainability-related financial disclosures will comply with all the requirements of IFRS SDS.   |
| <b>Consolidation of existing bodies</b> | The Standards draw content from other current sustainability standard setters such as the TCFD, SASB, CDSB, and the VRF.   |

# Overview of the Standards released

The two new sustainability Standards issued are as follows:



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

The main objective of this Standard is to require an entity to disclose all information about sustainability-related risks and opportunities that could reasonably be expected to affect a company's prospects.



## 2. IFRS S2 *Climate-related Disclosures*

This Standard focuses on specific climate-related information to be disclosed.

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

IFRS S1 provides the basic requirements for sustainability disclosures, which should be used with IFRS S2 as well as the future Standards the ISSB releases. The Standard:

- Requires disclosure of material information about sustainability-related risks and opportunities with the financial statements, to meet investor information needs;
- Requires industry-specific disclosures and refers to the industry-based SASB standards for guidance when identifying disclosures about sustainability-related risks or opportunities;
- Refers to sources to help companies identify sustainability-related risks and opportunities and related information (for everything other than in the scope of IFRS S2);
- Requires disclosures that enable investors to understand the connections between the sustainability-related risks and opportunities and the sustainability-related financial disclosures and financial statements;
- Is "GAAP agnostic", meaning that a company applying an accounting framework other than IFRS can apply it.

# The four pillars of TCFD



## 1. Governance

Companies will need to report the processes, controls, and procedures that are used to manage sustainability-related risks and opportunities. The report will need to identify those individuals responsible and describe management's role in identifying, assessing and managing sustainability-related risks and opportunities.



## 2. Strategy

Disclose what management assesses to be the company's sustainability risks and opportunities and how management is addressing these by:

- 1 Identifying the company's sustainability-related risks and opportunities;
- 2 Disclosing the impact on the company, including its business model, decision making, and financial planning;
- 3 Explaining the resilience of the company to these risks.

The Standard provides details on how a company should report on sustainability risks and opportunities:

- Identify the risks and opportunities – describe the risk/opportunity, including the time horizon over which each could be reasonably expected to have a financial effect;
- Define the time horizon – how does the company identify short, medium, and long-term.

Companies are required to disclose the current and anticipated effects of such issues on their value chain and how these issues will impact the financial statements over time.



## 3. Risk Management

Explaining how the company identifies sustainability-related risks and opportunities. This includes an explanation of the extent to which these risk management activities are integrated into the overall management risk process.

Concerning risks, disclosing information on:

- 1 How the company assesses the likelihood and impact of such risks;
- 2 How the company prioritizes such risks;
- 3 The input parameters considered during the risk assessment process, e.g. data sources;
- 4 Whether the process is consistent with prior years.

Concerning opportunities, how the company:

- 1 Assesses and prioritizes;
- 2 Monitors, manages, and mitigates.



## 4. Metrics and Targets

Disclose how the company measures, monitors, and manages its sustainability-related risks and opportunities. Companies will need to disclose targets set relating to sustainability risks and opportunities identified and the metrics used to assess progress being made.

Assurance over these disclosures is not a mandatory requirement under these standards (this would be dictated by local jurisdictions); however, companies will still need to disclose whether the measurement is validated or assured by an external party.

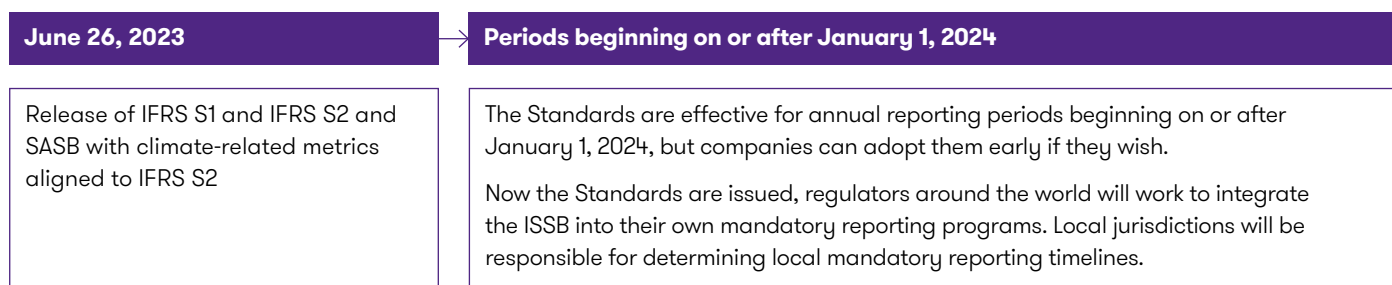
# Introducing IFRS S2 Climate-related Disclosures

The two Standards are designed to be applied together. However, IFRS S2 has been developed to capture climate-specific requirements which includes:

- Strategy disclosures that distinguish between physical and transitional risks;
- Disclosure of the companies' plans to respond to climate-related risks and opportunities, including how climate-related targets are set and any targets they are required to meet by law or regulation;
- Companies should perform scenario analysis to explain how various climate-related events may impact the business in the future;
- Climate-related metrics and target disclosures should include:
  - Cross-industry metrics that are relevant to all companies, e.g. greenhouse gas emissions;
  - Industry-based metrics relevant to companies within the related industries; and
  - Company specific metrics considered by the Board or management when measuring progress towards set targets.

## Summary of timing and reliefs

### Timeline



### Reliefs

The ISSB has agreed that companies can adopt a climate-first approach, giving them the relief to only report on climate-related risks and opportunities in their first reporting period. This will give companies an additional year to report on the full range of sustainability-related risks and opportunities. Note this does not override any local jurisdiction requirements that are in place on sustainability reporting.

Other reliefs for the first-year application include exempting a company from:

- Reporting on comparative information;
- Disclosing scope 3 emissions;
- Using the GHG Protocol (so long as another methodology is used);
- Reporting at the same time as the related financial statements. This means companies will be permitted to report their sustainability-related financial disclosures after their financial statements, allowing for more time to collate and report on sustainability.

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