

New sustainability standards issued (A830 – 7.05 minutes)

In June 2023, the International Sustainability Standards Board (ISSB) issued its first two IFRS® Sustainability Disclosure Standards in the form of:

- IFRS S1 *General Requirements for disclosure of Sustainability-related Financial Information*; and
- IFRS S2 *Climate-related Disclosures*.

These two new standards are designed to be applied together and are geared at all companies (not just very large entities). They support companies to identify and report information that investors require for informed decision-making (i.e. information that affects the assessments investors make about companies' future cash flows).

IFRS S1 provides a framework for companies to report on all relevant sustainability-related issues across the areas of:

- Governance
- Strategy
- Risk management
- Metrics
- Targets

IFRS S1 is then supported by more detailed guidance on how to report climate-related risks and opportunities in the current climate environment. Additional standards covering other topics are expected to be issued in the future, but in the meantime companies will use guidance highlighted in IFRS S1 to report on other topics.

1.1 Effective date

The standards are effective from 1 January 2024. However, it will be down to individual jurisdictions to decide whether (and when) to adopt. It is expected that a number of jurisdictions will fully adopt the standards given that they have received widespread support.

It is expected that some public and private entities may choose to adopt the standard voluntarily (e.g. due to investor or societal pressure).

1.2 Development of the new standards

The ISSB's starting point for the development of IFRS S1 and IFRS S2 were existing frameworks and standards, including the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB). The ISSB have also confirmed that they are committed to working with the Global Reporting Initiative (GRI) to ensure its standards are complementary and compatible with existing GRI standards (note,

the GRI standards have a different objective of meeting wider stakeholders' information needs).

It is expected that connected financial and sustainability reporting will be a requirement, rather than a feature, of best practice reporting. The ISSB refers to the information disclosed as 'sustainability-related financial disclosures' which confirms that disclosures must be connected with information in the financial statements, rather than as a separate issue entirely.

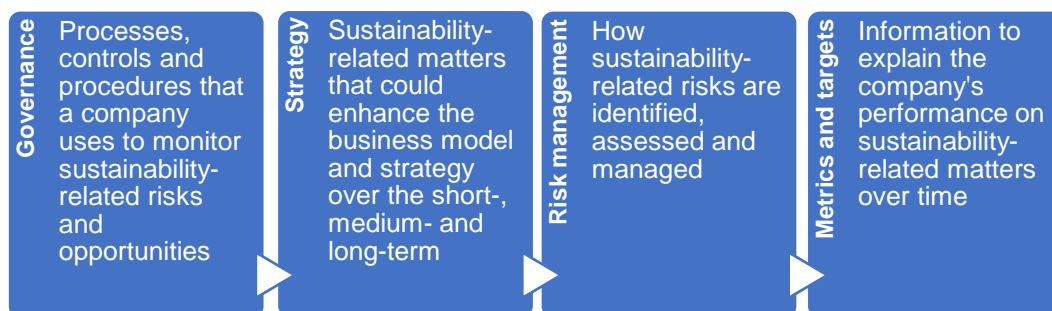
1.3 What companies need to do now

For those entities that will be applying the new standards from 2024, finance and sustainability teams will need to work closely together to ensure the information disclosed is complementary and based on the same facts and circumstances. Sustainability-related information may differ in nature from information that is presented in the financial statements; however, there should be as much consistency as possible. This is required regardless of whether the financial statements are prepared in accordance with IFRS Accounting Standards or other GAAPs.

Companies will also need to ensure that their systems of internal control can capture information effectively to enable concise sustainability-related information to be included in the financial statements.

1.4 What will need to be disclosed?

The general disclosure requirements standard sets out the following framework:



The following information will need to be disclosed:

Material information

- Providing a complete and balanced explanation of sustainability-related risks and opportunities.
- Covering governance, strategy, risk management and metrics and targets.
- Focussing on the needs of investors and creditors.
- Reflecting consistent, comparable and connected disclosures.

- Presented across time horizons (short-, medium- and long-term).
- Relevant to the sector and industry.

Material metrics

- Based on measurement requirements specified in the climate standard (or in future standards).
- Identified from other guidance, such as SASB.
- Reflecting other metrics used by the company.

1.5 Transitional issues

Companies will not be required to provide comparative information for any period prior to the date of initial application. In addition, there will not be a requirement to disclose Scope 3 emissions metrics or information on topics other than climate until the second period of reporting.

1.6 Presentation in the financial statements

The Standards do not stipulate a specific location where the information is to be disclosed. They do allow for cross-referencing to information presented elsewhere, but only if that information is released at the same time as the general purpose financial statements.

Examples of the 'ideal' place to present the disclosures would be in the management commentary or in the management discussion and analysis.

1.7 Assurance requirements

Assurance requirements are not within the remit of the ISSB. However, regulators may choose to require assurance is obtained on the disclosures.

Regardless of any local assurance requirements, companies will need to make sure they have processes and controls in place to produce robust and timely information.