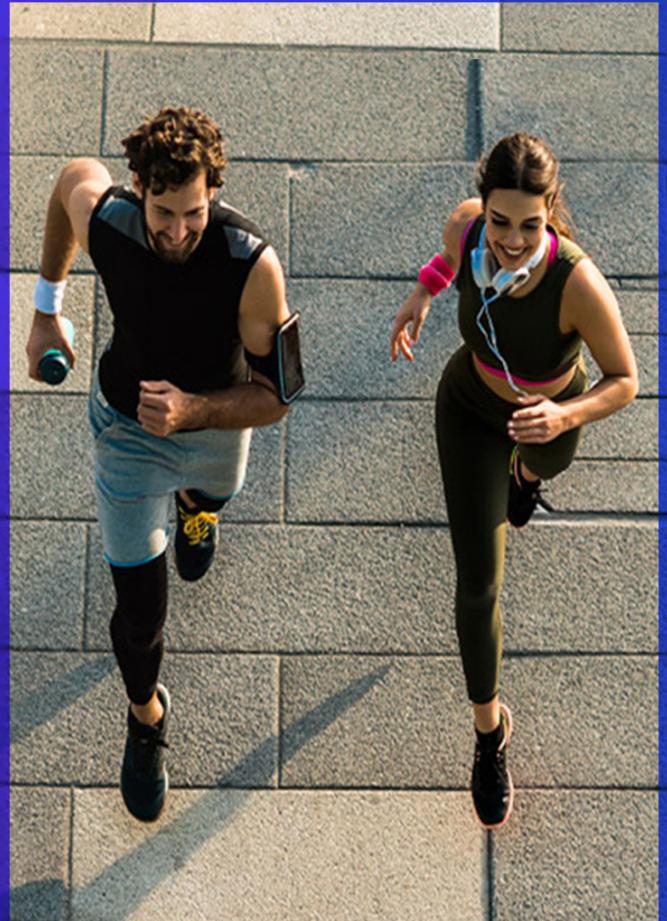


# Sustainability reporting

**Proposals for general and climate-related requirements**

IFRS® Sustainability Disclosure Standards



New on the Horizon | April 2022

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# A new era for sustainability reporting

The release of proposed IFRS Sustainability Disclosure Standards (the proposals) signals a seismic change for global corporate reporting. Under the governance of the IFRS Foundation, the newly formed International Sustainability Standards Board (ISSB™ Board) aims to create a global baseline for sustainability reporting that is focused on the needs of investors. IFRS Sustainability Disclosure Standards (the Standards) will put sustainability reporting on an equal footing with financial reporting and facilitate much needed connectivity between sustainability-related financial information and the financial statements.

A transition towards mandatory sustainability reporting will reduce the 'greenwashing' of investor-focused reporting and drive effective capital markets. Similar to when IFRS Accounting Standards were introduced to drive consistency and comparability in financial reporting, IFRS Sustainability Disclosure Standards will now do the same – i.e. providing relevant, comparable, timely, assurable information to support investors in assessing companies' enterprise value. The proposals consolidate content from different sources, including the Taskforce on Climate-Related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB).

Achieving change of this magnitude will not be easy and management will need to put the governance in place to adapt. The proposals would require companies to produce forward-looking information and a significant volume of quality data. Companies may need to implement systems, processes and controls to allow timely reporting.

Investors are also not the only users of sustainability reporting. Local jurisdictions will decide whether and how to build on this global baseline to meet the needs of wider stakeholders. This is already underway in some locations, including in the EU. Keeping track of global as well as local developments will be important.

This publication focuses on the first two proposed standards, covering general requirements for disclosure of sustainability-related financial information as well as climate-related disclosures. It explores some of the key impacts, and how companies might apply the proposals, using our insight and illustrative examples.

These proposals are open for public comment until 29 July 2022. Although the proposals do not specify an effective date, the ISSB Board has stated that it aims to issue the final standards before the end of 2022. Companies need to prepare for rapid implementation and we encourage everyone to engage with this important development now to support the ISSB Board to achieve its objectives.

Mark Vaessen

Julie Santoro

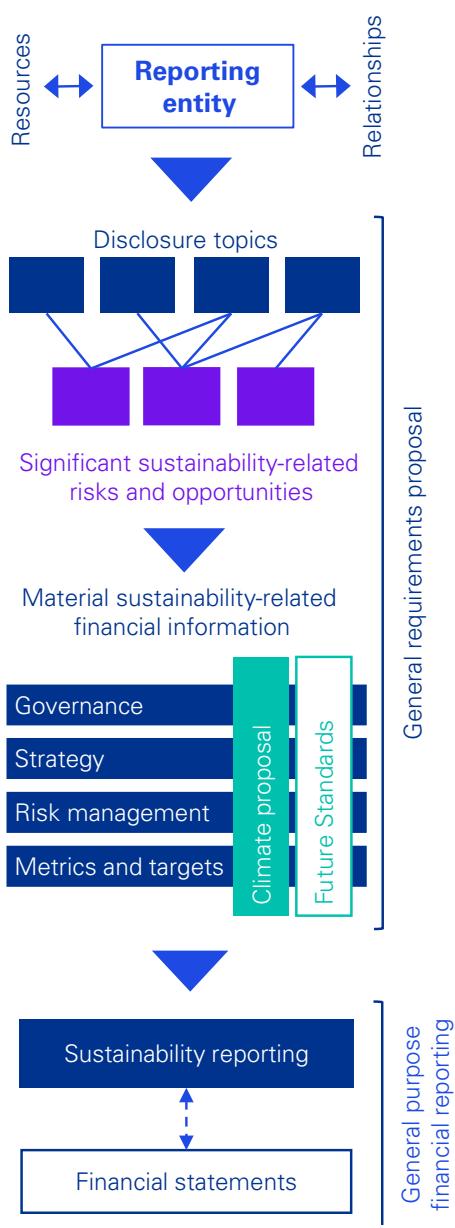
Tomokazu Sekiguchi

**KPMG Global IFRS Corporate and Sustainability Reporting Topic Team**

# 1 At a glance

## 1.1 A new concept

For some, the idea of sustainability reporting is new; for others, reporting under the Standards will introduce changes from 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 this 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 reporting**. However, this reporting also reflects information about broader resources and relationships that the reporting entity depends on across its **value chain**.

Understanding these resources and relationships and considering industry-specific **disclosure topics** enables companies to identify and report on **all significant sustainability-related risks and opportunities** – i.e. the key factors that will influence the prospects of the business in the short, medium and long term.

Information on disclosure topics is **material** if it would influence investors' assessments of **enterprise value** (i.e. equity plus debt).

The ISSB Board's proposed general requirements 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 topics**, not just climate.

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

The resulting sustainability reporting would be connected to and complement the financial statements. Together they would be part of **general purpose financial reporting** – supporting investors to assess the enterprise value of the reporting entity.

## 1.2

## Two intersecting proposals

The ISSB Board released the following proposals for public comment on 31 March 2022:

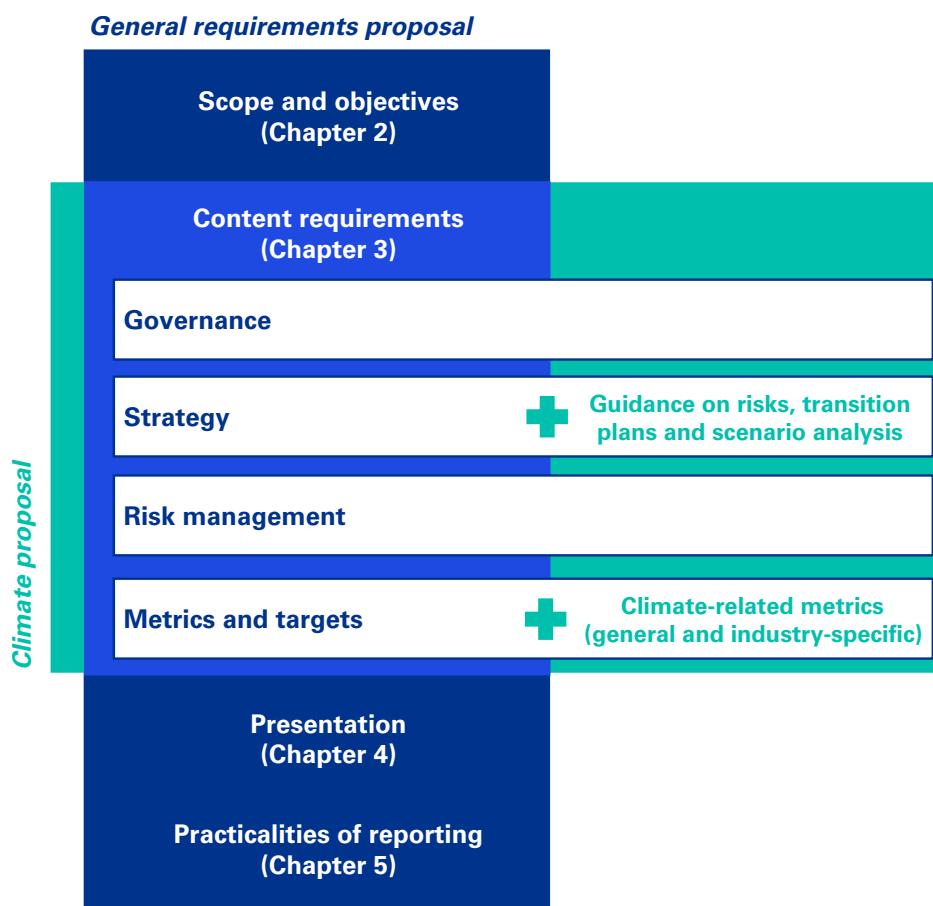
- ED IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ('general requirements proposal'); and
- ED IFRS S2 *Climate-related Disclosures* ('climate proposal').

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

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



Climate-specific content is indicated with **green subheadings** or with this icon throughout the publication.



The general requirements proposal would underpin all reporting under the Standards, defining the **scope and objectives** of reporting and providing core **content, presentation** and **practical requirements**. It would require disclosure of **material information** on **all significant sustainability-related risks and opportunities – across all relevant disclosure topics – not just on climate**. This means that for disclosure topics other than climate, preparers could seek guidance on appropriate disclosures from other existing standard setters.

The climate proposal **replicates the core content requirements** and also **supplements them with climate-specific reporting requirements** – e.g. information on transition plans, scenario analysis and climate-specific metrics and targets.

Over time, the ISSB Board will release **additional standards** and aims to consult on its workplan for future standard setting in 2022.

## 1.3

## Key headlines

Applicable for all	
<b>Applicable for all financial reporting frameworks</b>	The proposals 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).  Individual <b>jurisdictions will decide</b> whether they adopt the Standards when they become effective.
Connected with the financial statements	
<b>Reporting at the same time</b>	Reporting would be required <b>at the same time</b> , and for the same period, as the financial statements.
<b>Investor-focused</b>	The definition of <b>materiality</b> would be consistent with IFRS Accounting Standards – i.e. focused on investors.  Information that <b>affects investors' assessments of the company's enterprise value</b> is material. This will include information only about the company's impacts on the economy, the environment or society that could affect its enterprise value; not all potential impacts.
<b>Connected information</b>	Sustainability reporting would be included as <b>part of a company's general purpose financial reporting</b> . Cross-referencing from other reports would be allowed in limited circumstances.  Reporting would need to be <b>connected to the financial statements</b> and demonstrate linkage between different significant sustainability-related risks and opportunities. This is to highlight relationships between pieces of information, explain trade-offs and provide insight into intangible resources and relationships that are not necessarily recognised in the financial statements.
<b>Forward-looking information</b>	The proposals would require <b>forward-looking information</b> about the impact of significant sustainability-related risks and opportunities on the company's strategy, business model and financial statements in the short, medium and long term.
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 the <b>TCFD Framework</b> .
<b>Industry-specific approach</b>	The proposals adopt an <b>industry-specific approach</b> and metrics that align with <b>SASB</b> .

Building on existing frameworks and standards	
<b>Consolidation of existing bodies</b>	<p>The proposals also draw content from <b>other existing sustainability standard setters</b>, including the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF) (comprising SASB and the International Integrated Reporting Council (IIRC)), as well as from the International Accounting Standards Board (IASB® Board).</p> <p>CDSB was consolidated into the IFRS Foundation on 31 January 2022. The IFRS Foundation and VRF have announced plans to consolidate by June 2022.</p>

## 1.4

### Key actions

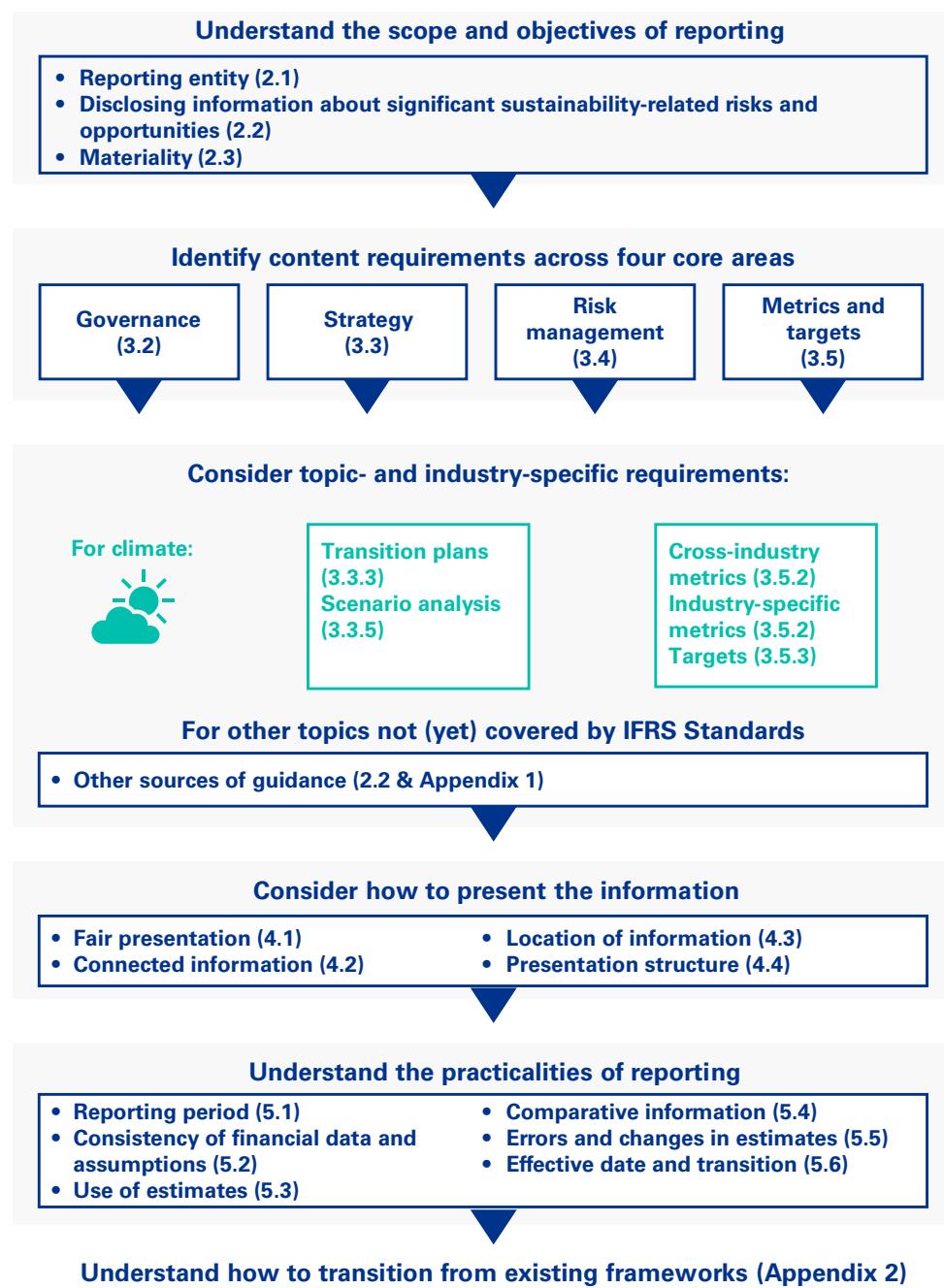
Get involved	
<b>Share your views</b>	<p>The proposals outline the ISSB Board's vision for the future of sustainability reporting and this is your opportunity to help shape it.</p> <p>Get involved and share your views – the proposals are <a href="#">open for comment until 29 July 2022</a>.</p>
Determine the impacts for your company	
<b>Understand the differences</b>	<p><b>Identify the differences</b> between the proposals and your existing reported content and create an action plan to fill the gaps.</p> <p>Consider whether a change in <b>reporting structure</b> is required – e.g. to integrate sustainability reporting into general purpose financial reporting.</p> <p><b>Understand the processes and resources</b> required to provide detailed information reliably and on time. Within the proposals themselves, there is no exemption from disclosure because the information is commercially sensitive or the costs of obtaining it outweigh the benefits.</p> <p>Don't forget to <b>keep abreast of key developments</b> as the ISSB Board executes its workplan. It will be important to be prepared for what comes next.</p>
Get ready for rapid implementation	
<b>Educate your organisation</b>	<p><b>Educate the board</b>, management and those involved in reporting about the company's exposure to sustainability-related risks and opportunities.</p> <p>Ensure that the company's <b>strategy</b> for addressing those risks is clear and understood across the organisation.</p> <p><b>Prepare for more scrutiny</b> over sustainability disclosures, in particular whether disclosures about the company's specific exposures meet investor needs and regulator expectations.</p>
<b>Establish a board-led governance structure</b>	<p>Establish a <b>board-led governance structure</b> that considers both financial and sustainability reporting when making commitments and decisions on sustainability-related issues, and oversees the quality of reporting and impact of new reporting requirements.</p> <p>Reporting would support <b>greater transparency</b> around the board's strategy, including how it is dealing with its most significant sustainability-related matters.</p>

Get ready for rapid implementation	
<b>Engage with current process owners</b>	<p>Engage with current process owners and <b>understand how information is being defined, captured and reported</b>, and where there are control gaps.</p> <p>You will need:</p> <ul style="list-style-type: none"> <li>– a <b>stakeholder engagement process</b> to identify significant sustainability-related risks and opportunities and the information necessary for investors to understand those risks and opportunities;</li> <li>– a <b>coherent reporting structure</b> to avoid duplication between different types of reporting;</li> <li>– significant <b>volumes of data</b> across all relevant disclosure topics, including about relationships outside the reporting entity (e.g. suppliers);</li> <li>– a fit-for-purpose internal control structure around sustainability reporting to ensure <b>data integrity</b>; and</li> <li>– complex forward-looking technical analysis by subject matter experts.</li> </ul>
<b>Expand your systems, processes and controls</b>	<p>Explore your options to create efficiencies and move certain aspects of the data collection and calculation process into systems, processes and controls that are already related to sustainability reporting.</p> <p>You will need <b>efficient and effective processes and controls</b> to allow you to report reliable information in a timely way.</p>

## 1.5

# Navigating this publication

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



# 2 Scope and objectives

Under the proposals, a reporting entity would disclose material information about all significant sustainability-related risks and opportunities.

The general requirements proposal sets out the objectives and scope of reporting of sustainability-related financial information.

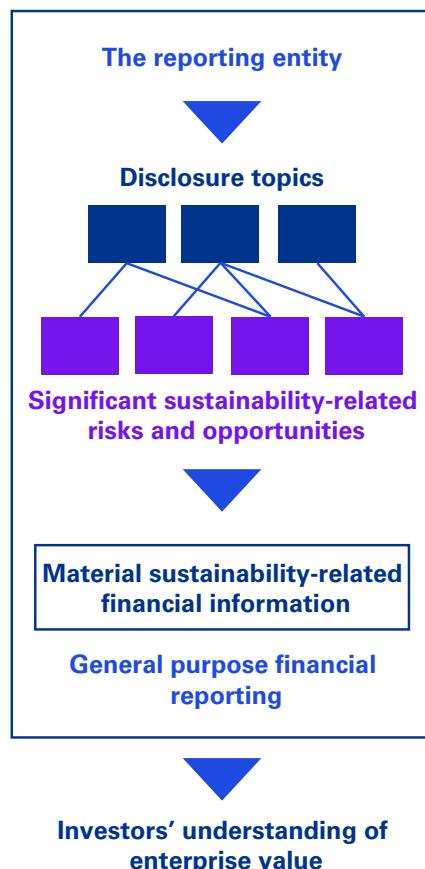
*ED IFRS S1.2*

Under the general requirements proposal, a **reporting entity** (Section 2.1) would:

- consider relevant industry-specific **disclosure topics** (Section 2.2);
- identify **all significant sustainability-related risks and opportunities** (Section 2.2); and
- disclose **material information** (Section 2.3).

*ED IFRS S1.A*

The resulting sustainability-related financial information would need to provide insight into the significant sustainability-related risks and opportunities that affect the prospects of the reporting entity – i.e. investors' assessments of the company's enterprise value.



This information would be included in the company's general purpose financial reporting because investors need it to assess the company's enterprise value – i.e. they need to assess the resources and relationships that drive the company's business model and strategy.

## 2.1

## Reporting entity

*ED IFRS S1.37*

Under the proposals, disclosures would be provided for the same reporting entity as the financial statements. This is because when investors assess the company's enterprise value, they base it on the general purpose financial reporting (which includes both the financial statements and sustainability-related financial disclosures) – i.e. they consider information about a consistent consolidated group of companies.

*ED IFRS S1.40*

However, sustainability-related financial information is broader than information reported in the financial statements. Under the proposals, it would include all significant sustainability-related risks and opportunities to which the reporting entity is exposed and that affect its enterprise value (see [Section 2.2](#)). Some of these risks and opportunities arise within the reporting entity itself, but many others arise throughout the value chain.

*ED IFRS S1.A*

The value chain would include the full range of activities, resources and relationships related to a company's business model as well as the external environment in which it operates. It includes everything that the company uses and relies on to create, consume and dispose of its products or services.

For example, this could include activities, resources and relationships:

- **within the 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; or
- **with the external environment** – e.g. financial, geographical, geopolitical or regulatory.

In practice, a company would need to report sustainability-related metrics on its activities, resources and relationships as well as those of its value chain. These metrics would supplement narrative information about sustainability-related risks and opportunities arising in the value chain and their impacts and dependencies. A common example would be Scope 3 greenhouse gas emissions.

*ED IFRS S1.41*

Although the proposals would require sustainability-related disclosures to be provided for the same reporting entity as that for the financial statements, a question arises over the treatment of associates, joint ventures and other non-consolidated investments. The general requirements proposal does not provide guidance on how these should be included, indicating that guidance would be provided in other IFRS Sustainability Disclosure Standards. Specific guidance is provided within the climate proposal for disclosure of greenhouse gas emissions from these types of investments – see [3.5.2](#).



### Would supply chain or customer information be reportable?

*ED IFRS S1.37*

Yes, to the extent that information supports investors' assessments of the company's enterprise value (see [Section 2.2](#)).

The proposals define the reporting boundary as being consistent with the financial statements. However, they further clarify that disclosures would be required about significant sustainability-related risks and opportunities that arise from activities or relationships with parties outside of the reporting entity. This could include information about, or from, suppliers or customers.

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



### Example 1A – Supply chain risks

Clothing retailer R sources products from multiple factories across Europe and Asia. R assesses human rights abuses in the supply chain to be a significant risk to its enterprise value, 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. This process considers the full supply chain – e.g. clothing factories, fabric manufacturers, raw material suppliers and cotton growers.

Because R has a significant supply-chain risk, it would provide disclosures about that risk – i.e. its disclosure is not limited only to disclosure about activities within R itself.

## 2.2

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

*ED IFRS S1.50*

The proposals would require companies to report material information about all significant sustainability-related risks and opportunities to which they are exposed.

### 2.2.1

#### Identifying significant sustainability-related risks and opportunities

*ED IFRS S1.17, BC40*

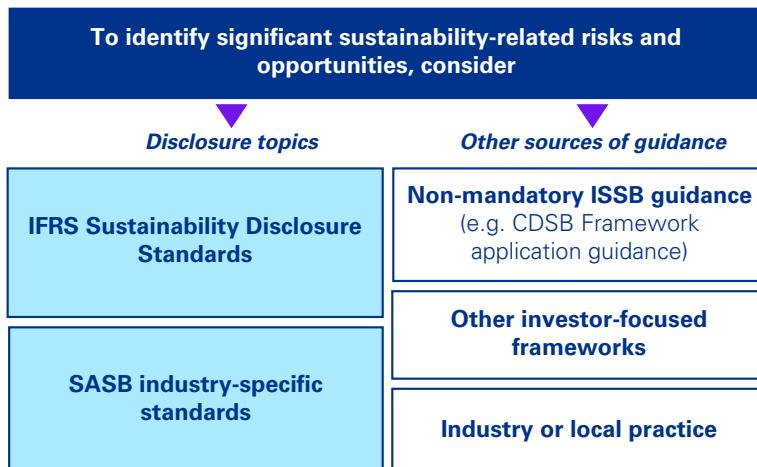
Sustainability-related risks and opportunities are specific to each company. They arise from the fact that a company depends on resources, but also has impacts on those resources. A company also maintains relationships that can be positively or negatively affected by its dependencies and impacts.

When these dependencies and impacts create risks and opportunities, they can affect the company's performance or prospects; therefore, when significant, they would affect investors' assessments of enterprise value. Significant sustainability-related risks and opportunities are likely to be the matters that management already monitors and manages when running the business.

*ED IFRS S1.51*

To help identify its significant sustainability-related risks and opportunities, a company would identify relevant disclosure topics. This would be done by referring to industry-specific materials within the Standards as well as the SASB standards. The disclosure topics define a specific sustainability-related risk or opportunity based on the activities conducted by companies within a particular industry.

Companies would also use judgement and consider additional sources of guidance indicated by the proposals.



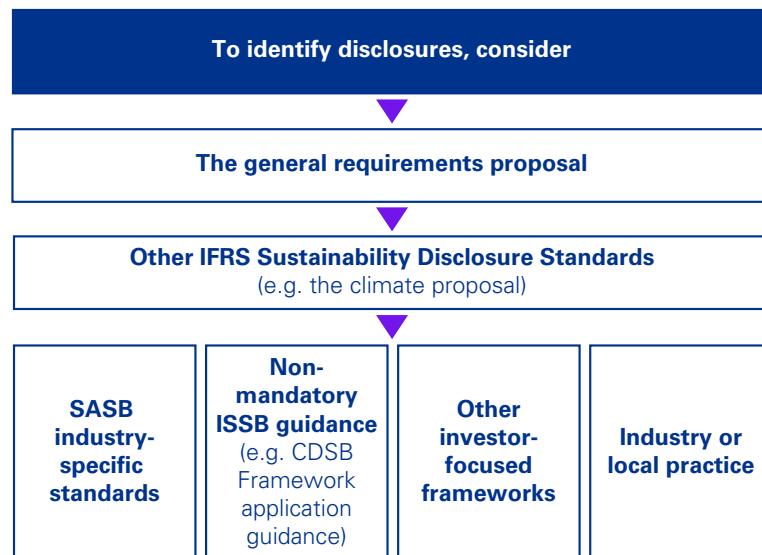
*ED IFRS S1.55*

To help users understand how management has identified its disclosure topics and the industry-specific disclosures considered, companies would need to disclose the classification<sup>1</sup> of the industry or industries used.

## 2.2.2 Identifying disclosures

*ED IFRS S1.52*

Having identified significant sustainability-related risks and opportunities, a company would then refer to relevant IFRS Sustainability Disclosure Standards to identify material information to disclose.

*ED IFRS S1.53*

If there is no relevant IFRS Sustainability Disclosure Standard that applies to an identified significant sustainability-related risk or opportunity, then companies would need to use judgement to select disclosures that:

- are relevant;
- faithfully represent how the company is exposed to the identified sustainability-related risk or opportunity; and
- are neutral.

*ED IFRS S1.54*

Management would use the additional sources of information, as indicated in the diagram above, when making this judgement. These additional sources are important, particularly because a full suite of IFRS Sustainability Disclosure Standards has not yet been published. The lack of a published standard would not be a reason to omit information about an identified significant sustainability-related risk or opportunity. Companies would need to apply the general requirements alongside the other sources identified above.

*ED IFRS S1.61*

These sources are also important for companies when considering whether to disclose additional information. This might be the case if management determines that disclosures under an IFRS Sustainability Disclosure Standard would be insufficient – i.e. they would not enable investors to assess the effect of a sustainability-related risk or opportunity on the company's enterprise value.

1. The industry classification within the proposals and the SASB standards is based on SASB's Sustainable Industry Classification System® (SICS®). SICS uses an impact-focused methodology to categorise companies into 77 different industries.



### Example 1B – Supply chain risks (continued)

Continuing [Example 1A](#), when providing disclosure about all significant sustainability-related risks and opportunities, R would disclose that its industry is 'Apparel, Accessories & Footwear'.

In the absence of final IFRS Sustainability Disclosure Standards, R would disclose material information about its:

- climate-related risks and opportunities under the climate proposal;
- human rights risks, following the principles outlined in the general requirements proposal to identify the industry-based disclosure topic, and disclosures in the relevant SASB standard (i.e. 'Labour Conditions in the Supply Chain') and use the CDSB Framework application guidance to identify additional social-related disclosures;
- water risks under the CDSB Framework application guidance for water-related disclosures to identify physical risks and other water-related risks that are linked to other environmental issues, such as land use; and
- other significant sustainability-related risks and opportunities, by following the principles outlined in the general requirements proposal.

In following the principles of the general requirements proposal, R would use judgement to ensure the information disclosed is relevant to investors' assessments of the company's enterprise value, is neutral and provides a faithful representation whilst avoiding duplication. R would consider the additional sources of guidance indicated in the proposal to identify specific disclosures.

Finally, R would assess whether the information disclosed on each risk was sufficient to allow investors to assess its effect on the company's enterprise value. Where this was not the case, additional information would need to be provided.



### Would companies need to discuss risks and opportunities that are not expected to affect enterprise value?

*ED IFRS S1.9*

Generally, no. Disclosures are intended to provide information about the sustainability-related risks and opportunities that management expects, over time, to significantly affect the company's business model, strategy and cash flows, access to finance or cost of capital. If identified risks and opportunities cannot reasonably be expected to affect users' assessments of enterprise value, then they are not in the scope of the proposals.

However, information that shows the company is not exposed to a risk that affects its peers may be material. Management would need to consider whether this information could affect investors' assessments of the company's enterprise value.



### Does the proposed list of sources refer to broader sustainability reporting standards?

No. However, where local practice is to use the Global Reporting Initiative (GRI) or local requirements – e.g. proposed European Sustainability Reporting Standards (ESRS), these standards could be relevant under the category of ‘industry or local practice’ in the list of sources above.

GRI standards and proposed ESRSs adopt a broader definition of materiality (see [Section 2.3](#) and [Appendix 2](#)) when identifying relevant narrative information and metrics to report. It is likely that many of the topics that are important to wider stakeholders would also drive the company’s enterprise value and, therefore, information about them would be material to investors. Companies may find that broader sustainability standards are a useful source of guidance as long as they understand the differences in materiality and other conceptual principles when selecting relevant information to disclose.

## 2.3

### Materiality

Materiality plays a critical role under the proposals. Companies make materiality judgements to focus their reporting on information that is relevant to their facts and circumstances, rather than simply providing a prescribed list of information.

Material information would be provided about the disclosure topics that management identifies from assessing all of the company’s significant sustainability-related risks and opportunities (see [Section 2.2](#)).

*ED IFRS S1.56*

The proposals are based on the same concept of materiality that applies under IFRS Accounting Standards – i.e. information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users<sup>2</sup> of general purpose financial reporting make on the basis of that reporting.

*ED IFRS S1.5, 57*

To help management to apply this principle, the proposals explain that information is material if it influences investors’ assessments of the company’s enterprise value – i.e. their assessments of the amount, timing and certainty of the company’s future cash flows, and the value of those cash flows in light of the company’s risk profile, its access to finance and its cost of capital.

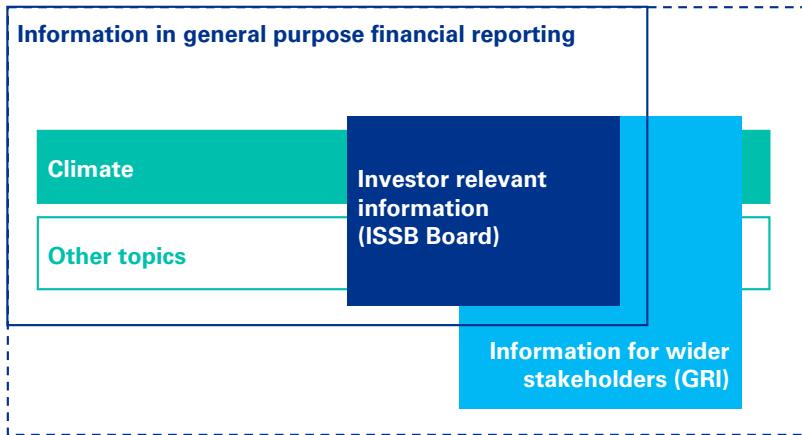
This enterprise-value approach to materiality would require companies to provide information about the sustainability-related risks and opportunities that drive their prospects, irrespective of their current-period financial statement impact.

Because investors need to make judgements about the long-term sustainability of a company’s cash flows, management would need to adopt a similarly long-term horizon when making its materiality judgements.

Other sustainability frameworks and standards (e.g. GRI) adopt a different definition of materiality that is not solely focused on the needs of investors, or on companies having first identified their significant sustainability-related risks and opportunities before attempting to identify material information. This is a broader definition that is reflected in proposals for ESRS being developed by the European Financial Reporting Advisory Group (EFRAG).

It is likely that many of the disclosure topics that are important to wider stakeholders would also drive the company’s enterprise value and, therefore, information about them would be material to investors. However, differences may arise in the type of information about those topics that would be required.

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



ED IFRS S1.59

The general requirements proposal would require companies to reassess the disclosure topics and information that is material at each reporting date. This is to reflect the fact that materiality can be dynamic as the company's circumstances and strategies change.



#### Would companies be required to address every possible threat and opportunity?

ED IFRS S1.57

No. Companies would consider information about their impact on the economy, the environment, or society that they expect would affect investors' assessments of the company's enterprise value. Some uncertain outcomes may be big enough or sufficiently likely that they would affect those assessments; many others would not be. Some outcomes may have a low probability but be relevant to investors because of their high-impact outcomes. Similar to financial reporting, management would need to make a reasoned judgement based on the facts available at the time.

This enterprise-value approach to assessing materiality may be new to companies that currently produce sustainability reports to meet wider stakeholder needs. It would require management to report based on its understanding of which sustainability-related risks and opportunities drive the company's prospects, and the company's strategy for dealing with them.



#### Do the proposals specify the processes for assessing materiality?

No. The proposals define the principles of identifying significant sustainability-related risks and opportunities, disclosure topics and material information. However, they do not specify the process for assessing materiality.



### Would information from engaging with wider stakeholders be useful for assessing materiality?

Yes. Companies may engage with various stakeholders to identify significant sustainability-related risks and opportunities for consideration when setting the strategy and managing operations. This could be useful as a pre-cursor for assessing enterprise-value focused materiality and may be a requirement when identifying topics for disclosure under broader sustainability reporting standards (e.g. GRI).

However, it is important to note that the definitions of materiality differ for materiality assessments performed under IFRS Sustainability Disclosure Standards and those performed under broader sustainability reporting standards. This could lead to companies selecting different topics or identifying a need for different types of information on the same topics. However, companies may find that engaging with wider stakeholders would be a useful starting point for identifying significant sustainability-related risks and opportunities and assessing enterprise-value focused materiality.

Companies that currently focus their sustainability reporting on wider stakeholder needs would need to adapt to align with the ISSB Board's enterprise-value focus. The issues and impacts affecting the company's wider stakeholders today may well drive its prospects tomorrow. See [Appendix 2](#).

# 3 Content requirements

The content requirements in both proposals are structured around governance, strategy, risk management, and metrics and targets.

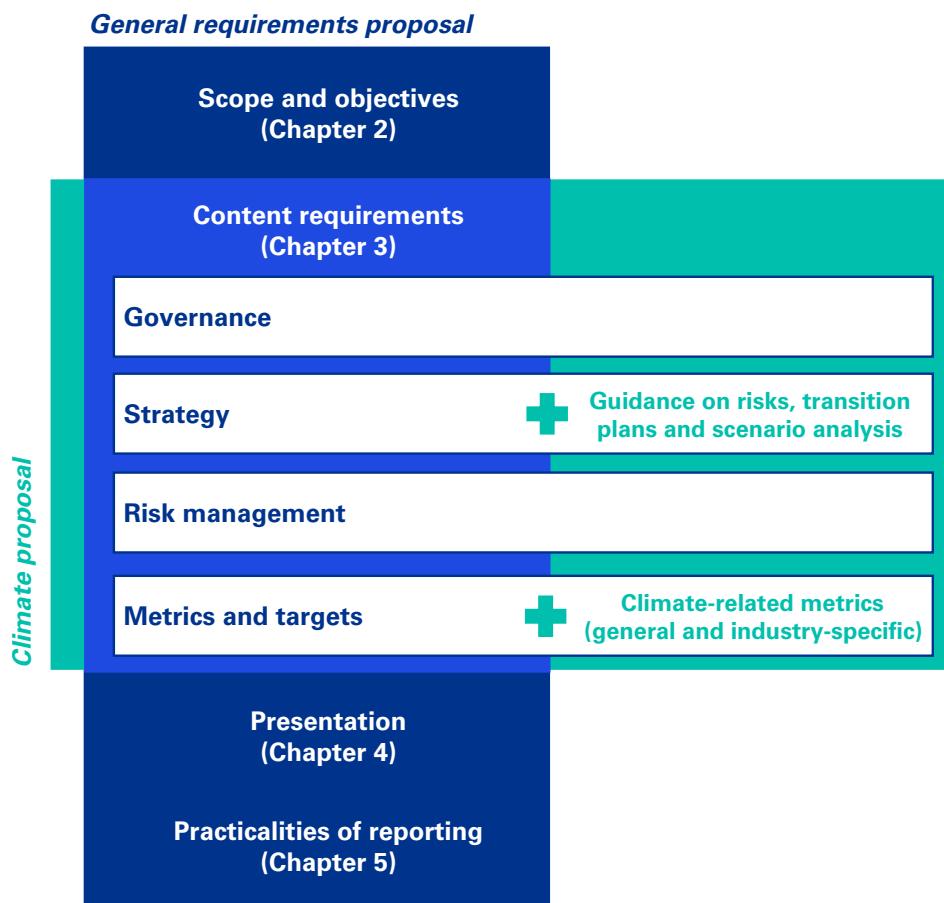
## 3.1 A consistent content structure

*ED IFRS S1.11*

Both the general requirements proposal and the climate proposal 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 proposal adds topic- and industry-specific disclosures; future standards are expected to adopt the same content structure.

*ED IFRS S1.BC43*

The proposals would not require companies to present their disclosures according to this structure. Chapter 4 discusses the presentation of information across these content areas.



## 3.2

## Governance

*ED IFRS S1.12, S2.4*

The **objective** of disclosures in the governance content area is to help users **understand the governance processes, controls and procedures** used to monitor and manage sustainability-related risks and opportunities.

*ED IFRS S2.6, BC63*

The proposed disclosures on governance for climate-related risks and opportunities are consistent with the general reporting requirements. Therefore, companies would need to take care to avoid duplication.

Under the proposals, a company would:

*ED IFRS S1.13(a)–(f),  
S2.5(a)–(f)*

- **identify the body (or bodies) or individual responsible** for sustainability-related risks and opportunities and disclose how they:
  - reflect those responsibilities in company policy;
  - ensure those overseeing the company's strategies around sustainability have the appropriate skills and competencies;
  - stay informed about sustainability-related risks and opportunities;
  - consider the risks and opportunities when overseeing company strategy, decisions on major transactions and risk management policies;
  - set and monitor sustainability-related targets, including in its employee and non-employee compensation arrangements; and
  - oversee management in its role related to managing sustainability-related risks and opportunities; and
- describe **management's role** in assessing and managing sustainability-related risks and opportunities, including:
  - how specific roles are delegated but oversight is maintained; and
  - whether management has implemented dedicated processes and controls or integrated them with other functions.

*ED IFRS S1.13(g),  
S2.5(g)*



### Would companies be required to change their governance structures or activities?

No. The proposals include no requirements on how to manage or govern a company. For example, the proposals include disclosures about how significant sustainability-related risks and opportunities affect remuneration, but would not require a company to introduce any direct link between sustainability performance and remuneration.

However, the nature of disclosures proposed and potential scale of the change to existing reporting practice is likely to trigger additional scrutiny and cause management to reconsider the structures it has in place, as well as the processes and controls followed for sustainability reporting.

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

## 3.3

## Strategy

*ED IFRS S1.14, S2.7*

The **objective** of disclosures in the strategy content area is to help users understand management's assessment of the company's **significant sustainability-related risks and opportunities** and how they are being **addressed and incorporated into the company's strategic planning**.

The proposed disclosures include requirements to:

- **identify relevant sustainability-related risks and opportunities**;
- disclose how those risks and opportunities impact:
  - the **business model**;
  - the **strategy and decision making**; and
  - **financial planning** and the current and anticipated **financial position, performance and cash flows**; and
- explain the **resilience** of the strategy to the identified risks.

There is additional content within the climate proposal that relates specifically to **climate-related risks, transition plans** and **scenario analysis**.



### 3.3.1

### Describing significant sustainability-related risks and opportunities

*ED IFRS S1.16*

A company would disclose the information set out in the table below to help users understand the significant sustainability-related risks and opportunities that it reasonably expects to affect the business (either positively or negatively) over the short, medium and long term. The effects could be on the business model, strategy and cash flows, access to finance or cost of capital.

Section 2.2 outlines what 'significant' sustainability-related risks and opportunities are and how to identify them.

Information	What to disclose
<i>ED IFRS S1.16(a), S2.9(a)</i>	<b>Identify the risks and opportunities</b> A description of the significant sustainability-related risks and opportunities, including the time horizon over which each could be reasonably expected to have a financial effect.
<i>ED IFRS S1.16(b), S2.9(b)</i>	<b>Define the time horizons</b> How the company defines short, medium and long term, including how these definitions link to strategic planning horizons and capital allocation plans.
<i>ED IFRS S2.9(c)</i>	<b>Physical or transition risks</b> Distinguish between physical risks arising from climate change and transition risks associated with the transition to a lower-carbon economy.

**Physical risks** relate to the physical impacts of climate change. They could be:

- **acute risks** that relate to more frequent or more severe one-off disruptions to companies from extreme weather events (e.g. floods, cyclones); or
- **chronic risks** that stem from sustained greenhouse gas emissions leading to gradual changes in climate patterns (e.g. increases in average temperatures, sea level rises).

**Transition risks** are commonly categorised as:

- **legal and regulatory** (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 allow new crops to grow) or transition changes (e.g. developing new technologies to facilitate climate adaptation).

In contrast to the TCFD, the proposals do not categorise climate-related opportunities.



### Example 2 – Defining time horizons

In 20X0, manufacturing company M identifies significant 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 in a factory in a high flood risk zone.

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

Under the proposals, M would provide the following information:

- Management expects the obsolescence risk to impact the business in the short and medium term. Therefore, it has incorporated the impact of falling demand on revenue 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, it includes mitigations, including costs associated with broadening the supply chain, in modelling to inform the 10-year strategy. It also includes a cross-reference to further discussion on investment planning and broader supply chain risk-mitigation activities elsewhere in the annual report.



### Would a company present granular information on each identified risk?

It depends. The objective of these disclosures would be to help inform investors' assessments of the cash flow prospects of the company. Management would determine the level of detail needed as part of its assessment of materiality.

The level of granularity is 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).



### Example 3 – Climate-related risks identified by a utility company

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

Risk <sup>1</sup>	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<sup>2</sup></b>	Short term, growing in severity in the medium term	Short and medium term
<b>Nature</b>	Physical risk (acute) and opportunity	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
<b>Current and anticipated effects</b>	<ul style="list-style-type: none"> <li>– Supply interruptions and unplanned outages, resulting in penalties, and increased repair and maintenance costs</li> <li>– Investment in flood resilience, resulting in increased maintenance costs and capital expenditure</li> <li>– Opportunity through innovation in materials and infrastructure build to reduce freeze incidents and improve response times</li> <li>– Price increases to recover costs that cannot be offset through cost-reducing innovation</li> </ul>	<ul style="list-style-type: none"> <li>– Accelerated equipment replacement costs</li> <li>– Energy cost savings, including in third-party levies supporting low-carbon generation</li> <li>– Lower interest costs through dedicated financing (green bonds) for the capital investment required</li> <li>– Opportunity to lower monitoring and maintenance costs through innovation</li> </ul>

#### Notes:

<sup>1</sup> This example has aggregated risks that could be presented in more detail depending on their significance and impacts on different parts of the business and operations.

<sup>2</sup> The disclosure of defined time horizons is illustrated in [Example 2](#).

These disclosures would link 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](#)), estimated financial position, performance and cash flows (see [3.3.4](#)), and resilience (see [3.3.5](#)).

### 3.3.2

### Disclosing impacts on the business model

Once a company has identified its significant sustainability-related risks and opportunities, it would explain its assessment of how they impact the business model and the value chain that underpins it (see [Section 2.2](#)).

*ED IFRS S1.20, S2.12*

A company would disclose the current and anticipated effects of significant sustainability-related risks and opportunities on its value chain and where in that chain these sustainability-related matters are concentrated (e.g. geographical areas, facilities or types of assets, inputs, outputs or distribution channels).

When providing disclosures about impacts on the value chain, companies would need to connect the disclosure of anticipated effects to the information provided about the nature and timescale of identified risks and opportunities. They would also need to use judgement to determine the level of information needed for users to understand how and when changes would have an impact.



#### Example 4 – 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 significant sustainability-related risks and opportunities, E identifies the impact of human rights issues in its supply chain as significant, establishing that the risks are particularly concentrated within mining operations in South America and component manufacturers in Asia. The risk is deemed significant across all time horizons.

When disclosing information about how this risk impacts the business model, E would include the:

- policies applied;
- areas of the business that are affected by the risk;
- actions taken to assess and monitor the risks both globally and in the high-risk locations; and
- actions taken to address identified problems.



#### Would a company need to present its overall business model or strategy?

Probably. Descriptions of the company's overall business model and strategy would generally provide essential context for understanding the sustainability-related features of the business model and strategy. This would include the impact of the business model and strategy on resource allocation and key relationships.

Many companies are already required to provide this information by local reporting regulations. Companies would need to:

- check that the overall descriptions provide sufficient context for the sustainability-related features to be understood; and
- consider how best to present sustainability and other information as a well-integrated whole. For example, this could be as resources and relationships that are key inputs into the business model.

### 3.3.3

### Disclosing impacts on strategy and decision making

*ED IFRS S1.21, S2.13*

Companies would disclose information to help users understand how they assess the impact of significant sustainability-related risks and opportunities on their strategy and decision making.

To do this, companies would 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 and 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.

The general requirements proposal provides a high-level overview of the type of information that would be required, as shown in the table below.

*ED IFRS S2.13*

The climate proposal builds on these requirements, including more granular disclosures, as well as explicitly linking disclosure about changes in strategy and decision making to the company's **climate transition plans** and **targets**. The following table includes these requirements; additional explanations for all terms in bold follow below.

*ED IFRS S1.21(a),  
S2.13(a)*



*ED IFRS  
S2.13(a)(i)(ii)*

*ED IFRS  
S2.13(b)(i)(ii)*

*ED IFRS  
S2.13(b)(iii)*

Information	What to disclose
<b>Strategic response</b>	The response to significant sustainability-related risks and opportunities.
<b>Climate-specific strategic response</b>	
<b>Changes to the business model</b>	Information about current and anticipated changes to the business model, including: <ul style="list-style-type: none"> <li>– changes in strategy and resource allocation (e.g. plans and critical assumptions for <b>legacy assets</b>);</li> <li>– <b>direct</b> and <b>indirect adaptation</b> and <b>mitigation</b> efforts; and</li> <li>– how the plans would be resourced.</li> </ul>
<b>Achieving climate-related targets</b>	How the company will achieve any climate-related targets via its <b>climate transition plan</b> , including: <ul style="list-style-type: none"> <li>– what process the company has implemented to review targets set; and</li> <li>– how much of the target the company intends to achieve through its own activities, through its value chain or via the use of <b>offsets</b>.</li> </ul> <p>3.5.3 discusses climate-related targets.</p>
<b>Use of offsets to achieve targets</b>	If a company plans to use carbon <b>offsets</b> , it would disclose sufficient information for users to understand the extent, credibility and integrity of offsets intended to be used. This would include: <ul style="list-style-type: none"> <li>– the extent of carbon offsets that would be used to meet targets;</li> <li>– whether offsets used would be verified or certified and, if so, by which scheme;</li> <li>– the type of offsets, including whether they are <b>nature-based</b> or <b>technological</b> and whether they relate to carbon removal or emissions avoidance; and</li> <li>– any other information about offsets that the company deems material (e.g. the permanence of any carbon removal).</li> </ul>

ED IFRS S1.21(b), S2.13(c)	Information	What to disclose
ED IFRS S1.21(c)	Progress since prior periods  <i>(not included in the climate proposal)</i>	<p>Quantitative and qualitative information about the progress of plans disclosed in prior reporting periods.</p> <p>The trade-offs considered by management in its decision making. For example, a company exits a particular market to manage a significant sustainability-related risk, but thereby abandons a customer base and loses the associated revenue.</p> <p>These trade-offs are important in understanding the connectivity between different significant sustainability-related risks and opportunities, and are important in enabling users to build a complete understanding of the company's overall exposure.</p>



## Climate transition plans

IFRS S2.13

As explained above, the climate proposal provides more granular disclosure requirements and explicitly links disclosure about changes in strategy and decision making to a company's climate transition plans and targets.

A **climate transition plan** sets out targets and actions that the company will take to transition to a lower-carbon economy – e.g. reducing its gross greenhouse gas emissions.

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

Transition plans would commonly include the following features.

- *Plans for legacy assets.*

ED IFRS S2.14

A **legacy asset** would have remained on a company's balance sheet for a long period of time and have since become either obsolete or lost nearly all of its initial value, potentially as a result of the company's climate transition plan. When companies currently rely on these assets, explaining what they intend to do with them and the financial implications of those plans may be material information.

For example, if a company holds energy-intensive assets but is adapting its strategy to support the transition to a lower-carbon economy, then it would disclose how these assets impact that plan, including any material decommissioning obligations and associated capital expenditure required.

- *Differentiation between direct and indirect adaptation and mitigation efforts.*

**Adaptation** efforts include how a company changes its activities in response to identified climate-related risks. **Mitigation** efforts relate to activities that prevent further increases in climate-related risks.

The proposals would require companies to discuss both, as well as distinguish between direct efforts (e.g. changes in their own production processes or workforce) and indirect efforts (e.g. working with customers and supply chains or adapting procurement practices).

- *Using offsets.*

**Offsets** are commonly generated by third parties who remove carbon from the atmosphere through either **nature-based solutions** (e.g. planting trees) or **technological** means. By purchasing offsets, a company can reduce its emissions on a net basis.

Carbon credits are a common type of offset. These are transferrable or tradeable instruments that are certified and represent the removal of one metric tonne of carbon dioxide (CO<sub>2</sub>) or equivalent. Some companies generate carbon credits via cap-and-trade schemes; others purchase them to offset their emissions.

Discussion of the use of offsets is important to the disclosure of transition plans and emissions reduction targets. Investors need to understand how much of the plan proposed or target discussed a company intends to achieve via emissions reduction activities or solely through the purchase of offsets. This is because of the uncertainties over the effectiveness of some carbon-removal technology as well as the future prices of offsets.

Many companies will need to align their transition plans with local jurisdictional requirements or climate goals (e.g. a commitment to achieve the goals of the Paris Agreement<sup>3</sup>). The proposals would require companies to disclose what their transition plan is, which would include how they have chosen to respond to local regulations. However, the proposals do not require companies to adopt particular strategies or targets.



#### Would management need to align its strategy with the Paris Agreement?

No. The climate proposal would require disclosures on the strategy that the company is following. This would include disclosure on whether management considered alignment with the latest international agreement on climate change (i.e. the Paris Agreement), but this does not require companies to include alignment as part of their strategy.

The proposal gives alignment with the Paris Agreement as an example of a strategy that may cause material financial impacts (see 3.3.4).

Some jurisdictions have implemented legislation to require companies to align their strategy with the Paris Agreement and others may do so in the future. Some jurisdictional disclosure requirements may go further than IFRS Sustainability Disclosure Standards and require companies to demonstrate how their strategy aligns with the Paris Agreement. In each case, disclosure around how management has aligned its strategy with the Paris Agreement may be considered material information under the proposals.

### 3.3.4

#### Disclosing the financial statement impacts over time

Users need to understand how sustainability-related risks and opportunities (and the strategies that management implements to manage those risks and opportunities) impact the financial statements. This is relevant both for the current period (where financial impacts have already materialised) and for future periods. Users 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.

*ED IFRS S1.22, S2.14*

The proposals would require companies to explain how significant sustainability-related risks and opportunities impact financial position (e.g. assets, liabilities), financial performance (e.g. revenue, costs) and cash flows. This information would need to explain the effects identified at the reporting date and anticipated over the short, medium and long term, as well as explaining how the identified risks and opportunities impact financial planning.

*ED IFRS S1.22, S2.14*

A company would disclose quantitative information where possible about both the current period financial impacts as well as future impacts, providing either a single amount or a range. Where that is not possible, it would include qualitative information.

3. The Paris Agreement is a legally binding international treaty on climate change signed in April 2016. Signatories have committed to limiting global warming to well below 2°C, and preferably to 1.5°C, compared with pre-industrial levels. The proposals refer to the 'latest international agreement on climate change', which represents the Paris Agreement at the time of publication of the exposure draft.

The table below sets out the key disclosure areas.

Information	What to disclose
<i>ED IFRS S1.22(a)(b), S2.14(a)(b)</i>	<p><b>Linkage with the most recent financial statements</b></p> <p>The impact of sustainability-related risks and opportunities on the most recent financial performance, position and cash flows.</p> <p>Information about the sustainability-related risks and opportunities for which management identifies a significant risk of a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year.</p>
<i>ED IFRS S1.22(c), S2.14(c)</i>	<p><b>Changes in financial position</b></p> <p>How management expects the financial position to change over time, in line with the strategy. This includes disclosing:</p> <ul style="list-style-type: none"> <li>– current and committed capital allocation plans (e.g. major acquisitions, divestments and joint ventures to support sustainability-related strategies); and</li> <li>– planned sources of funding to implement strategies to address the company's significant risks and opportunities (e.g. sustainability-linked financing arrangements).</li> </ul>
<i>ED IFRS S1.22(d), S2.14(d)</i>	<p><b>Changes in financial performance</b></p> <p>How management expects the financial performance to change over time, in line with the strategy.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>– anticipated changes in revenue or costs from products and services that management plans to introduce to support its plan to align its strategy with a lower-carbon economy;</li> <li>– costs and anticipated savings from business transformation projects to support workforce retention strategies; or</li> <li>– costs of identified climate-related adaptation or mitigation activities.</li> </ul>
<i>ED IFRS S1.22, S2.14</i>	<p><b>Integration in financial planning</b></p> <p>How significant sustainability-related risks and opportunities are included in the company's financial plans (e.g. in relation to investment decisions and funding).</p>
<i>ED IFRS S2.14(e)</i> 	<p><b>Lack of quantitative information</b></p> <p>For climate-related information only, companies would need to provide a reason why quantitative information cannot be disclosed.</p>

Companies would need to develop methodologies and processes to ensure that information they communicate is relevant and faithfully represents what it is intended to cover. The quality of this information would be enhanced further by being comparable, verifiable, timely and understandable. In some cases, companies may need to source new data or connect different sources of existing data together to identify how significant sustainability-related risks and opportunities affect a company's financial position, performance and cash flows. This may make these attributes more challenging to achieve.

Companies would also need to take care when including quantitative information. They would need to make the assumptions, methodology and judgements sufficiently clear so that users can assess the impact of the significant sustainability-related risks and opportunities disclosed.



### Would predictions and forecasts need to be disclosed?

It depends. Some of the proposals would require management to present its assessment of potential future outcomes affected by sustainability-related matters. For example, paragraphs 22(c) and (d) of the general requirements proposal would require disclosure of how management expects the company's financial position and performance to change over time.

Management would need to consider what information it can usefully provide to meet each requirement without giving the impression of certainty where none exists.

When management presents its expectations or assessments, it is important that it explains the basis and limitations of any assumptions so that investors can make their own assessment of how to use the information.

### 3.3.5

### Describing a company's resilience

*ED IFRS S1.23, S2.15*

Under both proposals, a company would disclose an analysis of the resilience of its strategy and cash flows to significant sustainability-related risks (including quantitative information where possible). This would include how the analysis was completed and the time horizon.

Presenting an analysis of resilience would help users to understand the flexibility of the company's business model and strategies in responding to uncertain future events. Providing details about the company's modelling and its results would help users to compare management's assumptions and plans with their own.

Scenario analysis is a common way of analysing resilience of the strategy to particular risks. This is a process for identifying and assessing how a potential range of outcomes of future events under conditions of uncertainty could impact a company's governance framework, business model, strategy and financial results. A scenario analysis typically uses forecasts and other data to simulate how the business would perform if certain events occur.

*ED IFRS S1.24*

The general requirements proposal does not specify the type of information that a company would be required to provide to explain its resilience to specific sustainability-related risks. It explains that this would be defined by other IFRS Sustainability Disclosure Standards (such as the climate proposal).

*ED IFRS S2.15*

The climate proposal would require companies to use scenario analysis to assess resilience, unless they are unable to do so.



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

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

Forecasting results in projecting 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.



### 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. Scenario analysis needs to represent management's expectations of uncertain outcomes in a range of hypothetical situations that are based on management's view of the risk 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 scenario would represent an appropriate basis for preparing the financial statements.

*ED IFRS S2.15*

Companies would need to present scenario analysis to support investors' assessments of resilience under the climate proposal, unless they are unable to do so. If they are unable to use scenario analysis, then they would need to explain why and use an alternative method or technique to assess resilience to climate-related risks. They would also disclose information to help users to understand the alternative method or technique chosen, along with the inputs, assumptions and time horizons used.

*ED IFRS S2.BC94*

The climate proposal provides no examples of situations in which companies would be unable to provide scenario analysis. However, in its Basis for Conclusions<sup>4</sup> the ISSB Board notes that formal scenario analysis and related disclosures can be resource-intensive and is generally an iterative learning process that may take multiple planning cycles to achieve. It also notes that over time, scenario analysis should become the preferred option for companies to meet users' information needs.

*ED IFRS S2.15*

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

The climate proposal includes the following specific disclosures about scenario analysis in addition to the general requirements on disclosing resilience.

Subject	What to disclose
<b>How the analysis was performed</b>	
<i>ED IFRS S2.15(b)(i)(1)–(6)</i>	<p><b>Scenario-use overview</b></p> <ul style="list-style-type: none"> <li>– The scenarios selected, including information about their sources and diversity.</li> <li>– Confirmation on whether management included a 'Paris-aligned' scenario<sup>5</sup>.</li> <li>– Why management selected the scenarios used to support its assessment of resilience.</li> <li>– The time horizons for the analysis.</li> </ul>
<i>ED IFRS S2.15(b)(i)(7)–(8)</i>	<p><b>Inputs and assumptions</b></p> <ul style="list-style-type: none"> <li>– The inputs into the scenario analysis, including the scope of risks, operations covered and level of detail in the assumptions.</li> <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, energy usage and mix, and technology assumptions.</li> </ul>
<b>Results of the analysis</b>	
<i>ED IFRS S2.15(a)(i)</i>	<p><b>Implications of the findings</b></p> <p>Information to allow users to understand the implications of the results of the scenario analysis on the strategy.</p> <p>This would include how the company is responding to the identified effects of different climate-transition paths and to the transition assumptions it modelled.</p>
<i>ED IFRS S2.15(a)(ii)</i>	<p><b>Areas of uncertainty</b></p> <p>The significant areas of uncertainty that management considered.</p>

4. The Basis for Conclusions accompanies, but is not part of, the climate proposal.

5. 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.

Subject	What to disclose
<i>ED IFRS S2.15(a)(iii)</i>	<p><b>Scenario conclusions</b></p> <p>Information to explain how flexible the company can be to adapt or adjust its strategy and business model over the short, medium and long term. This would include considering its ability to:</p> <ul style="list-style-type: none"> <li>– be flexible to rely on existing financial resources and capital, or redirect resources to take advantage of climate-related opportunities; and</li> <li>– redeploy, repurpose, upgrade or decommission existing assets.</li> </ul> <p>It would also include considering the effect of current or planned climate-related investments (e.g. to support climate-related mitigation, adaptation or opportunities).</p>



#### Would it be necessary to present technical details about the climate-related scenario models used?

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

Whilst providing reference to any external climate-related scenario models used may be useful information, it would be important for companies to explain how a chosen scenario was applied to its circumstances.

Disclosures could be misleading or interpreted as a prediction of future events that are inherently uncertain if they provide management's assessment alone, without explaining 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 proposals identify which scenarios companies would need to model?

No. Companies are encouraged to consider scenarios that are likely to impact their financial position significantly and to consider a diverse range of scenarios. This could include scenarios that investigate different levels of warming (e.g. 2°C or 4°C), as well as other factors (e.g. the speed of global response).

For example, many companies may use a 2°C climate-related scenario. However, for businesses with significant exposure to weather-related perils, such as property and casualty insurance companies, using scenarios that investigate physical risks and result in a larger than 2°C increase in temperatures 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 goals in a measured way, or whether they wait until significant impacts from physical risks trigger a more disorderly transition.

## 3.4

## Risk management

*ED IFRS S1.25, S2.16*

The **objective** of risk management disclosures would be to help users **evaluate the effectiveness** of the company's risk and opportunity management processes. The disclosures would aim to help users understand how a company's existing and emerging significant sustainability-related risks and opportunities are **identified, assessed and managed**, and whether those processes are **integrated** into the company's overall risk management processes.

This information could be related to disclosures about a company's governance processes (see [Section 3.2](#)). For example, within the governance content area, a company would describe 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 policies. This information is likely to be linked to a description of the risk management processes, which would be required under the risk management content area.

<b>Information</b>	<b>What to disclose</b>
<i>ED IFRS S1.26(a), S2.17(a)</i>	<p><b>Risk and opportunity identification processes</b></p> <p>How the company identifies sustainability-related risks and opportunities.</p>
<i>ED IFRS S1.26(b), S2.17(b)</i>	<p><b>Risk assessment processes</b></p> <p>How the company assesses the likelihood and impact of identified sustainability-related risks (including qualitative factors or quantitative thresholds used).</p> <p>How the company prioritises these risks relative to other types of risks, including the use of risk assessment tools – e.g. science-based risk assessment tools.</p> <p>The significant input parameters that it used in its risk assessment process – e.g. data sources, scope of operations covered and level of detail used in assumptions.</p> <p>Whether its risk assessment processes have changed since the prior reporting period.</p>
<i>ED IFRS S1.26(c), S2.17(c)</i>	<p><b>Opportunity assessment process</b></p> <p>How the company assesses and prioritises identified sustainability-related opportunities.</p>
<i>ED IFRS S1.26(d), S2.17(d)</i>	<p><b>Risk and opportunity management processes</b></p> <p>How the company monitors, manages and mitigates each risk or opportunity, including relevant policies.</p>
<i>ED IFRS S1.26(e)(f), S2.17(e)(f)</i>	<p><b>Integration of processes</b></p> <p>The extent to which sustainability-related risk or opportunity management activities are integrated into the company's overall management processes.</p>



#### Would risk management processes need to be disclosed separately for each topic-specific standard?

*ED IFRS S2.18*

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

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 or divisional level rather than for each disclosure topic individually (e.g. climate-related risk separate from biodiversity-related risk).

## 3.5

## Metrics and targets

*ED IFRS S1.27, S2.19*

Disclosures on metrics and targets would need to help users:

- understand how the company **measures, monitors and manages** its significant sustainability-related risks and opportunities;
- understand the company's **progress towards achieving its strategy**; and
- **facilitate comparison** over time and against other companies.

The general requirements proposal provides high-level guidance on the type of information about metrics and targets that may be relevant (see 3.5.1).

The climate proposal provides more granular detail, setting out:

- the types of metrics that may be relevant (see 3.5.2) including:
  - seven categories of cross-industry metrics; and
  - definitions and application guidance for industry-specific metrics; and
- how to disclose targets effectively (see 3.5.3).

### 3.5.1

#### General requirements for disclosure of metrics and targets

*ED IFRS S1.27, 30, S2.19*

Under the general requirements proposal, companies would disclose the metrics used to:

- manage and monitor sustainability-related risks and opportunities; and
- measure performance towards their targets.

*ED IFRS S1.28, 29*

This would include metrics from an IFRS Sustainability Disclosure Standard, from other identified sources (see Section 2.2) or designed by the company itself. Where a company undertakes activities across various industries, it may identify disclosure topics and, therefore, metrics from more than one industry.

*ED IFRS S1.31*

Metrics disclosed would be most relevant when they are used by the business. For this reason, the general requirements proposal includes additional guidance for disclosing the company's own metrics – i.e. those that it has developed.

Information	What to disclose
<b>Definition</b>	How the metric is defined, including whether it is absolute or normalised. Sources used to construct the metric.
<b>External validation</b>	Whether the measurement is validated by an external body and, if so, which.
<b>Methodology</b>	The methodology used to calculate the metric, including its inputs, significant assumptions and limitations.

*ED IFRS S1.34–35*

Under the general requirements proposal, all targets and related metrics would need to be:

- clearly and meaningfully labelled;
- consistently defined and calculated over time; and
- explained when they are changed, replaced or stopped, including:
  - the reason for the change;
  - why the replacement metric is more useful; and
  - their restated comparatives, unless this is impracticable.

### 3.5.2



### Types of climate-related metrics

The climate proposal identifies three types of metrics that companies would use to measure and monitor their significant sustainability-related risks and opportunities.

	Type of metric	Description	Example
<i>ED IFRS S2.20(a)</i>	<b>Cross-industry</b>	Metrics that are relevant for all companies regardless of their industry and business model.	See table below
<i>ED IFRS S2.20(b)</i>	<b>Industry-based</b>	<p>Metrics that are relevant to companies in a specific industry.</p> <p>These would be identified from <a href="#">Appendix B</a> of the climate proposal, or from other identified sources (see <a href="#">Section 2.2</a>).</p> <p>Companies would need to disclose industry-specific metrics for all activities included in their business model, which may include multiple industries.</p>	<p>Volume of products sold (Non-Alcoholic Beverages industry)</p> <p>Data processing capacity (eCommerce industry)</p>
<i>ED IFRS S2.20(c)</i>	<b>Company-specific</b>	Other metrics used by the board or management to measure progress towards targets.	Company-specific



### Cross-industry climate-related metrics

*ED IFRS S2.21*

The climate proposal would require disclosure of seven categories of cross-industry metrics, which are set out in the table below.

*ED IFRS S2.22(a)*

Although there is detailed guidance on the reporting of greenhouse gas emissions, the other six categories include little detail. Companies would need to consider whether relevant industry-based metrics identified from IFRS Sustainability Disclosure Standards or other identified sources (see [Section 2.2](#)) could satisfy these other categories.

*ED IFRS S2.22(b)*

Companies would also be encouraged to make clear links between these cross-industry metrics and the related financial statement disclosures and amounts.

	<b>Type of metric</b>	<b>What to disclose</b>
<i>ED IFRS S2.21(a)</i>	<b>Greenhouse gas emissions</b>  See <i>Appendix 3</i> for information on greenhouse gas emissions reporting and the GHG Protocol <sup>6</sup>  Also, see <i>Example 5</i> below.	Scope 1 and 2 emissions <sup>6</sup> expressed as: <ul style="list-style-type: none"><li>– absolute emissions in metric tonnes of CO<sub>2</sub> equivalent (MT of CO<sub>2</sub>e), calculated in accordance with the GHG Protocol;</li><li>– emissions intensity in MT of CO<sub>2</sub>e/unit; and</li><li>– a split between the consolidated accounting group and any associates, joint ventures, unconsolidated subsidiaries or affiliates.</li></ul> The approach used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates (i.e. the equity share, operational control or financial control methods in the GHG Protocol) and the reasons for that choice.  Upstream and downstream Scope 3 <sup>7</sup> emissions in MT of CO <sub>2</sub> e (absolute and emissions intensity), calculated in accordance with the GHG Protocol and including an explanation of: <ul style="list-style-type: none"><li>– which categories are included;</li><li>– the basis of measurement of emissions data provided by value chain, or the reason for their omission – e.g. because the company is unable to obtain a faithful measure.</li></ul>
<i>ED IFRS S2.21(b)</i>	<b>Transition risks</b>	The amount and percentage of assets or business activities vulnerable to transition risks (i.e. risks arising from transition to a lower-carbon economy).
<i>ED IFRS S2.21(c)</i>	<b>Physical risks</b>	The amount and percentage of assets or business activities vulnerable to physical risks (i.e. risks relating to the physical impacts of climate change).
<i>ED IFRS S2.21(d)</i>	<b>Climate-related opportunities</b>	The amount and percentage of revenue, assets or other business activities aligned with climate-related opportunities.
<i>ED IFRS S2.21(e)</i>	<b>Capital deployment</b>	The amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities.
<i>ED IFRS S2.21(f)</i>	<b>Internal carbon prices</b>	The price for each metric tonne of greenhouse gas emissions that the company uses to assess the cost of its emissions (in reporting currency, per MT of CO <sub>2</sub> e).  A description of how the company is applying the carbon price in its decision making (e.g. investment decisions, transfer pricing and scenario analysis).
<i>ED IFRS S2.21(g)</i>	<b>Remuneration</b>	The proportion of executive management remuneration linked to climate-related considerations in the current period.  A description of how climate-related considerations are factored into executive remuneration.

6. The Greenhouse Gas Protocol Corporate Standard (the GHG Protocol) provides guidance for companies preparing a greenhouse gas emissions inventory. Measurement of greenhouse gas emissions under the climate proposal is determined with reference to this standard. See *Appendix 3* for further information.

7. See *Appendix 3* for definitions of Scope 1, 2 and 3 emissions.



### Could companies be exposed to accusations of greenwashing if metrics are insufficiently explained or defined?

Yes. It would be important for companies to include clear descriptions of the scope and methodology they have used to calculate metrics. This would help users to understand what each metric represents and to not misinterpret any information provided.

Climate-related metrics such as those in the table above are likely to require significant assumptions and judgements. Companies might also define the metrics in each cross-industry category above differently from their peers. This means that describing the methodology used would be important for users' understanding, to aid comparability and to avoid accusations of greenwashing.



### Example 5 – Organisational boundary for greenhouse gas emissions

Energy company E has investments in multiple non-wholly owned companies.

- The group prepares its financial statements under IFRS Accounting Standards.
- In applying the GHG Protocol, the group elects to use the operational control approach<sup>8</sup>. Under this approach, investments in other operations or companies are included within Scope 1 or 2 if E has operational control (as defined in the GHG Protocol).

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, operated by E	Full consolidation <sup>1</sup>	100% included
<b>I Pty Ltd</b> 50% owned joint venture operated by a third party	Equity accounting <sup>2</sup>	0% included
<b>L GmbH</b> 50% owned joint venture operated by E	Equity accounting <sup>2</sup>	100% included

E's disclosures would include (in MT of CO<sub>2</sub>e):

- Scope 1, 2 and 3 emissions on an absolute and intensity basis;
- Scope 1 and 2 emissions for the consolidated accounting group separately from those joint ventures not included in the consolidated group;
- an explanation that E uses the operational control approach because this is consistent with its peer group and, as such, enhances comparability; and
- an explanation that its Scope 3 emissions included Category 1 (purchased goods and services), Category 3 (fuel and energy-related activities) and Category 11 (use of sold products) because these are the only categories identified as material. These emissions were calculated by the companies.

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

**Notes:**

<sup>1</sup> 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 within equity. 100% of O Ltd's revenue is included within revenue in E's consolidated financial statements.

<sup>2</sup> 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.



ED IFRS S2.B

**Industry-based climate-related metrics**

The climate proposal provides definitions and measurement requirements for industry-based metrics across 11 sectors, comprising 68 industries. These aim to help companies disclose metrics specific to their industry when describing how they monitor and measure climate-related risks and opportunities. The sector classification is based on SICs.

Metrics are organised by disclosure topics, with each industry required to report on up to six disclosure topics. Within a disclosure topic, the metrics for each industry may differ.

For the comprehensive list of metrics for each industry, see [Appendix B](#) of the climate proposal. For illustrative purposes, the metrics required for the ecommerce industry would include the following.

Type of metric	What to disclose	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 the integration of 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>	MT CO <sub>2</sub> e N/A
<b>Activity</b>	<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> <li>– Data processing capacity</li> <li>– Number of shipments</li> </ul>	Number Quantitative Quantitative



### Would the industry-specific metrics align with SASB?

Yes. The industry-specific metrics in the climate proposal are derived from the 77 SASB industry-specific standards<sup>9</sup>. However, the ISSB Board have adapted the SASB standards to:

- ensure international applicability, by removing any US-specific terminology (e.g. ENERGYSTAR® rating);
- reflect a climate-related scope only, limiting the metrics to those directly or indirectly related to climate-related matters (e.g. water quality); and
- add disclosure topics relating to financed and facilitated emissions to consumer banking, investment banking, insurance and asset management proposals.



### Is there duplication between the proposals' cross-industry metrics and industry-specific metrics?

*ED IFRS  
S2.BC143-BC145*

Yes. Under the climate proposal, there is some overlap between the cross-industry metrics categories and the industry-specific metrics proposed, particularly where greenhouse gas emissions are proposed as an industry-specific metric, despite being also required as a cross-industry metric.

In some cases however, although the metrics are similar, the industry-specific requirements provide additional detail (e.g. Scope 1 emissions are a cross-industry metric but the coal operations standard requires further disclosure of the percentage of Scope 1 emissions emitted in areas that are subject to emissions-limiting or emissions-reporting legislation).

In other cases, the ISSB Board acknowledges this duplication in its Basis for Conclusions, but retains the metrics in the industry-specific proposals because it expects the application guidance to be useful for companies.



### Is there guidance on disclosure of financed emissions?

*ED IFRS S2.B*

Yes. The disclosures for commercial banks, investment banking and brokerage, insurance and asset management and custody activities include disclosure topics and metrics relating to financed and facilitated emissions.

*ED IFRS S2.BC157*

For example, commercial banks would disclose their gross exposure to carbon-related industries, including as a percentage of total gross exposure; the percentage of total gross exposure for which financed emissions are calculated; and gross absolute financed emissions by industry and asset class and associated emissions intensity.

These proposed requirements build on relevant SASB standards and the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard and have been designed to allow for development in this type of reporting. Therefore, although the proposals reflect significant, generally accepted aspects of current practice (including elements of the Partnership for Carbon Accounting Financials (PCAF) standard), they also allow for the development and refinement of technical measurement methods.

9. There are fewer categories in the climate proposal than there are SASB standards because certain SASB standards (e.g. advertising and marketing) do not include climate-related metrics.

**3.5.3****Disclosing targets**

*ED IFRS S1.32–33,  
S2.23*

*ED IFRS S2.24*

Under the proposals, a company would need to provide detailed descriptions of its sustainability-related targets that are linked to the metrics it uses to measure and monitor them.

The climate proposal would require companies to consider the requirements of Appendix B (industry-specific metrics) as well as the requirements of the general requirements proposal when identifying metrics to demonstrate progress towards achieving strategic goals or targets.

There is no prescribed format for this information, but it would need to satisfy the objective that users can understand how the company monitors its significant sustainability-related risks and opportunities and assess the company's progress in relation to those issues. Clear connectivity of disclosures between strategy and the related targets is important.

The table below summarises the proposed disclosures for targets.

<b>Subject</b>	<b>What to disclose</b>
<i>ED IFRS S1.32(a), S2.23(a)</i>	<b>Related metric</b> How the progress towards the target is assessed using a related metric
<i>ED IFRS S1.32(b), S2.23(g)</i>	<b>Timeframe</b> The timeframe over which the target applies
<i>ED IFRS S1.32(c), S2.23(h)</i>	<b>Base period</b> The base period from which progress is measured
<i>ED IFRS S1.32(d), S2.23(i)</i>	<b>Milestones or interim targets</b> Information about key milestones or interim targets set
<i>ED IFRS S1.33(a)</i>	<b>Performance</b> How the company has performed against the target Analysis of trends or significant changes in performance
<i>ED IFRS S1.33(b)</i>	<b>Revisions</b> Whether there have been revisions to the target and explanations of those revisions
 <b>Additional information about climate-related targets</b>	
<i>ED IFRS S2.23(b)</i>	<b>Link to climate-related risks and opportunities</b> The specific target set for addressing climate-related risks and opportunities
<i>ED IFRS S2.23(c)</i>	<b>Nature</b> Whether the target is absolute, normalised, intensity- or activity-based
<i>ED IFRS S2.23(e)</i>	<b>Verification</b> Whether the target has been validated by a third party
<i>ED IFRS S2.23(d)</i>	<b>Objective</b> Whether the objective of the target is to achieve climate mitigation, adaptation or conformance with sector or science-based initiatives (see below) The topics of climate mitigation and adaptation are discussed in <a href="#">3.3.3</a> .
<i>ED IFRS S2.23(f)</i>	<b>Sectoral decarbonisation approach</b> Whether the target is 'derived using a sectoral decarbonisation approach' (see below)
<i>ED IFRS S2.23(e)</i>	<b>Comparability</b> How the target compares with those created in the latest international agreement on climate change (i.e. the Paris Agreement)



## Science-based targets and the sectoral decarbonisation approach

Targets are 'science-based' when they follow the most recent climate science to identify what a company needs to do to help to meet the decarbonisation goals of the Paris Agreement. This means limiting global warming to below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C.

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



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

No. Both proposals give conceptual guidance on the types of metrics and targets to disclose but do not specify the target level for any metric. The climate proposal 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. committing to alignment with the Paris Agreement).

# 4 Presentation

The proposals provide key principles for companies to follow but would allow for flexibility when presenting information.

This chapter explains two key principles – that are important to understand when designing the presentation of sustainability reporting – **fair presentation** and **connected information**. It also brings together the limited guidance in the general requirements proposal about where (the '**location of information**') and how companies should include sustainability reporting **within their general purpose financial reporting**.

## 4.1 Fair presentation

*ED IFRS S1.45–47*

The general requirements proposal explains that companies would present information fairly. This includes ensuring that disclosures are complete, neutral and free from error – i.e. requiring a faithful representation.

To meet this, as well as providing disclosures on all relevant topics, the proposal would require information that is:

- **relevant**: capable of making a difference to users' decisions;
- a **faithful representation**: provides a complete, neutral and free from error depiction of the information it is supposed to represent;
- **comparable**: can be compared with disclosures from other companies, or from the company in prior periods;
- **verifiable**: possible to corroborate;
- **timely**: available to investors in time to be capable of influencing their decisions; and
- **understandable**: clear and concise, with a balanced level of aggregation.

*ED IFRS S1.47(b)*

Providing a faithful representation includes reporting sufficient information on all significant sustainability-related risks and opportunities to enable investors to assess their effect on enterprise value, as discussed in [Section 2.2](#).

*ED IFRS S1.48–49*

Providing too much information risks obscuring material content with immaterial detail; providing too little detail risks obscuring the differences between material items. Information with similar characteristics would be aggregated; however, it would be disaggregated when it does not share those characteristics – e.g. a company might disaggregate disclosures about its use of water to distinguish between water drawn from abundant sources and water drawn from high-stress sources.



### Example 6 – Aggregating risks that are individually insignificant

Automotive manufacturer M has assessed the severity, scale and nature of disruption from identified risks in its supply chain. It identifies multiple risks, including suppliers exposed to extreme weather-related disruption, labour disputes and pollution-related government action. Because these risks are individually unlikely to give rise to a significant financial impact, M assesses them each individually as insignificant. However, in aggregate, M assesses the risk of a material financial impact arising from supply chain disruption to be significant. It therefore provides disclosures about the aggregated risk.



### Example 7 – Aggregating risk information that is location-specific

Drinks manufacturer D identifies the impact of water scarcity as a principal risk as part of its annual risk assessment process. It isolates the exposure to a single location in the supply chain and includes disclosures about the risk at that location.

However, granular information at that geographic location level for other risks is not deemed material. For example, another of D's significant sustainability-related risks relates to the potential adverse health impact of its products on consumers, which could lead to additional 'sugar taxes' and reduced demand in future. D presents information about this risk at a product category and group level.

If it presented information on water scarcity at a higher level (e.g. by division or country), then D would lose the detail about the nature and extent of the risk. However, if it presented information for every identified risk at the most granular level, then D may not meet its objective of being concise and may potentially obscure material information by providing too much detail.

## 4.2

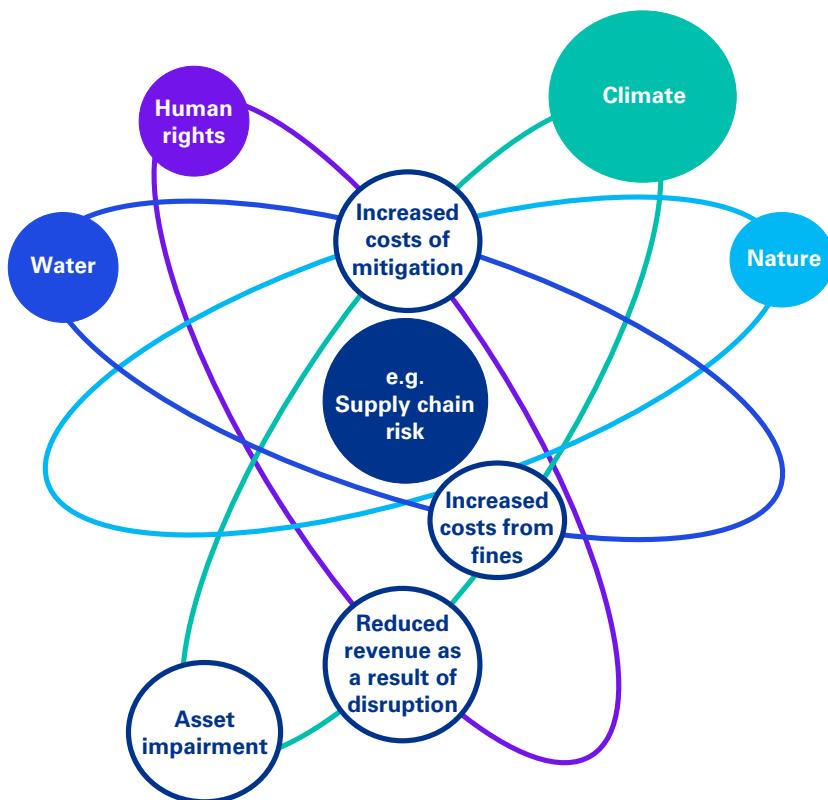
## Connected information

### 4.2.1

### Connected risks

*ED IFRS S1.42, BC56*

Significant sustainability-related risks and opportunities are inherently connected, with inter-reliance and trade-offs arising between different matters in decision making, as well as in the company's financial position, performance and cash flows.



*ED IFRS S1.43*

Companies would need to decide how to present information to ensure that relevant connections are visible and understandable. This would include making connections between different sustainability-related risks and opportunities, the governance, strategy and risk management related to those risks, the metrics used to manage and monitor those risks and other information, including the financial statements.

For example, connectivity in presentation could be achieved by explaining:

- the effect or likely effect of the company's strategy on its financial statements or financial plans, or on metrics and targets used to measure progress against performance; or
- how its use of natural resources and changes within its supply chain could amplify, change or reduce its significant sustainability-related risks and opportunities, with links to the potential or actual effect on its production costs, its strategic response to mitigate such risks and its related investment in new assets.



#### **Example 8 – Connectivity of risks for a clothing retailer**

Clothing retailer C identifies exposure to supply chain risks related to its use of cotton, a natural resource. C identifies significant risks that relate to the topics of water, biodiversity, climate and human rights. The risks impact its current and anticipated future production costs and revenue streams, and are driving proposed changes to the business model, strategy and risk management processes.

Under the proposals, C would present a narrative linking the risks, impacts and response together, along with relevant metrics and references to the financial statements.



#### **Would a company need to prepare the financial statements under IFRS Accounting Standards to achieve connectivity?**

*ED IFRS S1.38*

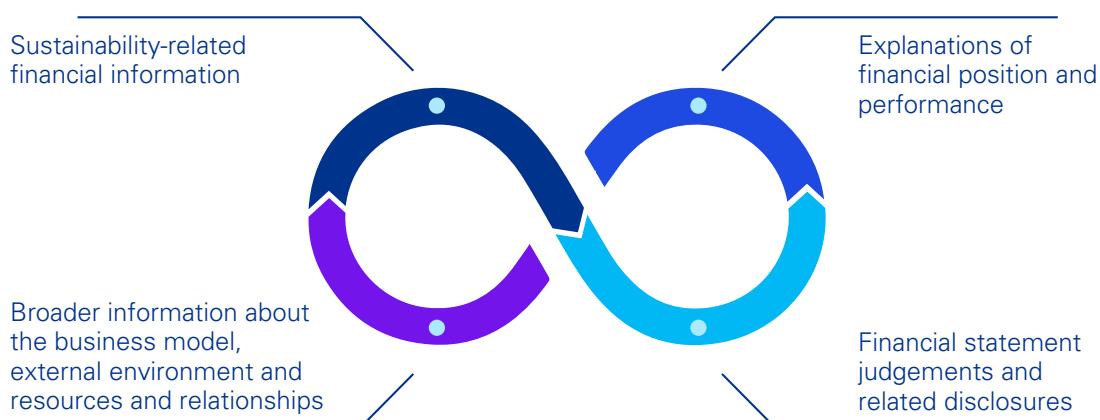
No. It is not a pre-requisite to apply IFRS Accounting Standards.

However, reporting under IFRS Sustainability Disclosure Standards would be connected to a set of financial statements. A company would need to identify the financial statements to which the sustainability-related disclosures relate and explain the basis for their preparation (e.g. US GAAP).

Although there is no requirement to apply IFRS Accounting Standards, the IASB Board and the ISSB Board have committed to ensuring connectivity, and may work together on some projects (e.g. treatment of intangibles).

## **4.2.2 Connected reporting**

Disclosures of sustainability-related financial information provide important context for understanding the financial statements, including the judgements used in preparing them. To achieve the objectives of the proposals, companies would need to consider how to ensure that these connections are clear and understandable.



*ED IFRS S1.73, BC81*

Disclosures of sustainability-related financial information often need to be understood in the context of wider information about the company. For this reason, it would be important to ensure that information is presented in a manner that allows investors to make the relevant connections. Management commentary is commonly used to bring financial, sustainability and other information together into a coherent narrative. Reports providing management commentary have many different names globally, but include management's discussion and analysis, an operating and financial review, integrated report or strategic report.

## 4.3

### Location of information

*ED IFRS S1.72–73*

A company would disclose sustainability-related information as part of its general purpose financial reporting, prepared at least on an annual basis. See 5.1.1 for a discussion of interim reporting.

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

The general requirements proposal does not specify a single location for disclosures. This means that information could be presented in many ways, including:

- **within the general purpose financial reporting:** for example:
  - **integrated through the front part** of the report with clear linkage to the financial statements (see Illustration 1 in the diagram in Section 4.4); or
  - in a **separate section with clear linkage** to other content in the report such as management commentary and the financial statements; or
- **cross-referenced** from another document such as a separate sustainability report (subject to certain conditions).

*ED IFRS S1.75–77*

Cross-referencing to a document that does not form part of the company's general purpose financial reporting would be permitted because local laws and regulations often determine the location of sustainability-related information. However, the following conditions would need to be met:

- the use of cross-referencing does not make the information included within the general purpose financial reporting less understandable;
- the other report would need to be available to users on the same terms and at the same time as the financial statements;
- the location of the cross-referenced information and an explanation of how to access it would be included in the company's general purpose financial reporting;
- cross-references used would be to a precise, specific location and not to general sections;
- any information included by cross-reference would become part of the complete set of sustainability-related financial disclosures and would need to comply with the requirements of IFRS Sustainability Disclosure Standards, including the requirement for information to be relevant, faithfully represented, comparable, verifiable, timely and understandable; and
- the same people who authorise the general purpose financial reporting for issue would need to take the same degree of responsibility for the information included by cross-reference.

Companies may find these conditions challenging to meet and in many cases, may include information directly in their general purpose financial reporting. In some jurisdictions, cross-referencing of material information is prohibited (e.g. in the UK and Australia). Elsewhere, companies would need to consider whether the general purpose financial reporting would be understandable and have a coherent narrative if information was included solely via cross-referencing.

ED IFRS S1.74

Companies would also need to consider where to include any additional information required by local regulation. The proposals would allow material sustainability-related financial information to be disclosed alongside such additional information, provided that it is clearly identifiable and not obscured by the additional information.



#### Could companies continue to publish a separate sustainability report under the proposals?

Yes. Currently, many companies use a sustainability report to provide a comprehensive description of their impacts on the economy, environment or society, as well as information about sustainability-related risks and opportunities, strategy and governance.

The formation of the ISSB Board does not change the demand for this type of broader sustainability reporting and, as such, many companies may choose to continue to provide it. However, companies will need to manage the level of duplication between reports carefully.

## 4.4 Presentation structure

The general requirements proposal does not include requirements for the structure of information presented. Companies would need to determine an appropriate structure for reporting that is coherent and facilitates linkage with any broader sustainability reporting to avoid unnecessary duplication.

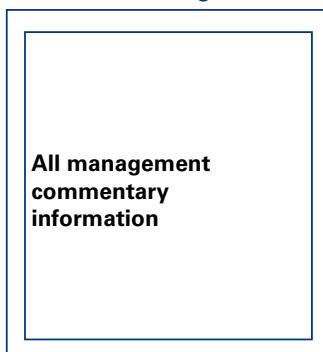
ED IFRS S1.78, BC43

The proposals include requirements across the content areas of governance, strategy, risk management, and metrics and targets (see [Chapter 3](#)). However, it does not follow that companies should present information separately under each area for each disclosure topic. The proposals specify that companies should avoid duplication if different IFRS Sustainability Disclosure Standards require common pieces of information.

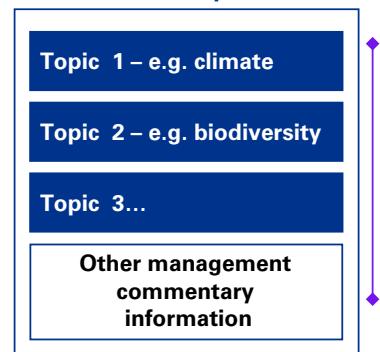
When designing the presentation structure, key decisions would include:

- whether to **include all information within a single general purpose financial report** or to cross-refer;
- whether to **present information on the content areas separately** (i.e. following the four content areas (governance, strategy, risk management, and metrics and targets) as a presentation structure as well as content structure); or
- whether to **integrate content from different topics** within existing sections of the general purpose financial reporting or keep it separate (see the ‘compartmentalised’ illustration below).

**Illustration 1: Integrated**



**Illustration 2: Compartmentalised**



In the ‘integrated’ illustration, management would present management commentary disclosures that contain information about significant sustainability-related risks and opportunities as well as other topics as a coherent whole. This may be more appropriate where the company manages

significant sustainability-related risks and opportunities as an integral part of its overall strategy and risk management processes. The ‘compartmentalised’ example may be required by some jurisdictions that specify that companies must prepare a separate sustainability report and may be a less complex approach for first-time adopters.



### Would the presentation structure change for a company that previously adopted TCFD?

It depends. A structure commonly employed by TCFD adopters is to present information in relation to each content area separately (i.e. governance, strategy, risk management, metrics and targets). If this structure is duplicated for all relevant disclosure topics presented under the proposals (e.g. climate, biodiversity, water, human capital), then it may become more challenging to demonstrate linkage between disclosure topics as well as across content areas (e.g. strategy, business model, 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), which elements cut across multiple disclosure topics but relate to specific content areas (e.g. strategic plans to mitigate supply chain risk may be linked to climate, human rights and water topics) and which elements are topic-specific.



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

*ED IFRS S1.BC43*

No. Under the proposals, disclosures would be required on each content area (governance, strategy, risk management, and metrics and targets). However, the proposals explain that it would not be necessary to use this as a presentation structure.

*ED IFRS S1.78*

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

The proposals explain that duplication could be avoided by integrating the disclosure of common items of information. Companies would need to consider the most appropriate presentation structure for their circumstances.

# 5

# Practicalities of reporting

The general requirements proposal outlines further requirements and guidance to support companies in providing comparable and connected information.

*ED IFRS S1.BC80*

Companies adopting the proposals would need to implement effective processes to be able to produce compliant sustainability reporting. For example, the requirement to report at the same time as the financial statements and for the same period (see [Section 5.1](#)) would be a change for many companies and could require significant incremental effort and cross-company collaboration.

The practical requirements in the general requirements proposal cover:

- the **reporting period**: i.e. when to report and for what period ([Section 5.1](#));
- preparing **interim reports** ([5.1.1](#));
- **consistency of financial data and assumptions** ([Section 5.2](#));
- using **estimates** ([Section 5.3](#));
- disclosing **comparative information** ([Section 5.4](#));
- disclosing and correcting **errors** and **changes in estimates** ([Section 5.5](#)); and
- the **effective date and transition** ([Section 5.6](#)).

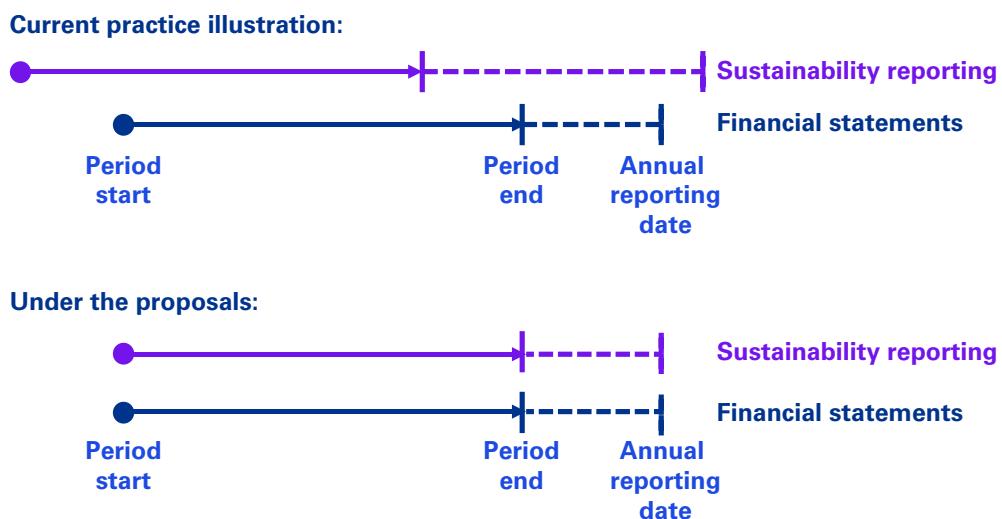
## 5.1

## Reporting period

*ED IFRS S1.66*

Under the general requirements proposal, a company would need to report sustainability-related information for the same period and at the same time as its annual financial statements.

Many companies currently report sustainability-related information after the financial statements are issued, use estimated figures for the final quarter of the year or present information relating to an earlier reporting period.



The ability to prepare sustainability-related information 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, IT. Companies would need sufficiently rigorous processes and controls to generate high-quality information.

*ED IFRS S1.71*

Under the general requirements proposal, a company would also disclose information about transactions, other events and conditions that occur or arise after the reporting date but before the date on which the sustainability-related financial disclosures are authorised for issue. The company would disclose information if its exclusion would be expected to influence investors' decisions. This concept appears similar to the guidance on reporting events after the reporting date in IFRS Accounting Standards.

### 5.1.1

*ED IFRS S1.69–70*

#### Interim reporting

The Standards would not require companies to provide interim sustainability-related information. However, local laws and regulations could require interim reports to be prepared or a company could choose to prepare interim reporting on a voluntary basis.

Unless local requirements state otherwise, companies would be permitted to prepare any interim sustainability-related information in accordance with the Standards.



#### Do the proposals define the sustainability-related financial disclosures to be included in interim reporting?

No. The proposals do not contain prescriptive disclosure requirements for interim reporting. The extent of information that a company would provide would depend on local laws and regulations. If a company presents an interim report, then it would prepare either a complete set of sustainability disclosures (see [Section 2.3](#)) or more condensed interim sustainability disclosures.

Although there is no prescriptive guidance on interim disclosures, the ISSB Board's intention is for interim disclosures to provide an update on the company's latest complete set of annual disclosures. Therefore, companies would be expected to focus on the disclosure of new information, events and circumstances in their interim reporting. For example, they might focus on metrics and targets disclosures in the interim reporting rather than governance and risk management information, which is often subject to less change. Similarly, the disclosure of strategy-related information would depend on the occurrence of new events during the interim period.

## 5.2

### Consistency of financial data and assumptions

*ED IFRS S1.80*

Achieving connectivity between sustainability reporting and financial reporting is important. Management's views on each significant sustainability-related risk or opportunity would need to inform both the sustainability reporting and financial statements. This means that although sustainability-related information may differ in nature from the financial statements, it should be consistent to the extent possible. For example, if a company has made and disclosed climate-related commitments in the front part of the annual report, then the assumptions used in the financial statements would be consistent, where appropriate, but would consider the recognition and measurement requirements of the applicable financial reporting framework. Commitments are one of the most common areas where sustainability reporting and IFRS Accounting Standards differ. This is because only those commitments that meet the IAS 37<sup>10</sup> recognition requirements are recognised in the financial statements.

The assumptions used in sustainability reporting and financial reporting may also differ because of requirements in IFRS Accounting Standards. In these instances, disclosing the differences in assumptions and the reasons for those differences would help users to understand and to reconcile the information in the sustainability disclosures with the financial statements. For example, a company may consider discussing why key assumptions used in estimates in the financial statements differ from net-zero commitments/scenarios and the impacts disclosed in the front part of the annual report – e.g. it might discuss the differences between the key assumptions used in impairment testing and 'Paris-aligned' assumptions used in scenario analysis disclosures.

<sup>10</sup> IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

See our [web article](#) *Have you disclosed the impacts of climate-related matters clearly?* for further information.

Consistency of financial data and assumptions would also be required for the following:

- financial data used to normalise metrics (e.g. metrics may be linked to a financial statement caption, such as greenhouse gas emissions per unit of revenue);
- activity metrics that rely on similar data sources to financial metrics (e.g. the same sales data may be used for an activity metric relating to number of products sold and for revenue disclosures);
- disclosures on concentration of risk in the value chain that may be connected to risk concentration disclosures in the financial statements; and
- the same currency used as the unit of measure for sustainability disclosures and as the presentation currency in the company's financial statements.



### Would the proposals require better connectivity with the financial statements compared to current sustainability reporting?

*ED IFRS S1.22*

Yes. For example, the proposals include disclosure requirements on the impact of sustainability-related risks and opportunities on a company's current financial position, performance and cash flows (see [3.3.4](#)). The 2021 TCFD status report<sup>11</sup> identified that of the TCFD adopters consulted, only 20% disclosed impacts on financial performance and 14% disclosed impacts on financial position. This included both qualitative, directional information and quantitative plans, budgets and actual financial impacts.

Although disclosing the impact on financial position and performance is just one example of financial statement connectivity, this survey demonstrated that even among TCFD adopters (who may be some of the most advanced in this regard), there would need to be significant improvements in connectivity to comply with the proposals.

## 5.3

### Use of estimates

Preparing disclosures for sustainability reporting will inevitably involve the use of estimates. This could be because information is forward looking, or because of a lack of relevant historical data or accurate measurement techniques.

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. Estimation uncertainty could arise either when presenting historical information or in management's predictions of future outcomes.

*ED IFRS S1.79, 83*

When companies use estimates, they would need to disclose information including:

- which metrics or other disclosures have significant estimation uncertainty;
- the sources and nature of the estimation uncertainties and the factors affecting those uncertainties; and
- the methods used to calculate targets and inputs into calculations, along with the significant assumptions made and the limitations of those methods.

The focus on judgements and estimates in the proposals is similar to that in financial reporting, specifically IAS 1<sup>12</sup>.

Information about possible future events is also likely to be important. This could be where events have not affected financial performance or financial position, or are not reported in the financial statements.

11. Task Force on Climate-Related Financial Disclosures, [2021 Status Report](#).

12. IAS 1 *Presentation of Financial Statements*.

***ED IFRS S1.81***

Companies would need to consider the following when making materiality judgements about possible future events:

- the potential effects of the events on the value, timing and certainty of the company's future cash flows, including in the long term (the possible outcome); and
- the range of possible outcomes and the likelihood of the possible outcomes within that range.

***ED IFRS S1.82***

A company would consider all relevant facts and circumstances when investigating possible outcomes, as well as information about low-probability and high-impact outcomes that could become material when they are aggregated. For example, a company's supply chain could be disrupted if it is exposed to a wide variety of sustainability-related risks. Information about the aggregate risk affecting the supply chain could be material even if the risks are not considered individually to be significant. Internal processes would need to be sufficient to capture this granular risk information to ensure that information that is material in aggregate can be reported.

**5.4****Comparative information*****ED IFRS S1.63***

Under the general requirements proposal, a company would disclose comparative information for the previous period for all metrics disclosed in the current period. Companies would also include comparative information for narrative and descriptive disclosures when the information would be relevant to the users' understanding of the current period's disclosures.

***ED IFRS S1.64,  
BC82–BC83***

Unlike in IFRS Accounting Standards, comparative information presented would reflect updated estimates. When a company reports comparative information that differs from the information it reported in the previous period, it would disclose:

- the difference between the amount reported in the previous period and the revised comparative amount; and
- the reason why the amounts have been revised.

***ED IFRS S1.65,B2***

There would be exceptions to these requirements:

- in the first year of adoption (see 5.6.1); or
- when a company cannot collate the required information.

For example, following a change in methodology or estimate, a company identifies that it did not collate the information that it needed in prior periods to restate the comparatives and is unable to recreate it in the current period. In this case, the company would explain the reason why it was not able to restate its comparatives.

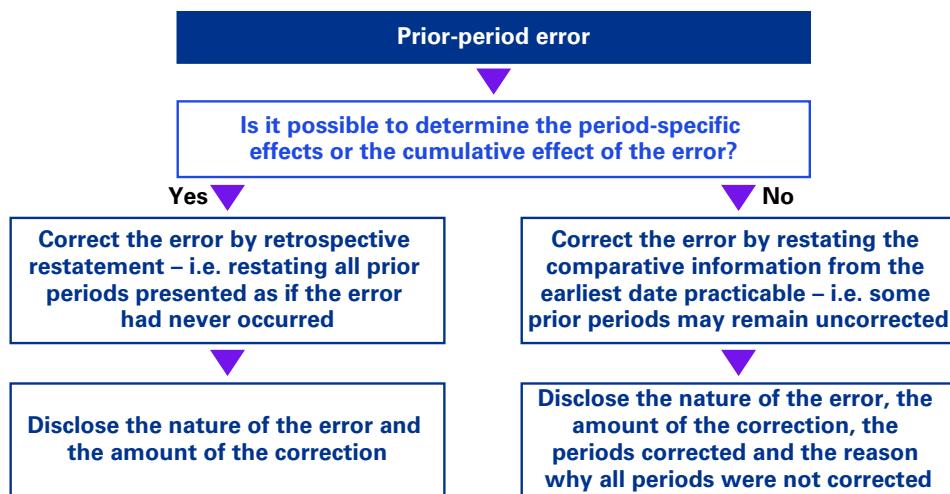
**5.5****Errors and changes in estimates*****ED IFRS S1.85***

The general requirements proposal defines prior-period errors as omissions from, and misstatements in, a company's sustainability disclosures for one or more periods. These errors would arise from a failure to use or the misuse of reliable information that:

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

This diagram depicts the process that would be followed after identifying a prior period error:

ED IFRS S1.84, 88, 90

ED IFRS S1.89,  
34(c), BC83

Changes in estimates differ from the correction of prior-period errors. A change in estimate results from new information or new developments, rather than from omissions from or misstatements in a company's sustainability disclosures. Under the general requirements proposal, a company would report changes in estimates in the period in which the change occurred. For correcting errors, a company would use updated estimates for the comparative amounts disclosed to ensure that they are comparable with current-period equivalents (see [Section 5.4](#)). This represents a key difference from the treatment of changes in estimates under IFRS Accounting Standards.

Examples of changes in estimates include changes in metrics, targets or the definition of company-specific key performance indicators – e.g. a change in the total expected loss attributable to mortgage loan default and delinquency due to weather-related natural catastrophes, by geographic region.

Under the general requirements proposal, if a company redefines a target or key performance indicator, then it would:

- explain the changes;
- explain the reasons for the changes; and
- provide restated comparative amounts unless it is impracticable to do so.

For further information on the presentation of comparative information, see [Section 5.4](#).



### Example 9 – Change in Scope 3 emissions estimates

Telecommunications company T reports Scope 1, 2 and 3 emissions using the GHG Protocol (see [Appendix 3](#)). T reported Scope 3 emissions for the first time in 20X0. In that year, T identified Category 1 (purchased goods and services), Category 2 (capital goods) and Category 11 (use of sold products) as its most significant categories of Scope 3 emissions.

During 20X1, T also analysed a further seven categories of Scope 3 emissions and started reporting on these areas. T assessed that the remaining five areas were not relevant.

During 20X2, T analysed its most significant categories in more detail and began reporting some emissions using a more accurate estimation process.

T's sustainability reporting for these periods includes:

20X0:

- an explanation of the methodology used to calculate its emissions, including the fact that the Scope 3 emissions reported are from three categories only;

20X1:

- an explanation that the number of categories of Scope 3 emissions reporting has increased, because the company has analysed these categories for the first time;
- a breakdown by category of the types of emissions reported and excluded, including explanations; and
- an explanation that T restated its comparatives to include additional categories;

20X2:

- an explanation of where and how the methodology used to calculate certain categories of Scope 3 emissions has changed, with an explanation of why management expects the new methodology to be more accurate; and
- an explanation that the company has not restated comparatives, because it did not collate the relevant data in prior years.

## 5.6

### Effective date and transition

*ED IFRS S1.B1*

Although the proposals do not specify an effective date, the ISSB Board has stated that it aims to issue the final standards before the end of 2022.

Companies would be allowed to apply the standards before the effective date, provided that they disclose that fact.

Irrespective of the effective date chosen by the ISSB Board, it will be for local jurisdictions to determine when to mandate adoption of the Standards.

*ED IFRS S1.91–92*

Companies complying with all of the relevant requirements would include a statement of compliance with the Standards. This statement could still be included if disclosures were complete except for information that was prohibited by local laws or regulations.

#### 5.6.1

##### Transition provisions

*ED IFRS S1.B2*

Disclosures would not be required for any period before the date of initial application. This means that comparative information would not be required in the first period of adoption.

However, some companies may have reported similar information previously under other frameworks. It may therefore be useful to align comparatives to the proposals, when the data is available to do this.



##### Could companies adopt some of the requirements but not all?

*ED IFRS S1.91*

Yes. A company would be able to adopt certain requirements from the proposals but not all, provided that it did not include a statement claiming compliance with the Standards and this was permitted by its local jurisdiction.

For example, a company could provide all disclosures required under the climate proposal, but limited information on other significant sustainability-related risks and opportunities. Because the general requirements proposal requires companies to include all material information, in this situation the company would not include a statement of compliance with the Standards.

# Appendix 1: Sources of guidance

These tables indicate relevant sources of guidance for sustainability disclosures in advance of publication of future IFRS Sustainability Disclosure Standards.

## A1.1

### Alternative enterprise-value focused standard-setting bodies

Source	Type	Coverage	Key points
<b>TCFD</b> Recommended disclosures, supporting guidance	Narrative and metrics	Narrow – climate only	The TCFD framework's four pillar structure is consistent with the proposals.  There is strong alignment between the climate proposal and detailed guidance contained in the TCFD publications.
<b>SASB</b> 77 industry-specific metrics standards	Metrics and key principles	Broad – sustainability-related topics	The industry-specific metrics in the climate proposal are based on SASB standards, with minor adjustments to ensure international applicability.  Subsequent IFRS Sustainability Disclosure Standards are also expected to incorporate metrics based on SASB.  SASB is part of the Value Reporting Foundation (VRF) <sup>13</sup> .
<b>&lt;IR&gt;</b> Framework for effective integration of value-relevant information	Narrative	Comprehensive – wider corporate reporting	The IR framework is complementary to content-based frameworks such as TCFD and SASB.  The <IR> framework published by the International Integrated Reporting Council (IIRC) provides useful guidance for avoiding duplication and fragmentation of disclosure, with a clear focus on what is material to the creation of enterprise value over the short, medium and long term.  IIRC is part of the VRF.

13. The Value Reporting Foundation (VRF) was formed in 2021 with the merger of the Sustainability Accounting Standards Board (SASB) and International Integrated Reporting Council (IIRC). It was announced in November 2021 that the VRF intended to consolidate into the IFRS Foundation by June 2022.

Source	Type	Coverage	Key points
<b>CDSB</b>  Framework application guidance for disclosure of environmental and social information	Narrative	Broad – climate, water, biodiversity, social topics	There is strong alignment between the CDSB framework and TCFD.  Unlike TCFD, the CDSB Framework application guidance covers topics outside of climate.  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

### Other broader sustainability reporting bodies

Subject	Type	Coverage	Key points
<b>GRI</b>  Broad suite of reporting standards	Narrative and metrics	Broad – sustainability-related topics	GRI has historically been the most widely adopted sustainability framework.  Its focus is on the company's impact on the economy, the environment or society.  See <a href="#">Appendix 2</a> for further detail.
<b>EFRAG</b>  Proposed suite of European Sustainability Reporting Standards (ESRS)	Narrative and metrics	Broad – sustainability-related topics	EFRAG has proposed that ESRSs would adopt a broad definition of materiality.  It plans to include granular reporting requirements covering public-policy objectives (e.g. Paris-alignment), process guidance and disclosures.
<b>Task Force on Nature-related Financial Disclosures (TNFD)</b>  Framework for nature-related risk management and disclosure	Narrative and metrics	Narrow – natural capital and biodiversity only	TNFD released a draft framework on natural capital and biodiversity in March 2022.  The framework has strong links to TCFD.

# Appendix 2: Transition

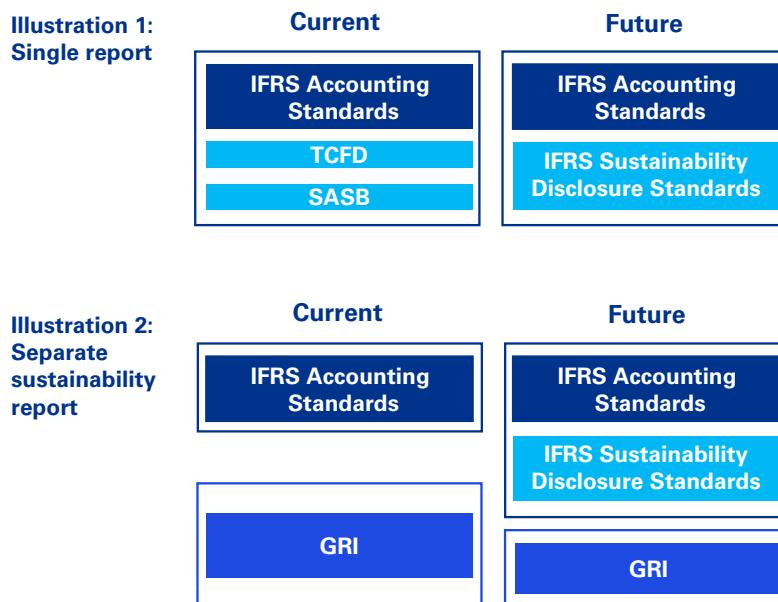
This section includes high-level guidance for companies who have previously adopted other frameworks.

## A2.1

### Introduction

The formation of the ISSB Board represented a consolidation of major enterprise-value focused sustainability reporting bodies. However, there are other types of sustainability reporting that are outside the scope of IFRS Sustainability Disclosure Standards but remain equally important. This includes reporting to meet public policy and other stakeholder needs. The ISSB Board'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.

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



## A2.1

### Transition from enterprise-value focused frameworks

#### A2.1.1

##### TCFD

The TCFD's materials<sup>14</sup> include recommended disclosures as well as a wealth of practical guidance, educational materials and illustrative examples. The proposals are strongly aligned with the TCFD's 11

14. 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 \(fsb-tcfd.org\)](https://www.fsb-tcfd.org/).

recommended disclosures and draw from its more detailed guidance; however, the proposals do not duplicate its practical application support.

For companies transitioning from full compliance with TCFD to the proposals, the key actions would 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 significant sustainability-related risks and opportunities for the same period and at the same time as the financial statements are published.</li> <li>– Design an appropriate structure for reporting across all disclosure topics that ensures appropriate connectivity between disclosure topics, as well as with other areas of general purpose financial reporting, 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 proposal.</li> <li>– Understand the areas where the climate proposal builds on the TCFD recommended disclosures. In particular these include the approach to reporting on transition plans as part of strategy (see 3.3.3), the specificity of disclosures around resilience (see 3.3.5), the reporting of greenhouse gas emissions and industry-specific metrics (see 3.5.2), and details required about targets (see 3.5.3).</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 significant sustainability-related risks and opportunities.</li> </ul>
<b>Strategy</b>	<ul style="list-style-type: none"> <li>– Undertake a robust assessment to identify all significant sustainability-related risks and opportunities across all relevant disclosure topics, and identify material information for disclosure.</li> <li>– Consider how to disclose information about resilience to non-climate-related risks and opportunities.</li> </ul>
<b>Metrics and targets</b>	<ul style="list-style-type: none"> <li>– Identify the data requirements for effective reporting across all identified disclosure topics.</li> </ul>

## A2.2 SASB

SASB standards are relevant to companies adopting the proposals in several ways:

- The ISSB Board encourages companies to use the SASB standards in advance of adopting IFRS Sustainability Disclosure Standards.
- Companies would consider SASB standards when identifying industry-specific disclosure topics and related significant sustainability-related risks and opportunities, as well as material information to disclose (see [Section 2.2](#)).
- The industry-specific metrics included in the climate proposal are derived from the climate-relevant metrics in the SASB standards (see 3.5.2).
- The ISSB Board plans to use SASB standards when developing future industry-based requirements.

If SASB adopters have not previously applied TCFD or other narrative reporting frameworks, then they would 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****GRI**

Reporting under GRI standards has a broader objective than IFRS Sustainability Disclosure Standards – i.e. to provide transparency on how an organisation 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. GRI standards are therefore designed to reflect a wider set of stakeholder needs.

It is likely that many of the topics that are identified as material under GRI's standards – i.e. because they are important to wider stakeholders – would also drive the company's enterprise value. Information about those topics would therefore be material to investors. Differences may arise, however, in the type of information that would be required. For example, investors would generally 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 impact that the issue would have on the company's enterprise value. Other stakeholders would want to understand how the topic affects their circumstances.

In practice, information required by both sets of standards is likely to need to be derived from the same data sets and systems that are also used to manage the business.



The use of both IFRS Sustainability Disclosure Standards and GRI as complementary standards would facilitate reporting under a two-pillar structure:

- IFRS Sustainability Disclosure Standards would be used to inform enterprise-value focused reporting as part of general purpose financial reporting; and
- GRI would continue to be used for broader sustainability reporting (either in a separate report, in online disclosures or as a GRI Index).

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

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

Key actions for existing-GRI adopters include:

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 only, and areas where additional disclosure would be required.</li> <li>– Understand and reflect elements of the IFRS Sustainability Disclosure Standards that have not previously been reported under GRI (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 disclosures in general purpose financial reporting (either directly or via cross reference) and 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 significant 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 significant sustainability-related risks and opportunities across all topics. This should include risks and opportunities that are significant 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 would remain appropriate under IFRS Sustainability Disclosure Standards.</li> </ul>

# Appendix 3: Greenhouse gas emissions

This section includes a high-level introduction to accounting for greenhouse gas emissions.

The climate proposal would require companies to disclose their greenhouse gas (GHG) emissions, making use of existing methodology and guidance from the Greenhouse Gas Protocol Initiative. The proposal refers to two standards:

- The [Greenhouse Gas Protocol Corporate Accounting and Reporting Standard](#) (GHG Protocol) 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](#) (Corporate Value Chain Standard) provides further guidance on Scope 3 emissions.

## Scope 1, 2 and 3 emissions

The GHG Protocol defines three types of emissions. Companies would be required to report on all three under the climate proposal.

- **Scope 1:** Direct GHG emissions from sources that are 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 consumed by the company (e.g. electricity purchased for own use). This is defined as electricity 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 Corporate Value Chain standard sets out 15 categories of Scope 3 emissions (see 'Categories of Scope 3 emissions' below).

In all three scopes, emissions include the carbon dioxide equivalent ( $\text{CO}_2\text{e}$ ) of seven greenhouse gases: carbon dioxide ( $\text{CO}_2$ ); methane ( $\text{CH}_4$ ); nitrous oxide ( $\text{N}_2\text{O}$ ); hydrofluorocarbons (HFCs); nitrogen trifluoride ( $\text{NF}_3$ ); perfluorocarbons (PFCs); and sulphur hexafluoride ( $\text{SF}_6$ ).

## Setting boundaries

When setting the basis of preparation for accounting for GHG emissions, a company would determine 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.

- A company's **organisational boundary** determines which companies or investments are included in its inventory of GHG emissions. The GHG Protocol provides three options for determining the organisational boundary: equity share, operational control or financial control. See further detail below.
- The **operational boundary** determines how activities within the selected organisational boundary will be categorised. It defines the scope of direct and indirect emissions and must be uniformly applied to identify Scope 1, 2 and 3 emissions.

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 of the organisational boundary, its emissions would be

included in Scope 3. If the investment were inside the organisational boundary, then certain of its emissions would be included within Scope 1 or 2.

*Organisational boundary:*

The GHG Protocol 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.

### Categories of Scope 3 emissions

The definition of Scope 3 emissions in the climate proposal includes the following 15 categories of emissions. These are consistent with the Corporate Value Chain standard. Under the climate proposal, companies would need to disclose which of the following categories were included within its measure of Scope 3 emissions.

Upstream	Downstream
Purchased goods and services	Downstream transportation and distribution
Capital goods	Processing of sold products
Fuel- and energy-related activities not include in Scope 1 or Scope 2	Use of sold products
Upstream transportation and distribution	End-of-life treatment of sold products
Waste generated in operations	Downstream leased assets
Business travel	Franchises
Employee commuting	Investments
Upstream leased assets	

# Appendix 4: Glossary

## A4.1

### 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 or Sustainability Accounting Standards Board (SASB) standards. They relate to specific sustainability-related risks or opportunities arising from the activities of companies in a particular industry.
<b>Enterprise value</b>	This equates to the total value of a company – i.e. the sum of the company's market capitalisation and its net debt.  Investors use general purpose financial reporting to inform their assessments of a company's <b>enterprise value</b> . Providing information to explain a company's enterprise value is fundamental to the objective of sustainability reporting.
<b>General purpose financial reporting</b>	<b>General purpose financial reporting</b> provides 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 sustainability reporting and may also contain other information.
<b>Investors</b>	In this publication, ' <b>investors</b> ' is used to refer to the primary users of general-purpose financial reporting – i.e. a company's potential and actual investors, lenders and other creditors.
<b>Material sustainability-related financial information (material information)</b>	Information that gives insight into the <b>significant sustainability-related risks and opportunities</b> that affect the <b>enterprise value</b> of the company is material. It provides a sufficient basis for investors to assess the resources and relationships that a company depends on.
<b>Reporting entity</b>	A <b>reporting entity</b> prepares general purpose financial statements and is the same for financial statements and <b>sustainability reporting</b> .  If the reporting entity is a group, then under the proposals both its consolidated financial statements and its sustainability reporting would be for the parent and its subsidiaries.
<b>Significant sustainability-related risks and opportunities</b>	These are the key factors that will influence the prospects of the business in the short, medium and long term. They are likely to be the sustainability-related matters that management would monitor and manage when running the business.
<b>Sustainability reporting</b>	In this publication, <b>sustainability reporting</b> refers to disclosures about <b>significant sustainability-related risks and opportunities</b> that are useful to investors when they assess an entity's enterprise value.  Broader sustainability reporting refers to disclosures provided to meet wider stakeholder needs (e.g. reporting under GRI). See <a href="#">Section 2.3</a> and <a href="#">Appendix 2</a> for further information.

<b>Value chain</b>	The <b>value chain</b> includes the full range of activities, resources and relationships related to a company's business model, as well as the external environment in which it operates. It includes activities, resources and relationships within the entity itself (e.g. human resources), along the supply, marketing and distribution channels, and in the external environment (e.g. financing, geographical and geopolitical and regulatory environments).
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## A4.2

## Acronyms

The following acronyms are used in the publication:

CDSB	Climate Disclosure Standards Board – an initiative of CDP (formerly the Carbon Disclosure Project)
ED	Exposure draft
EFRAG	European Financial Reporting Advisory Group
ESRS	European Sustainability Reporting Standard
EU	European Union
GHG Protocol	The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard
GRI	Global Reporting Initiative
IOSCO	International Organization of Securities Commissions
IASB Board	International Accounting Standards Board
ISSB Board	International Sustainability Standards Board
IIRC	International Integrated Reporting Council
PCAF	Partnership for Carbon Accounting Financials
SASB	Sustainability Accounting Standards Board
SICS	Sustainable Industry Classification System
TCFD	Task Force on Climate-Related Financial Disclosures
TNFD	Task Force on Nature-Related Financial Disclosures
TRWG	Technical Readiness Working Group
US GAAP	United States Generally Accepted Accounting Principles
VRF	Value Reporting Foundation (which houses the Integrated Reporting Framework and the SASB standards)
WEF	World Economic Forum and in particular the Stakeholder Capitalism Metrics

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# About this publication

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This edition considers the requirements of Draft IFRS S1 *General requirements for Disclosure of Sustainability-related Financial Information* and Draft IFRS S2 *Climate-related disclosures*, both published by the ISSB Board in March 2022.

Further analysis and interpretation will be needed for a company to consider the impact of Draft IFRS S1 *General requirements for Disclosure of Sustainability-related Financial Information* and Draft IFRS S2 *Climate-related disclosures* 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.

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Sarah Bagnon	France
Tom Brown	UK
Maura Hodge	US
Jeff King	Canada
David Littleford	UK
Nick Ridehalgh	Australia
Julie Santoro (deputy leader)	US
Marco Schuit	Netherlands
Serene Seah-Tan	Hong Kong
Tomokazu Sekiguchi (deputy leader)	Japan
Jennifer Shulman	Canada
Volker Specht	Germany
Mark Vaessen (leader)	Netherlands

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