HKFRS S1
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Hong Kong Financial Reporting Standard S1

General Requirements for Disclosure of Sustainability-related Financial Information

Please refer to the Explanatory Memorandum accompanying HKFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and HKFRS S2 *Climate-related Disclosures* (HKFRS SDS) for more information on their development journey and impact on entities in Hong Kong.

Hong Kong Institute of
Certified Public Accountants
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HKFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is set out in paragraphs 1–86 and Appendices A–E. All paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in other HKFRS Sustainability Disclosure Standards. The Standard should be read in the context of its objective and the Basis for Conclusions.

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

Objective

1 **The objective of HKFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to *primary users of general purpose financial reports* in making decisions relating to providing resources to the entity.**[1]

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

3 **This Standard requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.**

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

Scope

5 **An entity shall apply this Standard in preparing and reporting sustainability-related financial disclosures in accordance with *HKFRS Sustainability Disclosure Standards*.**

6 Sustainability-related risks and opportunities that could not reasonably be expected to affect an entity's prospects are outside the scope of this Standard.

7 Other HKFRS Sustainability Disclosure Standards specify information an entity is required to disclose about specific sustainability-related risks and opportunities.

8 **An entity may apply HKFRS Sustainability Disclosure Standards irrespective of whether the entity's related general purpose financial statements (referred to as 'financial statements') are prepared in accordance with HKFRS Accounting Standards or other generally accepted accounting principles or practices (GAAP).**

9 This Standard uses terminology suitable for profit-oriented entities, including public-sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this Standard, they might need to amend the descriptions used for particular items of information when applying HKFRS Sustainability Disclosure Standards.

Conceptual foundations

10 **For sustainability-related financial information to be useful, it must be relevant and faithfully represent what it purports to represent. These are fundamental qualitative characteristics of useful sustainability-related financial information. The usefulness of sustainability-related financial information is enhanced if the information is comparable,**

[1] Throughout this Standard, the terms 'primary users' and 'users' are used interchangeably, with the same meaning.

verifiable, timely and understandable. These are enhancing qualitative characteristics of useful sustainability-related financial information (see Appendix D).

Fair presentation

11 **A complete set of sustainability-related financial disclosures shall present fairly all sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects.**

12 To identify sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects, an entity shall apply paragraphs B1–B12.

13 **Fair presentation requires disclosure of relevant information about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects, and their faithful representation in accordance with the principles set out in this Standard. To achieve faithful representation, an entity shall provide a complete, neutral and accurate depiction of those sustainability-related risks and opportunities.**

14 Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, in the context of the entity's sustainability-related financial disclosures.

15 Fair presentation also requires an entity:

(a) to disclose information that is comparable, verifiable, timely and understandable; and

(b) to disclose additional information if compliance with the specifically applicable requirements in HKFRS Sustainability Disclosure Standards is insufficient to enable *users of general purpose financial reports* to understand the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term.

16 Applying HKFRS Sustainability Disclosure Standards, with additional information disclosed when necessary (see paragraph 15(b)), is presumed to result in sustainability-related financial disclosures that achieve fair presentation.

Materiality

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

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

19 To identify and disclose material information, an entity shall apply paragraphs B13–B37.

Reporting entity

20 **An entity's sustainability-related financial disclosures shall be for the same reporting entity as the related financial statements (see paragraph B38).**

Connected information

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

(a) the connections between the items to which the information relates—such as connections between various sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects; and

(b) the connections between disclosures provided by the entity:

(i) within its sustainability-related financial disclosures—such as connections between disclosures on governance, strategy, risk management and metrics and targets; and

(ii) across its sustainability-related financial disclosures and other *general purpose financial reports* published by the entity—such as its related financial statements (see paragraphs B39–B44).

22 **An entity shall identify the financial statements to which the sustainability-related financial disclosures relate.**

23 **Data and assumptions used in preparing the sustainability-related financial disclosures shall be consistent—to the extent possible considering the requirements of HKFRS Accounting Standards or other applicable GAAP—with the corresponding data and assumptions used in preparing the related financial statements (see paragraph B42).**

24 **When currency is specified as the unit of measure in the sustainability-related financial disclosures, the entity shall use the presentation currency of its related financial statements.**

Core content

25 **Unless another HKFRS Sustainability Disclosure Standard permits or requires otherwise in specified circumstances, an entity shall provide disclosures about:**

(a) governance—the governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities (see paragraphs 26–27);

(b) strategy—the approach the entity uses to manage sustainability-related risks and opportunities (see paragraphs 28–42);

(c) risk management—the processes the entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities (see paragraphs 43–44); and

(d) metrics and targets—the entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation (see paragraphs 45–53).

Governance

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

27 To achieve this objective, an entity shall disclose information about:

(a) the governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of sustainability-related risks and opportunities. Specifically, the entity shall identify that body(s) or individual(s) and disclose information about:

(i) how responsibilities for sustainability-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s);

(ii) how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to sustainability-related risks and opportunities;

(iii) how and how often the body(s) or individual(s) is informed about sustainability-related risks and opportunities;

(iv) how the body(s) or individual(s) takes into account sustainability-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities; and

(v) how the body(s) or individual(s) oversees the setting of targets related to sustainability-related risks and opportunities, and monitors progress towards those targets (see paragraph 51), including whether and how related performance metrics are included in remuneration policies.

(b) management's role in the governance processes, controls and procedures used to monitor, manage and oversee sustainability-related risks and opportunities, including information about:

(i) whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and

(ii) whether management uses controls and procedures to support the oversight of sustainability-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.

Strategy

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

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

(a) the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects (see paragraphs 30–31);

(b) the current and anticipated effects of those sustainability-related risks and opportunities on the entity's *business model* and value chain (see paragraph 32);

(c) the effects of those sustainability-related risks and opportunities on the entity's strategy and decision-making (see paragraph 33);

(d) the effects of those sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period, and their anticipated effects on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how those sustainability-related risks and opportunities have been factored into the entity's financial planning (see paragraphs 34–40); and

(e) the resilience of the entity's strategy and its business model to those sustainability-related risks (see paragraphs 41–42).

Sustainability-related risks and opportunities

30 An entity shall disclose information that enables users of general purpose financial reports to understand the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Specifically, the entity shall:

(a) describe sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects;

(b) specify the time horizons—short, medium or long term—over which the effects of each of those sustainability-related risks and opportunities could reasonably be expected to occur; and

(c) explain how the entity defines 'short term', 'medium term' and 'long term' and how these definitions are linked to the planning horizons used by the entity for strategic decision-making.

31 Short-, medium- and long- term time horizons can vary between entities and depend on many factors, including industry-specific characteristics, such as cash flow, investment and business cycles, the planning horizons typically used in an entity's industry for strategic decision-making and capital allocation plans, and the time horizons over which users of general purpose financial reports conduct their assessments of entities in that industry.

Business model and value chain

32 An entity shall disclose information that enables users of general purpose financial reports to understand the current and anticipated effects of sustainability-related risks and opportunities on the entity's business model and value chain. Specifically, the entity shall disclose:

(a) a description of the current and anticipated effects of sustainability-related risks and opportunities on the entity's business model and value chain; and

(b) a description of where in the entity's business model and value chain sustainability-related risks and opportunities are concentrated (for example, geographical areas, facilities and types of assets).

Strategy and decision-making

33 An entity shall disclose information that enables users of general purpose financial reports to understand the effects of sustainability-related risks and opportunities on its strategy and decision-making. Specifically, the entity shall disclose information about:

(a) how the entity has responded to, and plans to respond to, sustainability-related risks and opportunities in its strategy and decision-making;

(b) the progress against plans the entity has disclosed in previous reporting periods, including quantitative and qualitative information; and

(c) trade-offs between sustainability-related risks and opportunities that the entity considered (for example, in making a decision on the location of new operations, an entity might have considered the environmental impacts of those operations and the employment opportunities they would create in a community).

Financial position, financial performance and cash flows

34 An entity shall disclose information that enables users of general purpose financial reports to understand:

(a) the effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period (current financial effects); and

(b) the anticipated effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how sustainability-related risks and opportunities are included in the entity's financial planning (anticipated financial effects).

35 Specifically, an entity shall disclose quantitative and qualitative information about:

(a) how sustainability-related risks and opportunities have affected its financial position, financial performance and cash flows for the reporting period;

(b) the sustainability-related risks and opportunities identified in paragraph 35(a) for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;

(c) how the entity expects its financial position to change over the short, medium and long term, given its strategy to manage sustainability-related risks and opportunities, taking into consideration:

    (i) its investment and disposal plans (for example, plans for capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas, and asset retirements), including plans the entity is not contractually committed to; and

    (ii) its planned sources of funding to implement its strategy; and

(d) how the entity expects its financial performance and cash flows to change over the short, medium and long term, given its strategy to manage sustainability-related risks and opportunities.

36 In providing quantitative information, an entity may disclose a single amount or a range.

37 In preparing disclosures about the anticipated financial effects of a sustainability-related risk or opportunity, an entity shall:

(a) use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort (see paragraphs B8–B10); and

(b) use an approach that is commensurate with the skills, capabilities and resources that are available to the entity for preparing those disclosures.

38 An entity need not provide quantitative information about the current or anticipated financial effects of a sustainability-related risk or opportunity if the entity determines that:

(a) those effects are not separately identifiable; or

(b) the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful (see paragraphs 77–82).

39 In addition, an entity need not provide quantitative information about the anticipated financial effects of a sustainability-related risk or opportunity if the entity does not have the skills, capabilities or resources to provide that quantitative information.

40 If an entity determines that it need not provide quantitative information about the current or anticipated financial effects of a sustainability-related risk or opportunity applying the criteria set out in paragraphs 38–39, the entity shall:

(a) explain why it has not provided quantitative information;

(b) provide qualitative information about those financial effects, including identifying line items, totals and subtotals within the related financial statements that are likely to be affected, or have been affected, by that sustainability-related risk or opportunity; and

(c) provide quantitative information about the combined financial effects of that sustainability-related risk or opportunity with other sustainability-related risks or opportunities and other factors unless the entity determines that quantitative information about the combined financial effects would not be useful.

Resilience

41 An entity shall disclose information that enables users of general purpose financial reports to understand its capacity to adjust to the uncertainties arising from sustainability-related risks. An entity shall disclose a qualitative and, if applicable, quantitative assessment of the resilience of its strategy and business model in relation to its sustainability-related risks, including information about how the assessment was carried out and its time horizon. When providing quantitative information, an entity may disclose a single amount or a range.

42 Other HKFRS Sustainability Disclosure Standards may specify the type of information an entity is required to disclose about its resilience to specific sustainability-related risks and how to prepare those disclosures, including whether a *scenario analysis* is required.

Risk management

43 **The objective of sustainability-related financial disclosures on risk management is to enable users of general purpose financial reports:**

(a) to understand an entity's processes to identify, assess, prioritise and monitor sustainability-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process; and

(b) to assess the entity's overall risk profile and its overall risk management process.

44 To achieve this objective, an entity shall disclose information about:

(a) the processes and related policies the entity uses to identify, assess, prioritise and monitor sustainability-related risks, including information about:

(i) the inputs and parameters the entity uses (for example, information about data sources and the scope of operations covered in the processes);

(ii) whether and how the entity uses scenario analysis to inform its identification of sustainability-related risks;

(iii) how the entity assesses the nature, likelihood and magnitude of the effects of those risks (for example, whether the entity considers qualitative factors, quantitative thresholds or other criteria);

(iv) whether and how the entity prioritises sustainability-related risks relative to other types of risk;

(v) how the entity monitors sustainability-related risks; and

(vi) whether and how the entity has changed the processes it uses compared with the previous reporting period;

(b) the processes the entity uses to identify, assess, prioritise and monitor sustainability-related opportunities; and

(c) the extent to which, and how, the processes for identifying, assessing, prioritising and monitoring sustainability-related risks and opportunities are integrated into and inform the entity's overall risk management process.

Metrics and targets

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

46 **An entity shall disclose, for each sustainability-related risk and opportunity that could reasonably be expected to affect the entity's prospects:**

(a) metrics required by an applicable HKFRS Sustainability Disclosure Standard; and

(b) metrics the entity uses to measure and monitor:

(i) that sustainability-related risk or opportunity; and

(ii) its performance in relation to that sustainability-related risk or opportunity, including progress towards any targets the entity has set, and any targets it is required to meet by law or regulation.

47 In the absence of an HKFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity, an entity shall apply paragraphs 57–58 to identify applicable metrics.

48 **Metrics disclosed by an entity applying paragraphs 45–46 shall include metrics associated with particular business models, activities or other common features that characterise participation in an industry.**

49 If an entity discloses a metric taken from a source other than HKFRS Sustainability Disclosure Standards, the entity shall identify the source and the metric taken.

50 If a metric has been developed by an entity, the entity shall disclose information about:

(a) how the metric is defined, including whether it is derived by adjusting a metric taken from a source other than HKFRS Sustainability Disclosure Standards and, if so, which source and how the metric disclosed by the entity differs from the metric specified in that source;

(b) whether the metric is an absolute measure, a measure expressed in relation to another metric or a qualitative measure (such as a red, amber, green—or RAG—status);

(c) whether the metric is validated by a third party and, if so, which party; and

(d) the method used to calculate the metric and the inputs to the calculation, including the limitations of the method used and the significant assumptions made.

51 An entity shall disclose information about the targets it has set to monitor progress towards achieving its strategic goals, and any targets it is required to meet by law or regulation. For each target, the entity shall disclose:

(a) the metric used to set the target and to monitor progress towards reaching the target;

(b) the specific quantitative or qualitative target the entity has set or is required to meet;

(c) the period over which the target applies;

(d) the base period from which progress is measured;

(e) any milestones and interim targets;

(f) performance against each target and an analysis of trends or changes in the entity's performance; and

(g) any revisions to the target and an explanation for those revisions.

52 The definition and calculation of metrics, including metrics used to set the entity's targets and monitor progress towards reaching them, shall be consistent over time. If a metric is redefined or replaced, an entity shall apply paragraph B52.

53 An entity shall label and define metrics and targets using meaningful, clear and precise names and descriptions.

General requirements

Sources of guidance

Identifying sustainability-related risks and opportunities

54 In identifying sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects, an entity shall apply HKFRS Sustainability Disclosure Standards.

55 In addition to HKFRS Sustainability Disclosure Standards:

(a) an entity shall refer to and consider the applicability of the *disclosure topics* in the SASB Standards. An entity might conclude that the disclosure topics in the SASB Standards are not applicable in the entity's circumstances.

(b) an entity may refer to and consider the applicability of:

(i) the CDSB Framework Application Guidance for Water-related Disclosures and the CDSB Framework Application Guidance for Biodiversity-related Disclosures (collectively referred to as 'CDSB Framework Application Guidance');

(ii) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general purpose financial reports; and

(iii) the sustainability-related risks and opportunities identified by entities that operate in the same industry(s) or geographical region(s).

Identifying applicable disclosure requirements

56 In identifying applicable disclosure requirements about a sustainability-related risk or opportunity that could reasonably be expected to affect an entity's prospects, an entity shall apply the HKFRS Sustainability Disclosure Standard that specifically applies to that sustainability-related risk or opportunity.

57 In the absence of an HKFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity, an entity shall apply judgement to identify information that:

(a) is relevant to the decision-making of users of general purpose financial reports; and

(b) faithfully represents that sustainability-related risk or opportunity.

58 In making the judgement described in paragraph 57:

(a) an entity shall refer to and consider the applicability of the metrics associated with the disclosure topics included in the SASB Standards. An entity might conclude that the metrics specified in the SASB Standards are not applicable in the entity's circumstances.

(b) an entity may—to the extent that these sources do not conflict with HKFRS Sustainability Disclosure Standards—refer to and consider the applicability of:

(i) the CDSB Framework Application Guidance;

(ii) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general purpose financial reports; and

(iii) the information, including metrics, disclosed by entities that operate in the same industry(s) or geographical region(s).

(c) an entity may—to the extent that these sources assist the entity in meeting the objective of this Standard (see paragraphs 1–4) and do not conflict with HKFRS Sustainability Disclosure Standards—refer to and consider the applicability of the sources specified in Appendix C.

Disclosure of information about sources of guidance

59 An entity shall identify:

(a) the specific standards, pronouncements, industry practice and other sources of guidance that the entity has applied in preparing its sustainability-related financial disclosures, including, if applicable, identifying the disclosure topics in the SASB Standards; and

(b) the industry(s) specified in the HKFRS Sustainability Disclosure Standards, the SASB Standards or other sources of guidance relating to a particular industry(s) that the entity has applied in preparing its sustainability-related financial disclosures, including in identifying applicable metrics.

Location of disclosures

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

61 Subject to any regulation or other requirements that apply to an entity, there are various possible locations in its general purpose financial reports in which to disclose sustainability-related financial information. Sustainability-related financial disclosures could be included in an entity's management commentary or a similar report when it forms part of an entity's general purpose financial reports. Management commentary or a similar report is a required report in many jurisdictions. It might be known by or included in reports with various names, such as 'management report', 'management's discussion and analysis', 'operating and financial review', 'integrated report' or 'strategic report'.

62 An entity may disclose information required by an HKFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. The entity shall ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information (see paragraph B27).

63 Information required by an HKFRS Sustainability Disclosure Standard may be included in sustainability-related financial disclosures by cross-reference to another report published by the entity. If an entity includes information by cross-reference, the entity shall apply the requirements in paragraphs B45–B47.

Timing of reporting

64 **An entity shall report its sustainability-related financial disclosures at the same time as its related financial statements. The entity's sustainability-related financial disclosures shall cover the same reporting period as the related financial statements.**

65 Normally, an entity prepares sustainability-related financial disclosures for a 12-month period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude that practice.

66 When an entity changes the end of its reporting period and provides sustainability-related financial disclosures for a period longer or shorter than 12 months, it shall disclose:

(a) the period covered by the sustainability-related financial disclosures;

(b) the reason for using a longer or shorter period; and

(c) the fact that the amounts disclosed in the sustainability-related financial disclosures are not entirely comparable.

67 If, after the end of the reporting period but before the date on which the sustainability-related financial disclosures are authorised for issue, an entity receives information about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions in the light of the new information.

68 An entity shall disclose information about transactions, other events and conditions that occur after the end of the reporting period, but before the date on which the sustainability-related financial disclosures are authorised for issue, if non-disclosure of that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports.

69 This Standard does not mandate which entities would be required to provide interim sustainability-related financial disclosures, how frequently, or how soon after the end of an interim period. However, governments, securities regulators, stock exchanges and accountancy bodies may require entities whose debt or equity securities are publicly traded to publish interim general purpose financial reports. If an entity is required or elects to publish interim sustainability-related financial disclosures in accordance with HKFRS Sustainability Disclosure Standards, the entity shall apply paragraph B48.

Comparative information

70 **Unless another HKFRS Sustainability Disclosure Standard permits or requires otherwise, an entity shall disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period. If such information would be useful for an understanding of the sustainability-related financial disclosures for the reporting period, the entity shall also disclose comparative information for narrative and descriptive sustainability-related financial information (see paragraphs B49–B59).**

71 Amounts reported in sustainability-related financial disclosures might relate, for example, to metrics and targets or to current and anticipated financial effects of sustainability-related risks and opportunities.

Statement of compliance

72 **An entity whose sustainability-related financial disclosures comply with all the requirements of HKFRS Sustainability Disclosure Standards shall make an explicit and unreserved statement of compliance. An entity shall not describe sustainability-related financial disclosures as complying with HKFRS Sustainability Disclosure Standards unless they comply with all the requirements of HKFRS Sustainability Disclosure Standards.**

73 This Standard relieves an entity from disclosing information otherwise required by an HKFRS Sustainability Disclosure Standard if law or regulation prohibits the entity from disclosing that information (see paragraph B33). This Standard also relieves an entity from disclosing information about a sustainability-related opportunity otherwise required by an HKFRS Sustainability Disclosure Standard if that information is commercially sensitive as described in this Standard (see paragraphs B34–B37). An entity using these exemptions is not prevented from asserting compliance with HKFRS Sustainability Disclosure Standards.

Judgements, uncertainties and errors

Judgements

74 **An entity shall disclose information to enable users of general purpose financial reports to understand the judgements, apart from those involving estimations of amounts (see paragraph 77), that the entity has made in the process of preparing its sustainability-related financial disclosures and that have the most significant effect on the information included in those disclosures.**

75 In the process of preparing sustainability-related financial disclosures, an entity makes various judgements, apart from those involving estimations, that can significantly affect the information reported in the entity's sustainability-related financial disclosures. For example, an entity makes judgements in:

(a) identifying sustainability-related risks and opportunities that could be reasonably expected to affect the entity's prospects;

(b) determining which sources of guidance to apply in accordance with paragraphs 54–58;

(c) identifying material information to include in the sustainability-related financial disclosures; and

(d) assessing whether an event or change in circumstances is significant and requires reassessment of the scope of all affected sustainability-related risks and opportunities throughout the entity's value chain (see paragraph B11).

76 Other HKFRS Sustainability Disclosure Standards may require disclosure of some of the information that an entity would otherwise be required to disclose in accordance with paragraph 74.

Measurement uncertainty

77 **An entity shall disclose information to enable users of general purpose financial reports to understand the most significant uncertainties affecting the amounts reported in its sustainability-related financial disclosures.**

78 **An entity shall:**

(a) identify the amounts that it has disclosed that are subject to a high level of measurement uncertainty; and

(b) in relation to each amount identified in paragraph 78(a), disclose information about:

(i) the sources of measurement uncertainty—for example, the dependence of the amount on the outcome of a future event, on a measurement technique or on the availability and quality of data from the entity's value chain; and

(ii) the assumptions, approximations and judgements the entity has made in measuring the amount.

79 When amounts reported in sustainability-related financial disclosures cannot be measured directly and can only be estimated, measurement uncertainty arises. In some cases, an estimate involves assumptions about possible future events with uncertain outcomes. The use of reasonable estimates is an essential part of preparing sustainability-related financial disclosures and does not undermine the usefulness of the information if the estimates are accurately described and explained. Even a high level of measurement uncertainty would not necessarily prevent such an estimate from providing useful information.

80 The requirement in paragraph 77 for an entity to disclose information about the uncertainties affecting the amounts reported in sustainability-related financial disclosures relates to the estimates that require the entity's most difficult, subjective or complex judgements. As the number of variables and assumptions increases, those judgements become more subjective and complex, and the uncertainty affecting the amounts reported in the sustainability-related financial disclosures increases accordingly.

81 The type and extent of the information an entity might need to disclose vary according to the nature of the amount reported in the sustainability-related financial disclosures—the sources of and the factors contributing to the uncertainty and other circumstances. Examples of the type of information an entity might need to disclose are:

(a) the nature of the assumption or other source of measurement uncertainty;

(b) the sensitivity of the disclosed amount to the methods, assumptions and estimates underlying its calculation, including the reasons for the sensitivity;

(c) the expected resolution of an uncertainty and the range of reasonably possible outcomes for the disclosed amount; and

(d) an explanation of changes made to past assumptions concerning the disclosed amount, if the uncertainty remains unresolved.

82 Other HKFRS Sustainability Disclosure Standards may require disclosure of some of the information that an entity would otherwise be required to disclose in accordance with paragraphs 77–78.

Errors

83 **An entity shall correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed unless it is *impracticable* to do so.**

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

(a) was available when the sustainability-related financial disclosures for that period(s) were authorised for issue; and

(b) could reasonably be expected to have been obtained and considered in the preparation of those disclosures.

85 Corrections of errors are distinguished from changes in estimates. Estimates are approximations that an entity might need to revise as additional information becomes known.

86 If an entity identifies a material error in its prior period sustainability-related financial disclosures, it shall apply paragraphs B55–B59.

Appendix A
Defined terms

This appendix is an integral part of HKFRS S1 and has the same authority as the other parts of the Standard.

business model	An entity's system of transforming inputs through its activities into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value for the entity and hence generate cash flows over the short, medium and long term.
disclosure topic	A specific sustainability-related risk or opportunity based on the activities conducted by entities within a particular industry as set out in an **HKFRS Sustainability Disclosure Standard** or a SASB Standard.
general purpose financial reports	Reports that provide financial information about a **reporting entity** that is useful to **primary users** in making decisions relating to providing resources to the entity. Those decisions involve decisions about: (a) buying, selling or holding equity and debt instruments; (b) providing or selling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources. General purpose financial reports include—but are not restricted to—an entity's general purpose financial statements and **sustainability-related financial disclosures**.
HKFRS Sustainability Disclosure Standards	Standards of that name issued by the Hong Kong Institute of Certified Public Accountants.
impracticable	Applying a requirement is impracticable when an entity cannot apply it after making every reasonable effort to do so.
material information	In the context of **sustainability-related financial disclosures**, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that **primary users of general purpose financial reports** make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific **reporting entity**.
primary users of general purpose financial reports (primary users)	Existing and potential investors, lenders and other creditors.
reporting entity	An entity that is required, or chooses, to prepare general purpose financial statements.
scenario analysis	A process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty.
sustainability-related financial disclosures	A particular form of **general purpose financial reports** that provide information about the **reporting entity's** sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term, including information about the entity's governance, strategy and risk management in relation to those risks and opportunities, and related metrics and targets.

users of general purpose financial reports (users)	See **primary users of general purpose financial reports (primary users)**. These definitions describe the same population.
value chain	The full range of interactions, resources and relationships related to a **reporting entity's business model** and the external environment in which it operates. A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity's operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.

Appendix B
Application guidance

This appendix is an integral part of HKFRS S1 and has the same authority as the other parts of the Standard.

Sustainability-related risks and opportunities (paragraphs 11–12)

B1 This Standard requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term (referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects') (see paragraph 3).

B2 An entity's sustainability-related risks and opportunities arise out of the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. These interactions—which can be direct and indirect—result from operating an entity's business model in pursuit of the entity's strategic purposes and from the external environment in which the entity operates. These interactions take place within an interdependent system in which an entity both depends on resources and relationships throughout its value chain to generate cash flows and affects those resources and relationships through its activities and outputs—contributing to the preservation, regeneration and development of those resources and relationships or to their degradation and depletion. These dependencies and impacts might give rise to sustainability-related risks and opportunities that could reasonably be expected to affect an entity's cash flows, its access to finance and cost of capital over the short, medium and long term.

B3 For example, if an entity's business model depends on a natural resource—such as water—the entity could both affect and be affected by the quality, availability and affordability of that resource. Specifically, degradation or depletion of that resource—including resulting from the entity's own activities and from other factors—could create a risk of disruption to the entity's operations and affect the entity's business model or strategy and could ultimately negatively affect the entity's financial performance and financial position. In contrast, regeneration and preservation of that resource—including resulting from the entity's own activities and from other factors—could positively affect the entity. Similarly, if an entity operates in a highly competitive market and requires a highly specialised workforce to achieve its strategic purposes, the entity's future success will likely depend on the entity's ability to attract and retain that resource. At the same time, that ability will depend, in part, on the entity's employment practices—such as whether the entity invests in employee training and wellbeing—and the levels of employee satisfaction, engagement and retention. These examples illustrate the close relationship between the value the entity creates, preserves or erodes for others and the entity's own ability to succeed and achieve its goals.

B4 Resources and relationships that an entity depends on and affects by its activities and outputs can take various forms, such as natural, manufactured, intellectual, human, social or financial. They can be internal—such as the entity's workforce, its know-how or its organisational processes—or they can be external—such as materials and services the entity needs to access or the relationships it has with suppliers, distributors and customers. Furthermore, resources and relationships include, but are not limited to, the resources and relationships recognised as assets in the entity's financial statements.

B5 An entity's dependencies and impacts are not limited to resources the entity engages with directly, and to the entity's direct relationships. Those dependencies and impacts also relate to resources and relationships throughout the entity's value chain. For example, they can relate to the entity's supply and distribution channels; the effects of the consumption and disposal of the entity's products; and the entity's sources of finance and its investments, including investments in associates and joint ventures. If the entity's business partners throughout its value chain face sustainability-related risks and opportunities, the entity could be exposed to related consequences of its own.

Identifying sustainability-related risks and opportunities

B6 An entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort (see paragraphs B8–B10):

(a) to identify the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects; and

(b) to determine the scope of its value chain, including its breadth and composition, in relation to each of those sustainability-related risks and opportunities.

B7 In identifying the sustainability-related risks and opportunities that could reasonably be expected to affect its prospects, an entity shall apply the requirements on sources of guidance in paragraphs 54–55.

Reasonable and supportable information

B8 Reasonable and supportable information used by an entity in preparing its sustainability-related financial disclosures shall cover factors that are specific to the entity as well as general conditions in the external environment. In some cases—such as in identifying sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects—reasonable and supportable information includes information about past events, current conditions and forecasts of future conditions. Other HKFRS Sustainability Disclosure Standards may specify what is reasonable and supportable information in specific cases.

B9 An entity may use various sources of data that may be both internal and external. Possible data sources include the entity's risk management processes; industry and peer group experience; and external ratings, reports and statistics. Information that is used by the entity in preparing its financial statements, operating its business model, setting its strategy and managing its risks and opportunities is considered to be available to the entity without undue cost or effort.

B10 An entity need not undertake an exhaustive search for information to identify sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. The assessment of what constitutes undue cost or effort depends on the entity's specific circumstances and requires a balanced consideration of the costs and efforts for the entity and the benefits of the resulting information for primary users. That assessment can change over time as circumstances change.

Reassessment of the scope of sustainability-related risks and opportunities throughout the value chain

B11 On the occurrence of a significant event or significant change in circumstances, an entity shall reassess the scope of all affected sustainability-related risks and opportunities throughout its value chain. A significant event or significant change in circumstances can occur without the entity being involved in that event or change in circumstances or as a result of a change in what the entity assesses to be important to users of general purpose financial reports. For example, such significant events or significant changes in circumstances might include:

(a) a significant change in the entity's value chain (for example, a supplier in the entity's value chain makes a change that significantly alters the supplier's greenhouse gas emissions);

(b) a significant change in the entity's business model, activities or corporate structure (for example, a merger or acquisition that expands the entity's value chain); and

(c) a significant change in an entity's exposure to sustainability-related risks and opportunities (for example, a supplier in the entity's value chain is affected by the introduction of a new regulation that the entity had not anticipated).

B12 An entity is permitted, but not required, to reassess the scope of any sustainability-related risk or opportunity throughout its value chain more frequently than required by paragraph B11.

Materiality (paragraphs 17–19)

B13 Paragraph 17 requires an entity to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Materiality of information is judged in relation to whether omitting, misstating or obscuring that information could reasonably be expected to influence decisions of primary users of general purpose financial reports, which provide information about a specific reporting entity.

B14 The decisions of primary users relate to providing resources to the entity and involve decisions about:

(a) buying, selling or holding equity and debt instruments;

(b) providing or selling loans and other forms of credit; or

(c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources.

B15 The decisions described in paragraph B14 depend on primary users' expectations about returns, for example, dividends, principal and interest payments or market price increases. Those expectations depend on primary users' assessment of the amount, timing and uncertainty of future net cash inflows to the entity and on their assessment of stewardship of the entity's economic resources by the entity's management and its governing body(s) or individual(s).

B16 Assessing whether information could reasonably be expected to influence the decisions made by primary users requires consideration of the characteristics of those users and of the entity's own circumstances.

B17 Sustainability-related financial disclosures are prepared for primary users who have reasonable knowledge of business and economic activities and who review and analyse information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand sustainability-related financial information.

B18 Individual primary users may have different, and sometimes even conflicting, information needs and desires. Information needs of primary users may also evolve over time. Sustainability-related financial disclosures are intended to meet common information needs of primary users.

Identifying material information

B19 Materiality judgements are specific to an entity. Consequently, this Standard does not specify any thresholds for materiality or predetermine what would be material in a particular situation.

B20 To identify material information about a sustainability-related risk or opportunity, an entity shall apply, as the starting point, the requirements of the HKFRS Sustainability Disclosure Standard that specifically applies to that sustainability-related risk or opportunity. In the absence of an HKFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity, the entity shall apply the requirements on sources of guidance specified in paragraphs 57–58. Those sources specify information, including metrics, that may be relevant to a particular sustainability-related risk or opportunity, to a particular industry or in specified circumstances.

B21 An entity shall assess whether the information identified in applying paragraph B20, either individually or in combination with other information, is material in the context of the entity's sustainability-related financial disclosures taken as a whole. In assessing whether information is material, an entity shall consider both quantitative and qualitative factors. For example, an entity might consider the magnitude and the nature of the effect of a sustainability-related risk or opportunity on the entity.

B22 In some cases, HKFRS Sustainability Disclosure Standards require the disclosure of information about possible future events with uncertain outcomes. In judging whether information about such possible future events is material, an entity shall consider:

(a) the potential effects of the events on the amount, timing and uncertainty of the entity's future cash flows over the short, medium and long term (referred to as 'the possible outcome'); and

(b) the range of possible outcomes and the likelihood of the possible outcomes within that range.

B23 When considering possible outcomes, an entity shall consider all pertinent facts and circumstances. Information about a possible future event is more likely to be judged as being material if the potential effects are significant and the event is likely to occur. However, an entity shall also consider whether information about low-probability and high-impact outcomes might be material either individually or in combination with information about other low-probability and high-impact outcomes. For example, an entity might be exposed to several sustainability-related risks, each of which could cause the same type of disruption—such as disruption to the entity's supply chain. Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—the risk of supply chain disruption from all sources—might be material.

B24 If a possible future event is expected to affect an entity's cash flows, but only many years in the future, information about that event is usually less likely to be judged material than information about a possible future event with similar effects that are expected to occur sooner. However, in some circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of the magnitude of the potential effects of the future event or the timing of that event. For example, this might happen if information about a particular sustainability-related risk or opportunity is highly scrutinised by primary users of an entity's general purpose financial reports.

B25 An entity need not disclose information otherwise required by an HKFRS Sustainability Disclosure Standard if the information is not material. This is the case even if the HKFRS Sustainability Disclosure Standard contains a list of specific requirements or describes them as minimum requirements.

B26 An entity shall disclose additional information when compliance with the specifically applicable requirements in an HKFRS Sustainability Disclosure Standard is insufficient to enable users of general purpose financial reports to understand the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term.

B27 An entity shall identify its sustainability-related financial disclosures clearly and distinguish them from other information provided by the entity (see paragraph 62). An entity shall not obscure material information. Information is obscured if it is communicated in a way that would have a similar effect for primary users to omitting or misstating that information. Examples of circumstances that might result in material information being obscured include:

(a) material information is not clearly distinguished from additional information that is not material;

(b) material information is disclosed in the sustainability-related financial disclosures, but the language used is vague or unclear;

(c) material information about a sustainability-related risk or opportunity is scattered throughout the sustainability-related financial disclosures;

(d) items of information that are dissimilar are inappropriately aggregated;

(e) items of information that are similar are inappropriately disaggregated; and

(f) the understandability of the sustainability-related financial disclosures is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

B28 An entity shall reassess its materiality judgements at each reporting date to take account of changed circumstances and assumptions. Because of changes in the entity's individual circumstances, or in the external environment, some types of information included in an entity's sustainability-related financial disclosures for prior periods might no longer be material. Conversely, some types of information not previously disclosed might become material.

Aggregation and disaggregation

B29 When an entity applies HKFRS Sustainability Disclosure Standards, it shall consider all facts and circumstances and decide how to aggregate and disaggregate information in its sustainability-related financial disclosures. The entity shall not reduce the understandability of its sustainability-related financial disclosures by obscuring material information with immaterial information or by aggregating material items of information that are dissimilar to each other.

B30 An entity shall not aggregate information if doing so would obscure information that is material. Information shall be aggregated if items of information have shared characteristics and shall not be aggregated if they do not have shared characteristics. The entity might need to disaggregate information about sustainability-related risks and opportunities, for example, by geographical location or in consideration of the geopolitical environment. For example, to ensure that material information is not obscured, an entity might need to disaggregate information about its use of water to distinguish between water drawn from abundant sources and water drawn from water-stressed areas.

Interaction with law or regulation

B31 Law or regulation might specify requirements for an entity to disclose sustainability-related information in its general purpose financial reports. In such circumstances, the entity is permitted to include in its sustainability-related financial disclosures information to meet legal or regulatory requirements, even if that information is not material. However, such information shall not obscure material information.

B32 An entity shall disclose material sustainability-related financial information, even if law or regulation permits the entity not to disclose such information.

B33 An entity need not disclose information otherwise required by an HKFRS Sustainability Disclosure Standard if law or regulation prohibits the entity from disclosing that information. If an entity omits material information for that reason, it shall identify the type of information not disclosed and explain the source of the restriction.

Commercially sensitive information

B34 If an entity determines that information about a sustainability-related opportunity is commercially sensitive in the limited circumstances described in paragraph B35, the entity is permitted to omit that information from its sustainability-related financial disclosures. Such an omission is permitted even if information is otherwise required by an HKFRS Sustainability Disclosure Standard and the information is material.

B35 An entity qualifies for the exemption specified in paragraph B34 if, and only if:

(a) information about the sustainability-related opportunity is not already publicly available;

(b) disclosure of that information could reasonably be expected to prejudice seriously the economic benefits the entity would otherwise be able to realise in pursuing the opportunity; and

(c) the entity has determined that it is impossible to disclose that information in a manner—for example, at an aggregated level—that would enable the entity to meet the objectives of the disclosure requirements without prejudicing seriously the economic benefits the entity would otherwise be able to realise in pursuing the opportunity.

B36 If an entity elects to use the exemption specified in paragraph B34, the entity shall, for each item of information omitted:

(a) disclose the fact that it has used the exemption; and

(b) reassess, at each reporting date, whether the information qualifies for the exemption.

B37 An entity is prohibited from using the exemption specified in paragraph B34 in relation to a sustainability-related risk or as a basis for broad non-disclosure of sustainability-related financial information.

Reporting entity (paragraph 20)

B38 Paragraph 20 requires that sustainability-related financial disclosures shall be for the same reporting entity as the related financial statements. For example, consolidated financial statements prepared in accordance with HKFRS Accounting Standards provide information about the parent and its subsidiaries as a single reporting entity. Consequently, that entity's sustainability-related financial disclosures shall enable users of general purpose financial reports to understand the effects of the sustainability-related risks and opportunities on the cash flows, access to finance and cost of capital over the short, medium and long term for the parent and its subsidiaries.

Connected information (paragraphs 21–24)

B39 Paragraph 21 requires an entity to provide information in a manner that enables users of general purpose financial reports to understand connections both between the items to which the information relates and between disclosures provided by the entity in its general purpose financial reports.

B40 Connected information provides insight into connections between the items to which the information relates. For example:

(a) if an entity pursued a particular sustainability-related opportunity and that resulted in an increase in the entity's revenue, connected information will depict that relationship between the entity's strategy and its financial performance;

(b) if an entity identified a trade-off between two sustainability-related risks it is exposed to and took action on the basis of its assessment of that trade-off, connected information will depict the relationship between those risks and the entity's strategy; and

(c) if an entity committed to a particular sustainability-related target, but that commitment has not yet affected the entity's financial position or financial performance because the applicable recognition criteria have not been met, connected information will depict that relationship.

B41 Connected information includes:

(a) connections between various types of information about a particular sustainability-related risk or opportunity, such as:

(i) between disclosures on governance, strategy and risk management; and

(ii) between narrative information and quantitative information (including related metrics and targets and information in the related financial statements).

(b) connections between disclosures about various sustainability-related risks and opportunities. For example, if an entity integrates its oversight of sustainability-related risks and opportunities, the entity shall integrate the disclosures on governance instead of providing separate disclosures on governance for each sustainability-related risk and opportunity.

B42 Drawing connections between disclosures involves, but is not limited to, providing necessary explanations and cross-references and using consistent data, assumptions, and units of measure. In providing connected information, an entity shall:

(a) explain connections between disclosures in a clear and concise manner;

(b) avoid unnecessary duplication if HKFRS Sustainability Disclosure Standards require the disclosure of common items of information; and

(c) disclose information about significant differences between the data and assumptions used in preparing the entity's sustainability-related financial disclosures and the data and assumptions used in preparing the related financial statements.

B43 For example, in providing connected information an entity might need to explain the effect or likely effect of its strategy on its financial statements and financial planning, or explain how that strategy relates to the metrics the entity uses to measure progress against targets. Another entity might need to explain how its use of natural resources or changes within its supply chain could amplify or, in contrast, reduce its sustainability-related risks and opportunities. The entity might need to link the information about its use of natural resources or changes within its supply chain to information about current or anticipated financial effects on the entity's production costs, its strategic response to mitigate those risks and its related investment in new assets. The entity might need to link narrative information to the related metrics and targets and to information in the related financial statements.

B44 Other examples of connected information include:

(a) an explanation of the combined effects of the entity's sustainability-related risks and opportunities and its strategy on its financial position, financial performance and cash flows over the short, medium and long term. For example, an entity might face decreasing demand for its products because of consumer preferences for lower-carbon alternatives. The entity might need to explain how its strategic response, such as closing a major factory, could affect its workforce and local communities, and the effect of such a closure on the useful lives of its assets and on impairment assessments.

(b) a description of the alternatives that an entity evaluated in setting its strategy in response to its sustainability-related risks and opportunities, including a description of the trade-offs between those risks and opportunities that the entity considered (see paragraph 33(c)). For example, an entity might need to explain the potential effects of its decision to restructure its operations in response to a sustainability-related risk on the future size and composition of the entity's workforce.

Information included by cross-reference (paragraph 63)

B45 Information required by an HKFRS Sustainability Disclosure Standard might be available in another report published by the entity. For example, the required information could be disclosed in the related financial statements. Material information can be included in an entity's sustainability-related financial disclosures by cross-reference, provided that:

(a) the cross-referenced information is available on the same terms and at the same time as the sustainability-related financial disclosures; and

(b) the complete set of sustainability-related financial disclosures is not made less understandable by including information by cross-reference.

B46 Information included by cross-reference becomes part of the complete set of sustainability-related financial disclosures and shall comply with the requirements of HKFRS Sustainability Disclosure Standards. For example, it needs to be relevant, representationally faithful, comparable, verifiable, timely and understandable. The body(s) or individual(s) that authorises the general purpose financial reports takes the same responsibility for the information included by cross-reference as it does for the information included directly.

B47 If information required by an HKFRS Sustainability Disclosure Standard is included by cross-reference:

(a) the sustainability-related financial disclosures shall clearly identify the report within which that information is located and explain how to access that report; and

(b) the cross-reference shall be to a precisely specified part of that report.

Interim reporting (paragraph 69)

B48 In the interest of timeliness and cost considerations, and to avoid repetition of information previously reported, an entity may be required or choose to provide less information at interim dates than it provides in its annual sustainability-related financial disclosures. Interim sustainability-related financial disclosures are intended to provide an update on the latest complete set of annual disclosures of sustainability-related financial information. These disclosures focus on new information, events and circumstances and do not duplicate information previously reported. Although the information provided in interim sustainability-related financial disclosures may be more condensed than in annual sustainability-related financial disclosures, an entity is not prohibited or discouraged from publishing a complete set of sustainability-related financial disclosures as specified in this Standard as part of its interim general purpose financial report.

Comparative information (paragraphs 52, 70 and 83–86)

B49 Paragraph 70 requires an entity to disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period.

Metrics

B50 In some cases, the amount disclosed for a metric is an estimate. Except as specified in paragraph B51, if an entity identifies new information in relation to the estimated amount disclosed in the preceding period and the new information provides evidence of circumstances that existed in that period, the entity shall:

(a) disclose a revised comparative amount that reflects that new information;

(b) disclose the difference between the amount disclosed in the preceding period and the revised comparative amount; and

(c) explain the reasons for revising the comparative amount.

B51 In applying the requirement in paragraph B50, an entity need not disclose a revised comparative amount:

(a) if it is impracticable to do so (see paragraph B54).

(b) if the metric is forward-looking. Forward-looking metrics relate to possible future transactions, events and other conditions. The entity is permitted to revise a comparative amount for a forward-looking metric if doing so does not involve the use of hindsight.

B52 If an entity redefines or replaces a metric in the reporting period, the entity shall:

(a) disclose a revised comparative amount, unless it is impracticable to do so;

(b) explain the changes; and

(c) explain the reasons for those changes, including why the redefined or replacement metric provides more useful information.

B53 If an entity introduces a new metric in the reporting period, it shall disclose a comparative amount for that metric unless it is impracticable to do so.

B54 Sometimes, it is impracticable to revise a comparative amount to achieve comparability with the reporting period. For example, data might not have been collected in the preceding period in a way that allows retrospective application of a new definition of a metric, and it might be impracticable to recreate the data. If it is impracticable to revise a comparative amount for the preceding period, an entity shall disclose that fact.

Errors

B55 Paragraph 83 requires an entity to correct material prior period errors.

B56 Such errors include: the effects of mathematical mistakes, mistakes in applying the definitions for metrics or targets, oversights or misinterpretations of facts, and fraud.

B57 Potential reporting period errors discovered in that period are corrected before the sustainability-related financial disclosures are authorised for issue. However, material errors are sometimes not discovered until a subsequent period.

B58 If an entity identifies a material error in its prior period(s) sustainability-related financial disclosures, it shall disclose:

(a) the nature of the prior period error;

(b) the correction, to the extent practicable, for each prior period disclosed; and

(c) if correction of the error is impracticable, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

B59 When it is impracticable to determine the effect of an error on all prior periods presented, the entity shall restate the comparative information to correct the error from the earliest date practicable.

Appendix C
Sources of guidance

This appendix is an integral part of HKFRS S1 and has the same authority as the other parts of the Standard.

C1 This Standard requires (see paragraph 57) that in the absence of an HKFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity, an entity shall apply judgement to identify information that:

(a) is relevant to the decision-making of users of general purpose financial reports; and

(b) faithfully represents that sustainability-related risk or opportunity.

C2 In making that judgement, an entity may—to the extent that these sources assist the entity in meeting the objective of this Standard (see paragraphs 1–4) and do not conflict with HKFRS Sustainability Disclosure Standards—refer to and consider the applicability of:

(a) the Global Reporting Initiative Standards; and

(b) the European Sustainability Reporting Standards.

C3 In applying the sources of guidance specified in paragraph C2, an entity shall not obscure material information required by HKFRS Sustainability Disclosure Standards (see paragraph B27). If an entity applies the sources of guidance specified in paragraph C2 without applying the requirements in HKFRS Sustainability Disclosure Standards, the entity shall not make an explicit and unreserved statement of compliance with HKFRS Sustainability Disclosure Standards.

Appendix D
Qualitative characteristics of useful sustainability-related financial information

This appendix is an integral part of HKFRS S1 and has the same authority as the other parts of the Standard.

Introduction

D1 The *Conceptual Framework for Financial Reporting (Conceptual Framework)* was issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It describes the objective of, and the concepts that apply to, general purpose financial reports. One purpose of the *Conceptual Framework* is to assist the HKICPA to develop HKFRS Accounting Standards for preparing financial statements based on consistent concepts.

D2 Sustainability-related financial disclosures are part of general purpose financial reports. The qualitative characteristics in the *Conceptual Framework*, therefore, apply to sustainability-related financial information. However, the nature of some of the information required to meet the objective of this Standard (see paragraphs 1–4) differs in some respects from the information provided in financial statements.

D3 Sustainability-related financial information is useful if it is relevant and faithfully represents what it purports to represent. Relevance and faithful representation are fundamental qualitative characteristics of useful sustainability-related financial information. The usefulness of sustainability-related financial information is enhanced if the information is comparable, verifiable, timely and understandable. Comparability, verifiability, timeliness and understandability are enhancing characteristics of useful sustainability-related financial information.

Fundamental qualitative characteristics of useful sustainability-related financial information

Relevance

D4 Relevant sustainability-related financial information is capable of making a difference in the decisions made by primary users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Sustainability-related financial information is capable of making a difference in decisions made by users if it has predictive value, confirmatory value or both.

D5 Sustainability-related financial information has predictive value if it can be used as an input to processes employed by primary users to predict future outcomes. Sustainability-related financial information need not be a prediction or forecast to have predictive value. Sustainability-related financial information with predictive value is employed by primary users in making their own predictions. For example, information about water quality, which can include information about the water being polluted, could inform the expectations of users about the ability of an entity to meet local water-quality requirements.

D6 Sustainability-related financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

D7 The predictive value and confirmatory value of sustainability-related financial information are interrelated. Information that has predictive value often also has confirmatory value. For example, information for the current year about greenhouse gas emissions, which can be used as the basis for predicting greenhouse gas emissions in future years, can also be compared with predictions about greenhouse gas emissions for the current year that were made in past years. The results of those comparisons can help a user to correct and improve the processes that were used to make those previous predictions.

Materiality

D8 Information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance. The materiality of information is assessed in the context of an entity's sustainability-related financial disclosures and is based on the nature or magnitude of the item to which the information relates, or both.

Faithful representation

D9 Sustainability-related financial information represents phenomena in words and numbers. To be useful, the information must not only represent relevant phenomena, it must also faithfully represent the substance of the phenomena that it purports to represent.

D10 To be a faithful representation, a depiction would be complete, neutral and accurate. The objective of general purpose financial reports is to maximise those qualities to the extent possible.

D11 A complete depiction of a sustainability-related risk or opportunity includes all material information necessary for primary users to understand that risk or opportunity.

D12 Sustainability-related financial information shall be neutral. A neutral depiction is one without bias in the selection or disclosure of information. Information is neutral if it is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to make it more likely that primary users will receive that information favourably or unfavourably. Neutral information is not information without purpose or without influence on behaviour. On the contrary, relevant information is, by definition, capable of making a difference in users' decisions.

D13 Some sustainability-related financial information—for example, targets or plans—is aspirational. A neutral discussion of such matters covers both aspirations and the factors that could prevent an entity from achieving these aspirations.

D14 Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that opportunities are not overstated and risks are not understated. Equally, the exercise of prudence does not allow for the understatement of opportunities or the overstatement of risks.

D15 Sustainability-related financial information shall be accurate. Information can be accurate without being perfectly precise in all respects. The precision needed and attainable, and the factors that make information accurate, depend on the nature of the information and the nature of the matters to which it relates. For example, accuracy requires that:

(a) factual information is free from material error;

(b) descriptions are precise;

(c) estimates, approximations and forecasts are clearly identified as such;

(d) no material errors are made in selecting and applying an appropriate process for developing an estimate, approximation or forecast;

(e) assertions and inputs used in developing estimates are reasonable and based on information of sufficient quality and quantity; and

(f) information on judgements about the future faithfully reflects both those judgements and the information on which they are based.

Enhancing qualitative characteristics of useful sustainability-related financial information

D16 The usefulness of sustainability-related financial information is enhanced if it is comparable, verifiable, timely and understandable.

Comparability

D17 The decisions made by the primary users of general purpose financial reports involve choosing between alternatives; for example, selling or holding an investment, or investing in one reporting entity or another. Comparability is the characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items. Information is more useful to users if it is also comparable, that is, if it can be compared with:

(a) information provided by the entity in previous periods; and

(b) information provided by other entities, in particular those with similar activities or operating within the same industry.

D18 Sustainability-related financial disclosures shall be provided in a way that enhances comparability.

D19 Consistency is related to, but is not the same as, comparability. Consistency refers to the use of the same approaches or methods for providing disclosures about the same sustainability-related risks and opportunities, from period to period, both by a reporting entity and other entities. Comparability is the goal; consistency helps to achieve that goal.

D20 Comparability is not uniformity. For information to be comparable, like things shall look alike and different things shall look different. Comparability of sustainability-related financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

Verifiability

D21 Verifiability helps to give users confidence that information is complete, neutral and accurate. Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. Verifiable information is more useful to primary users than information that is not verifiable.

D22 Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities could also be verified.

D23 Sustainability-related financial information shall be provided in a way that enhances its verifiability. Verifiability can be enhanced by, for example:

(a) including information that can be corroborated by comparing it with other information available to primary users about an entity's business, about other businesses or about the external environment in which the entity operates;

(b) providing information about inputs and methods of calculation used to produce estimates or approximations; and

(c) providing information reviewed and agreed by the entity's board, board committees or equivalent bodies.

D24 Some sustainability-related financial information will be presented as explanations or forward-looking information. That information can be supportable, for example by faithfully representing fact-based strategies, plans and risk analyses. To help primary users decide whether to use such information, an entity shall describe the underlying assumptions and methods of producing the information, as well as other factors that provide evidence that the information reflects the actual plans or decisions made by the entity.

Timeliness

D25 Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older information is, the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

Understandability

D26 Sustainability-related financial information shall be clear and concise. For sustainability-related financial disclosures to be concise, they need:

(a) to avoid generic information, sometimes called 'boilerplate', that is not specific to the entity;

(b) to avoid duplication of information in the general purpose financial reports, including unnecessary duplication of information also provided in the related financial statements; and

(c) to use clear language and clearly structured sentences and paragraphs.

D27 The clearest form a disclosure can take will depend on the nature of the information and might include tables, graphs or diagrams in addition to narrative text. If graphs or diagrams are used, additional text or tables might be necessary to avoid obscuring material detail.

D28 Clarity might be enhanced by distinguishing information about developments in the reporting period from 'standing' information that remains unchanged, or changes little, from one period to the next—for example, by separately describing features of an entity's sustainability-related governance and risk management processes that have changed since the previous reporting period.

D29 Disclosures are concise if they include only material information. Any immaterial information included shall be provided in a way that avoids obscuring material information.

D30 Some sustainability-related risks and opportunities are inherently complex and might be difficult to present in a manner that is easy to understand. An entity shall present such information as clearly as possible. However, complex information about these risks and opportunities shall not be excluded from general purpose financial reports to make those reports easier to understand. Excluding such information would render those reports incomplete and, therefore, possibly misleading.

D31 The completeness, clarity and comparability of sustainability-related financial information all rely on information being presented as a coherent whole. For sustainability-related financial information to be coherent, it shall be presented in a way that explains the context and the connections between the related items of information.

D32 If sustainability-related risks and opportunities located in one part of an entity's general purpose financial reports have implications for information disclosed in other parts, the entity shall include the information necessary for users to assess those implications.

D33 Coherence also requires an entity to provide information in a way that allows users to relate information about its sustainability-related risks and opportunities to information in the entity's financial statements.

Appendix E
Effective date and transition

This appendix is an integral part of HKFRS S1 and has the same authority as the other parts of the Standard.

Effective date

E1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 August 2025. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact and apply HKFRS S2 *Climate-related Disclosures* at the same time.

E2 For the purposes of applying paragraphs E3–E6, the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard.

Transition

E3 An entity is not required to provide the disclosures specified in this Standard for any period before the date of initial application. Accordingly, an entity is not required to disclose comparative information in the first annual reporting period in which it applies this Standard.

E4 In the first annual reporting period in which an entity applies this Standard, the entity is permitted to report its sustainability-related financial disclosures after it publishes its related financial statements. In applying this transition relief, an entity shall report its sustainability-related financial disclosures:

(a) at the same time as its next second-quarter or half-year interim general purpose financial report, if the entity is required to provide such an interim report;

(b) at the same time as its next second-quarter or half-year interim general purpose financial report, but within nine months of the end of the annual reporting period in which the entity first applies this Standard, if the entity voluntarily provides such an interim report; or

(c) within nine months of the end of the annual reporting period in which the entity first applies this Standard, if the entity is not required to and does not voluntarily provide an interim general purpose financial report.

E5 In the first annual reporting period in which an entity applies this Standard, the entity is permitted to disclose information on only climate-related risks and opportunities (in accordance with HKFRS S2) and consequently apply the requirements in this Standard only insofar as they relate to the disclosure of information on climate-related risks and opportunities. If an entity uses this transition relief, it shall disclose that fact.

E6 If an entity uses the transition relief in paragraph E5:

(a) in the first annual reporting period in which the entity applies this Standard, it is not required to disclose comparative information about its climate-related risks and opportunities (see paragraph E3); and

(b) in the second annual reporting period in which the entity applies this Standard, it is not required to disclose comparative information about its sustainability-related risks and opportunities, other than its climate-related risks and opportunities.

HKFRS S1 AG
Issued 12 December 2024

Accompanying Guidance on
Hong Kong Financial Reporting Standard S1

General Requirements for Disclosure of Sustainability-related Financial Information

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Accompanying Guidance on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

HKFRS S1 is based on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*. In approving HKFRS S1, the Financial Reporting Standards Committee of the Hong Kong Institute of Certified Public Accountants has considered and agreed with the International Sustainability Standards Board's (ISSB) Accompanying Guidance on IFRS S1. The ISSB's Accompanying Guidance is reproduced below. The paragraph numbers of IFRS S1 referred to below generally correspond with those in HKFRS S1.

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

Illustrative Guidance

This guidance accompanies, but is not part of, IFRS S1. It illustrates aspects of IFRS S1 but is not intended to provide interpretative guidance.

Primary users

IG1 The objective of IFRS S1 is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.[1]

Meeting primary users' information needs

IG2 Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial reports requires that entity to consider the characteristics of those users while also considering the entity's own circumstances. General purpose financial reports include—but are not restricted to—an entity's general purpose financial statements and sustainability-related financial disclosures.

IG3 Existing and potential investors, lenders and other creditors are the primary users to whom general purpose financial reports are directed. General purpose financial reports are prepared for users with a reasonable knowledge of business and economic activities and who review and analyse the information diligently. However, even well-informed and diligent users may need to seek the aid of an adviser to understand sustainability-related financial information.

IG4 General purpose financial reports do not, and cannot, provide all the information that primary users need. Therefore, the entity aims to meet the common information needs of its primary users. It does not aim to address specialised information needs—information needs that are unique to particular users.

IG5 To meet the common information needs of its primary users, an entity first separately identifies the information needs of one of the three types of primary users—for example, investors (existing and potential). The entity then repeats the assessment for the two remaining types—lenders (existing and potential) and other creditors (existing and potential). The combined information needs identified by these assessments form the set of common information needs that the entity aims to meet.

IG6 In other words, the assessment of common information needs does not require an entity to identify the information needs that are shared by all users. Some identified information needs will be common to all types of users, but others may be specific to only one or two types. If an entity were to focus only on information needs that are common to all types of primary users, it might exclude information that meets the needs of only one type.

Use of publicly available information

IG7 Primary users do not source information exclusively from general purpose financial reports. For example, such users might also consider information about the industry an entity operates in; information about the entity's competitors and the state of the economy; and information in the entity's press releases as well as other documents the entity has published. However, the fact that information is publicly available does not relieve an entity of its responsibility to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short,

[1] Throughout IFRS S1, the terms 'primary users' and 'users' are used interchangeably, with the same meaning and refer to existing and potential investors, lenders and other creditors.

medium or long term. These risks and opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

Applying sources of guidance

IG8 This guidance suggests possible ways to apply some of the requirements in IFRS S1. It does not specify additional requirements.

IG9 IFRS S1 requires an entity to refer to and consider the applicability of specified sources of guidance. It also specifies sources of guidance an entity is permitted, but not required, to refer to in preparing its sustainability-related financial disclosures (see paragraphs 54–59 and Appendix C of IFRS S1). These sources can inform the identification of:

(a) sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects; and

(b) information about those sustainability-related risks and opportunities that is relevant to the decision-making of users of general purpose financial reports and faithfully represents those sustainability-related risks and opportunities.

IG10 Paragraphs IG11–IG27 illustrate how entities can apply sources of guidance in meeting the requirements in IFRS S1. Paragraphs IG11–IG24 focus on the SASB Standards and paragraphs IG25–IG27 focus on the CDSB Framework Application Guidance for Water-related Disclosures and the CDSB Framework Application Guidance for Biodiversity-related Disclosures (collectively referred to as 'CDSB Framework Application Guidance').

SASB Standards

IG11 As set out in IFRS S1, an entity is required to refer to and consider the applicability of the disclosure topics in the SASB Standards in identifying sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

IG12 The SASB Standards are organised by industry. Each SASB Standard contains:

(a) industry descriptions—which are intended to help entities identify applicable industry guidance by describing the business models, activities and other common features that characterise participation in the industry;

(b) disclosure topics—which describe specific sustainability-related risks or opportunities associated with the activities conducted by entities within a particular industry;

(c) metrics—which accompany disclosure topics and are designed to, either individually or as part of a set, provide useful information regarding an entity's performance for a specific disclosure topic;

(d) technical protocols—which provide guidance on definitions, scope, implementation and presentation of associated metrics; and

(e) activity metrics—which quantify the scale of specific activities or operations by an entity and are intended for use in conjunction with metrics referred to in paragraph IG12(c) to normalise data and facilitate comparison.

IG13 The disclosure topics and associated metrics in the SASB Standards are not exhaustive. IFRS S1 requires an entity to present fairly all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

Identifying applicable SASB Standards

IG14 Each SASB Standard includes an industry name and description. The industry names and descriptions are intended to enable an entity to identify the SASB Standard(s) that is likely to be applicable to its business model and associated activities. Industry names may not precisely align with the industry an entity considers itself to be a part of because industries can be classified and defined according to varying conventions. Moreover, there may be activities that are not specifically addressed by a SASB Standard for a particular industry, although it is likely that those activities, or at least similar activities, are addressed in other SASB Standards.

IG15 In order to consider applicable SASB Standards, it is important for an entity to understand the activities that a particular SASB Standard covers. Each SASB Standard summarises the business it covers in an 'Industry Description' section.

IG16 Some entities might find that their business models and activities are closely aligned with the industry description of a single SASB Standard. If so, an entity might need only to refer to the single applicable SASB Standard (see paragraphs IE3–IE8). Other entities might need to refer to and consider the applicability of more than one SASB Standard to help them identify sustainability-related risks and opportunities associated with their activities (see paragraphs IE9–IE15). Such entities might include those with hybrid or complex business models whose activities span a wider array of activities than reflected in any one SASB Standard.

Disclosure topics

IG17 After identifying the SASB Standard(s) most closely aligned with the entity's activities, an entity next considers the applicability of the disclosure topics contained in the identified SASB Standard(s) to the entity's activities. The disclosure topics describe specific sustainability-related risks and opportunities associated with the activities conducted by entities within a particular industry. These disclosure topics are intended to enable entities to consistently identify sustainability-related risks and opportunities based on their business model and activities.

IG18 For example, an entity that conducts meat, poultry and dairy operations would refer to and consider the applicability of the disclosure topics in the *Meat, Poultry & Dairy* SASB Standard. In considering the applicability of the SASB Standard for this industry, an entity might conclude that the disclosure topics in that SASB Standard are applicable in the entity's circumstances, including disclosure topics such as:

(a) food safety; and

(b) workforce health & safety.

IG19 Therefore, the entity could use the disclosure topics in this SASB Standard—including, but not limited to the disclosure topics listed in paragraph IG18—to inform its identification of sustainability-related risks and opportunities, in accordance with paragraph 55 of IFRS S1. Specifically, applying those disclosure topics, the entity could explain that a failure to maintain the quality and safety of its product might result in costly recalls, harm the reputation of its brand, lead to fines, reduce its revenues and increase regulatory scrutiny, including the imposition of trade restrictions. The entity could also use the disclosure topics to disclose information required by paragraph 33 of IFRS S1 about how it manages the identified risks, for example, information about the robust workforce safety practices to avoid reputational impairment, costly turnover, low worker morale and productivity, risks associated with potential liability for injuries, associated healthcare and workers' compensation costs.

IG20 An entity could repeat this approach for each of the applicable disclosure topics. The SASB Standards inform the identification of sustainability-related risks and opportunities of a *typical* entity within a given industry. Consequently, in some cases the SASB Standards might:

(a) include disclosure topics that would not result in useful information for users of general purpose financial reports for *every* entity within a given industry; and

(b) not include every disclosure topic that would result in useful information.

In some cases, an entity might conclude that a disclosure topic would not result in useful information because of the entity's business model. That might be the case, for example, if the entity does not engage in activities that are covered by that disclosure topic. Conversely, an entity might also need to consider additional sources of guidance specified in paragraph 55(b) of IFRS S1 to identify sustainability-related risks or opportunities that could reasonably be expected to affect the entity's prospects.

Metrics

IG21 In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity, IFRS S1 requires an entity to refer to and consider the applicability of the metrics associated with the disclosure topics included in the SASB Standards. An entity might conclude that metrics specified in the SASB Standards are not applicable in the entity's circumstances.

IG22 Hypothetically, a meat, poultry and dairy entity might refer to and consider the applicability of the following metrics included in the *Meat, Poultry & Dairy* SASB Standard:

(a) food safety:

(i) FB-MP-250a.1—Global Food Safety Initiative (GFSI) audit (1) non-conformance rate and (2) associated corrective action rate for (a) major and (b) minor non-conformances;

(ii) FB-MP-250a.2—Percentage of supplier facilities certified to a Global Food Safety Initiative (GFSI) food safety certification program;

(iii) FB-MP-250a.3—(1) Number of recalls issued and (2) total weight of products recalled; and

(iv) FB-MP-250a.4—Discussion of markets that ban imports of the entity's products; and

(b) workforce health & safety:

(i) FB-MP-320a.1—(1) Total recordable incident rate (TRIR) and (2) fatality rate; and

(ii) FB-MP-320a.2—Description of efforts to assess, monitor, and mitigate acute and chronic respiratory health conditions.

IG23 Each of these metrics is supported by technical protocols that provide detailed guidance on definitions, scope, implementation and presentation. For example, in applying the accompanying technical protocols, the hypothetical meat, poultry and dairy entity would disclose information related to workforce health and safety for all of its workers, regardless of their location and type of employment, such as full-time, part-time, direct, contract, executive, labour, salary, hourly or seasonal. The entity might disclose this information to comply with the requirement in paragraph 32(a) of IFRS S1 to describe the effects of workforce health and safety-related risks on its business model and its value chain. Furthermore, the entity might disaggregate this information—for example, by location of operations—to disclose information in accordance with the requirement in paragraph 32(b) of IFRS S1 to describe where in the entity's business model and value chain workforce health and safety-related risks are concentrated. The technical protocols may also serve as criteria against which the disclosed information can be verified.

IG24 The accompanying technical protocols would also guide the hypothetical entity in supplementing the metrics with appropriate context—for example, a discussion of notable recalls, including information related to the cause, amount, remediation cost, nature (voluntary or involuntary), associated corrective actions and other significant outcomes related to the recall, such as legal proceedings or consumer illness. The entity might disclose this information to comply with the requirements in paragraph 35 of IFRS S1 to disclose quantitative and qualitative information about the current and anticipated financial effects of food safety-related risks on its financial position, performance and cash flows.

CDSB Framework Application Guidance

IG25 As set out in IFRS S1, an entity may refer to and consider the applicability of the CDSB Framework Application Guidance in identifying sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects (see paragraph 55 of IFRS S1). In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity, an entity may refer to and consider the applicability of the CDSB Framework Application Guidance in identifying information that is relevant to the decision-making of users of general purpose financial reports and faithfully represents the sustainability-related risk or opportunity (see paragraphs 57–58 of IFRS S1).

IG26 The CDSB Framework Application Guidance can support entities in identifying water- and biodiversity-related risks and opportunities. For example, the CDSB Framework Application Guidance on Biodiversity-related Disclosures identifies potential physical biodiversity-related risks such as reduction in soil fertility, reduction in pollination for crop production and reduced availability of fish stocks. Similarly, the CDSB Framework Application Guidance on Water-related Disclosures identifies potential water-related opportunities such as improved water efficiency, development of new products and services, and conservation and restoration of ecosystems through engagement and collaboration with stakeholders. In applying the requirement in paragraph 21 of IFRS S1 on connected information, the CDSB Framework Application Guidance explains how water- and biodiversity-related risks might be connected to other sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects; for example, water-related risks, such as more frequent flooding, are often inherently linked to climate-related risks.

IG27 An entity might have identified water- or biodiversity-related risks and opportunities in accordance with the SASB Standards, the CDSB Framework Application Guidance or other sources of guidance in accordance with paragraph 55 of IFRS S1. In the absence of a specifically applicable IFRS Sustainability Disclosure Standard, the entity may consider the applicability of the CDSB Framework Application Guidance in identifying information to be provided, including metrics, about the water- or biodiversity-related risks or opportunities that could reasonably be expected to affect an entity's prospects. An entity might consider the CDSB Framework Application Guidance in applying the core content requirements in paragraphs 25–53 of IFRS S1, for example:

(a) Governance—in providing disclosures on governance relating to water-related risks and opportunities, the CDSB Framework Application Guidance on Water-related Disclosures suggests an entity might provide information about how water policies, strategy and information are delegated to management. In relation to collaboration with stakeholders to achieve effective water management, the guidance also suggests an entity might provide information about whether there are specific bodies, individuals or mechanisms located in areas that are affected by significant water loss whose function is to ensure compliance with water-related regulation and engagement with stakeholders.

(b) Strategy—in providing disclosures on strategy relating to biodiversity-related risks and opportunities, the CDSB Framework Application Guidance on Biodiversity-related Disclosures suggests an entity might provide, for example, information about the geographic-specificity of biodiversity-related risks and opportunities and how those risks and opportunities may vary over the short, medium and long term. The guidance also suggests the type of quantitative and qualitative information an entity might consider providing in accordance with paragraphs 34–40 of IFRS S1, for example, the operational expenses, cost savings and revenue associated with biodiversity management, such as information about remediation costs or provisions in the case of accidents such as polluting spills, costs of staff training and revenue from biodiversity-efficient products and services.

(c) Metrics and targets—the CDSB Framework Application Guidance on Biodiversity-related Disclosures provides examples of common biodiversity metrics such as concentrations of key pollutants in wastewater, the volume of timber and non-timber forest products harvested and areas of forest, grassland or wetland converted due to urbanisation. Due to changes in biodiversity over time, the guidance suggests an entity provides information about the time frames it has set for targets. The guidance also discusses targets tailored to specific locations due to geographical variation in biodiversity priorities, as well as differing legal and regulatory requirements.

Illustrative Examples

These examples accompany, but are not part of, IFRS S1. They illustrate aspects of IFRS S1 but are not intended to provide interpretative guidance.

IE1 These examples portray hypothetical situations illustrating how an entity might apply some of the requirements in IFRS S1 on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific industries illustrated. Although some aspects of the examples may be present in actual fact patterns, an entity should evaluate all of the relevant facts and circumstances of a particular fact pattern when applying IFRS S1.

SASB Standards

IE2 Examples 1 and 2 illustrate how an entity might apply the requirements related to sources of guidance. Those requirements include:

(a) to refer to and consider the applicability of the disclosure topics in the SASB Standards (see paragraph 55(a) of IFRS S1);

(b) to refer to and consider the applicability of the metrics associated with the disclosure topics included in the SASB Standards (see paragraph 58(a) of IFRS S1);

(c) to identify the specific standards, pronouncements, industry practice and other sources of guidance that the entity has applied in preparing its sustainability-related financial disclosures, including, if applicable, identifying the disclosure topics in the SASB Standards (see paragraph 59(a) of IFRS S1);

(d) to identify the industry(s) specified in the IFRS Sustainability Disclosure Standards, the SASB Standards or other sources of guidance relating to a particular industry(s) that the entity has applied in preparing its sustainability-related financial disclosures, including in identifying applicable metrics (see paragraph 59(b) of IFRS S1); and

(e) to identify the source and metric taken if an entity discloses a metric from a source other than IFRS Sustainability Disclosure Standards (see paragraph 49 of IFRS S1).

Example 1—An entity with a single line of business

IE3 Entity Y is a regional passenger airline company. In identifying sustainability-related risks and opportunities that could reasonably be expected to affect its prospects, Entity Y is required to apply IFRS Sustainability Disclosure Standards in accordance with paragraph 54 of IFRS S1. In addition to applying IFRS Sustainability Disclosure Standards, Entity Y is required to refer to and consider the applicability of the disclosure topics in the SASB Standards. Entity Y concludes that its business model and activities most closely align with the *Airlines* SASB Standard.

IE4 Entity Y applies IFRS S2 *Climate-related Disclosures* and identifies climate-related risks or opportunities that could reasonably be expected to affect its prospects. In addition, Entity Y refers to and considers the applicability of the disclosure topics in the *Airlines* SASB Standard in accordance with paragraph 55(a) of IFRS S1. Entity Y concludes that all four disclosure topics in the *Airlines* SASB Standard are applicable to its activities and uses those disclosure topics to inform its identification of sustainability-related risks and opportunities that could reasonably be expected to affect its prospects.

IE5 In disclosing information about its sustainability-related risks and opportunities, Entity Y applies IFRS Sustainability Disclosure Standards that specifically apply to its identified sustainability-related risks and opportunities. For example, Entity Y applies IFRS S2 to disclose information about its greenhouse gas emissions. In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to the sustainability-related risks and opportunities which Entity Y has identified, Entity Y refers to and considers the applicability of the metrics associated with the applicable disclosure topics in the *Airlines* SASB Standard. Entity Y concludes that applying these metrics will provide information that is relevant to the decision-making of users of general purpose financial reports and faithfully represents the sustainability-related risks and opportunities that it has identified. For example, the metrics associated with the 'Accident & Safety Management' disclosure topic include:

(a) TR-AL-540a.1—Description of implementation and outcomes of a Safety Management System;

(b) TR-AL-540a.2—Number of aviation accidents; and

(c) TR-AL-540a.3—Number of governmental enforcement actions of aviation safety regulations.

IE6 In identifying information to provide, Entity Y considers the applicability of the technical protocols accompanying the metrics. For example, while disclosing a description of the implementation and outcomes of a Safety Management System, Entity Y might describe any actions or measures it has implemented to mitigate any safety risks and hazardous situations that it has identified. These actions or measures include, for example, particular changes in controls, operations, management, processes, products, business partners, training or technology.

IE7 Entity Y is required to apply the requirements relating to 'core content' in IFRS S1. Entity Y considers the disclosure topics, metrics and associated technical protocols in the *Airlines* SASB Standard when providing information required by IFRS S1, including information relating to strategy and metrics and targets.

IE8 Entity Y discloses that it applied the disclosure topics and metrics in the *Airlines* SASB Standard in preparing its sustainability-related financial disclosures, in accordance with paragraphs 49 and 59 of IFRS S1.

Example 2—A large conglomerate with diverse activities

IE9 Entity A is a large conglomerate with diverse activities. Entity A produces electrical and industrial equipment for use in a range of industries. In addition to IFRS Sustainability Disclosure Standards, Entity A is required to refer to and consider the applicability of the disclosure topics in the SASB Standards in identifying its sustainability-related risks and opportunities. Because of the wide-ranging nature of its activities, Entity A begins its consideration of the applicability of the SASB Standards by considering the various sectors into which the SASB Standards are grouped. Entity A conducts activities in industries in the Health Care, Resource Transformation and Infrastructure sectors, and in some cases owns particular parts of its production process rather than relying on suppliers. It also has some activities in the Transportation and Consumer Goods sectors.

IE10 Entity A refers to and considers the applicability of the disclosure topics in the SASB Standards. Entity A concludes that eight SASB Standards are applicable to its business model and activities. Entity A considers the disclosure topics in the eight standards. Although Entity A observes that it engages in activities related to all of those disclosure topics, Entity A concludes that some of those disclosure topics are not applicable in the entity's circumstances. For example, Entity A concludes that the sustainability-related risk or opportunity characterised by a particular disclosure topic could not reasonably be expected to affect its prospects over the short, medium or long term because the disclosure topic relates to activities that are insignificant for the entity.

IE11 Entity A concludes that most of the disclosure topics in the SASB Standards it has considered are applicable to its significant activities. In some cases where it has less significant activities, it finds that only particular disclosure topics in those related industries are applicable. For example, Entity A concludes that most of the disclosure topics that it considered for its transportation and retail businesses are not applicable, due to the relatively small size of these businesses. However, Entity A concludes that incidents related to safety and labour practices in these businesses, although unlikely to have a large effect on its cash flows in the short term, could have a major effect on its reputation over the medium and long term. This reputational risk could affect the performance of its larger businesses, including its ability to attract and retain talent, over a medium- and long-term time horizon, which could be reasonably expected to affect its medium- and long-term cash flows, access to finance and cost of capital. Thus, Entity A considers these topics in identifying sustainability-related risks and opportunities that could reasonably be expected to affect its prospects.

IE12 In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to the sustainability-related risks and opportunities that Entity A has identified, Entity A refers to and considers the applicability of the metrics associated with applicable disclosure topics. In identifying applicable metrics, Entity A considers whether the metric will provide information that is relevant to the decision-making of users of general purpose financial reports and that faithfully represents the sustainability-related risks and opportunities that it has identified.

IE13 In preparing its sustainability-related financial disclosures, Entity A concludes that some information should be aggregated to avoid obscuring material information with immaterial information. For example, it concludes that information about its strategy for sourcing critical materials for devices produced by its various activities should be aggregated because the entity manages the supplier relationships for those critical materials centrally.

IE14 In contrast, for other types of information, Entity A concludes aggregation would result in obscuring material information. For example, it concludes that information about the number of recalls related to its equipment in the Health Care sector should not be aggregated with information about the number of recalls related to its equipment in the Consumer Goods sector because the technologies, production processes and markets for each sector differ. Therefore, there are also varied reasons for the occurrence of product recalls in these sectors.

IE15 Entity A discloses information about the SASB Standards it has applied in preparing its sustainability-related financial disclosures, in accordance with paragraphs 49 and 59 of IFRS S1, including identifying the specific SASB Standards, disclosure topics and metrics it applied. Entity A also provides information to enable users of general purpose financial reports to understand the judgements that it has made in the process of preparing its sustainability-related financial disclosures and that have the most significant effect on the information included in those disclosures in accordance with paragraph 74 of IFRS S1.

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Basis for Conclusions on
Hong Kong Financial Reporting Standard S1

General Requirements for Disclosure of Sustainability-related Financial Information

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Basis for Conclusions on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

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Basis for Conclusions on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

This Basis for Conclusions accompanies, but is not part of, IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*. It summarises the considerations of the International Sustainability Standards Board (ISSB) in developing IFRS S1. Individual ISSB members gave greater weight to some factors than to others. The ISSB also published an Effects Analysis, which describes the likely costs and benefits of IFRS S1.*

Introduction

BC1 IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) was developed in response to calls from users of general purpose financial reports (users) for more consistent, complete, comparable and verifiable sustainability-related financial information. Users told the ISSB that this information would enable them to assess an entity's exposure to and management of sustainability-related risks and opportunities over the short, medium and long term, and would inform their decisions relating to providing resources to an entity. Such information supplements and complements the information in the entity's general purpose financial statements (referred to as 'financial statements').

Overview

BC2 IFRS S1 sets out the overall requirements for providing users of general purpose financial reports with a complete set of sustainability-related financial disclosures. IFRS S1 applies to all sustainability-related risks and opportunities that could reasonably be expected to affect an entity's cash flows, its access to finance or cost of capital over the short, medium or long term. These risks and opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'. Consistent with the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) issued by the International Accounting Standards Board (IASB), IFRS S1 is intended to result in the disclosure of information that meets the information needs of users of general purpose financial reports. In developing IFRS S1, the ISSB noted that many users cannot require an entity to provide information directly to them and must rely on general purpose financial reports for much of the information they need.

BC3 IFRS S1 requires an entity to disclose information about its sustainability-related risks and opportunities that is useful to users of general purpose financial reports in making decisions relating to providing resources to the entity. The information required by IFRS S1 relates to general aspects of how an entity operates, in particular to its governance, strategy, risk management, and metrics and targets associated with sustainability-related risks and opportunities. IFRS S1 refers to these four aspects as the 'core content', meaning the respective information is essential to users' understanding of how an entity identifies, assesses, prioritises, monitors and manages sustainability-related risks and opportunities. This focus on core content reflects feedback on the 2020 consultation on sustainability reporting held by the IFRS Foundation Trustees (the Trustees) and builds on the widely accepted recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

BC4 IFRS Sustainability Disclosure Standards use terminology suitable for profit-oriented entities, including public-sector business entities. IFRS S1 specifies that if entities with not-for-profit activities in the private sector or public sector apply this Standard, they might need to amend the descriptions used for particular items of information when applying IFRS Sustainability Disclosure Standards. The ISSB noted interest in IFRS Sustainability Disclosure Standards among the public sector and entities other than profit-oriented entities. For example, the ISSB noted the ongoing work by the International Public Sector Accounting Standards Board (IPSASB) on public sector sustainability reporting guidance that is related to IFRS S1 and IFRS S2 *Climate-related Disclosures* (IFRS S2). The ISSB also noted national measurement schemes, and interest expressed by regulators and other organisations that oversee financial market stability.

Financial statements prepared under other GAAP

BC5 IFRS S1 applies to sustainability-related financial disclosures provided as part of an entity's general purpose financial reports. IFRS S1 is designed to require the disclosure of information that complements an entity's financial statements, regardless of which generally accepted accounting principles or practices (GAAP) the entity uses in preparing those financial statements. IFRS S1 establishes a base for decision-useful and comparable reporting of sustainability-related financial information by requiring the application of some established practices from financial reporting. IFRS S1 uses definitions and requirements that are consistent, if applicable, with the IASB's *Conceptual Framework*, IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The ISSB intends that such an approach does not, in any way, limit the suitability of IFRS Sustainability Disclosure Standards for entities applying other GAAP instead of IFRS Accounting Standards.

Relationship with other IFRS Sustainability Disclosure Standards

BC6 IFRS S1 sets out the general requirements that an entity is required to apply to assert compliance with IFRS Sustainability Disclosure Standards. IFRS S1 identifies the essential elements of a complete set of sustainability-related financial disclosures and sets out the qualitative characteristics of useful sustainability-related financial information. An entity applying IFRS Sustainability Disclosure Standards would apply the requirements in IFRS S1 in conjunction with other Standards (for example, an entity applying IFRS S2 would refer to IFRS S1 to decide how to aggregate or disaggregate information). As a result, IFRS S1 will establish the basis for further development of IFRS Sustainability Disclosure Standards by the ISSB in the future.

BC7 The purpose of IFRS S1 for sustainability-related financial disclosures is similar to that of the IASB's *Conceptual Framework*, IAS 1 and IAS 8, which are applicable to financial statements prepared in accordance with IFRS Accounting Standards.

Proportionality

BC8 Although most respondents to the consultation on Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (Exposure Draft) agreed with the proposed requirements, many of these respondents suggested that the ISSB give more consideration to the range of capabilities and preparedness of entities around the world to apply the proposals. The reasons that some entities might be unable to comply fully with the proposals include:

(a) *resource constraints*—the costs of investing in and operating the systems and processes necessary to enable disclosure are proportionately higher for some entities;

(b) *data availability*—high-quality external data is less available in some markets, industries and parts of the value chain; and

(c) *specialist availability*—skills or expertise are less available to some entities and in some markets.

BC9 The ISSB discussed a range of mechanisms to respond to these 'proportionality' challenges. The ISSB made several proportionality-related decisions intended to ease the burden of disclosure and assist entities in applying IFRS Sustainability Disclosure Standards.

Table 1—Summary of ISSB decisions that assist with proportionality or in the application of IFRS S1

Area	**Mechanisms to address proportionality challenges**		**Transition relief**	**Additional clarifications/ mechanisms to facilitate application**	
	Concept of ‘reasonable and supportable information… without undue cost or effort’	**Consideration of skills, capabilities and resources**		**Concept of ‘unable to do so’[(a)]**	**Guidance, educational material and other efforts to facilitate application**
Identification of risks and opportunities	X				X
Current financial effects				X	X
Anticipated financial effects	X	X		X	X
Determination of the scope of the value chain	X				X
Other areas—for example, timing of reporting and providing comparative information in the first annual reporting period			X		X

(a) Although the term ‘unable to do so’ was used in the Exposure Draft, it is no longer used in IFRS S1; however, this concept is articulated through whether the current or anticipated financial effects are separately identifiable or whether the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful.

Reasonable and supportable information

BC10 Requirements that involve a high level of judgement or uncertainty are not unique to sustainability-related financial disclosures. IFRS Accounting Standards require an entity to recognise and measure amounts that are subject to high measurement uncertainty. For example, IFRS 9 *Financial Instruments* requires an entity to account for expected credit losses by using forward-looking information and apply its judgement in making estimations.

BC11 The IASB has, in several recent IFRS Accounting Standards, specified the type of information that an entity is required to use, by referring to ‘all reasonable and supportable information that is available at the reporting date without undue cost or effort’. This concept is not used in IFRS Accounting Standards as a broad principle, but the IASB has used it in specific circumstances to guide an entity in applying requirements that involve a high level of measurement uncertainty.

BC12 Determining what qualifies as reasonable and supportable information involves an entity:

(a) considering all information that is reasonably available, including information it already has. An entity is prohibited from disregarding known information.

(b) having an appropriate basis for using the information, satisfying the requirement in IFRS S1 for information to be supportable.

(c) considering information that is available at the reporting date, such as historical, current or forward-looking information (including forecasts of future conditions).

BC13 An entity is not required to carry out an exhaustive search for such information. The information should be available without undue cost or effort.

BC14 The ISSB has introduced the concept of 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' in IFRS S1 in regard to:

(a) identifying sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects (paragraph B6(a) of IFRS S1);

(b) determining the scope of the entity's value chain, including its breadth and composition, in relation to each of those sustainability-related risks and opportunities (paragraph B6(b) of IFRS S1); and

(c) preparing disclosures about the anticipated financial effects of sustainability-related risks and opportunities on an entity's financial performance, financial position and cash flows (paragraph 37(a) of IFRS S1).

BC15 The ISSB decided that referring to 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' is beneficial if entities apply requirements that involve a high level of judgement or uncertainty because the concept establishes parameters for the type of information to consider, and for the effort required to obtain such information.

BC16 Referring to 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' does not introduce additional disclosure requirements. Nor does this reference exempt an entity from providing a disclosure. It does not apply to all requirements in IFRS S1. Instead, it provides clarity about the information that an entity uses in the preparation of its sustainability-related financial disclosures, and applies only to specific disclosure requirements. The concept of 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' also emphasises that an entity is required to use relevant and appropriate information.

BC17 The ISSB decided that the concept of 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' will also assist those entities that would otherwise be unable to comply fully with the requirements in IFRS Sustainability Disclosure Standards. For example, an entity is permitted to carry out a less exhaustive search for information if the cost of obtaining particular information is proportionately higher for the entity than for other entities with more resources. Although an entity is still required to comply with the disclosure requirements, it is permitted to do so with information that is available without undue cost or effort determined based on its circumstances. The ISSB noted that an entity is prohibited from arguing that no effort is necessary, because information about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects is useful to users of general purpose financial reports. The greater the usefulness of information about a sustainability-related risk or opportunity for users, the greater the effort expected of an entity in obtaining that information. Overall, although the concept of 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' is intended to assist all entities in applying the requirements, it is particularly helpful to those entities that would otherwise find the requirements in IFRS S1 and IFRS S2 challenging to apply.

Background

BC18 In March 2021, the Trustees recruited members of various reporting initiatives to create the Technical Readiness Working Group (TRWG), chaired by the IFRS Foundation (Foundation), to provide recommendations to the ISSB. The TRWG comprised representatives of:

(a) the Climate Disclosure Standards Board (CDSB);

(b) the Value Reporting Foundation, which included:

(i) the Sustainability Accounting Standards Board (SASB); and

(ii) the International Integrated Reporting Council;

(c) the IASB;

(d) the TCFD; and

(e) the World Economic Forum, in particular its Stakeholder Capitalism Metrics Initiative.

The International Organization of Securities Commissions (IOSCO) and IPSASB participated as official observers.

BC19 The TRWG's work on general requirements for the disclosure of sustainability-related financial information resulted in a prototype standard titled *General Requirements for Disclosure of Sustainability-related Financial Information*, published on the Foundation's website in November 2021. The prototype standard was not subject to the Foundation's formal due process or that of any TRWG member.

BC20 The establishment of the ISSB was announced by the Trustees in November 2021. In order to expedite the initial work of the ISSB, the Trustees granted special powers to the ISSB Chair Emmanuel Faber and Vice-Chair Suzanne Lloyd (as a transitional measure) to work with staff to issue an exposure draft, based on the prototype standard, before the ISSB was quorate. This decision is consistent with paragraph 56 of the IFRS Foundation *Constitution* published in November 2021. The right of the ISSB Chair and Vice-Chair was made subject to oversight by the Due Process Oversight Committee (DPOC) of the Trustees. The DPOC confirmed in a meeting on 21 March 2022 that it had no objection to the ISSB Chair and Vice-Chair publishing the Exposure Draft.

BC21 In March 2022, the ISSB Chair and Vice-Chair published the Exposure Draft, which built on the prototype standard developed by the TRWG. Accordingly, this Exposure Draft was based on the work of standard-setters and framework-providers, which had been subject to extensive public consultation and redeliberation, and had attracted significant interest in the market.

BC22 The ISSB received 735 comment letters and survey responses as feedback on the Exposure Draft. The respondents represented a range of stakeholder groups and geographies. The largest number of responses came from preparers. Users of general purpose financial reports also demonstrated a high level of interest in the Exposure Draft and accounted for a very high number of responses, relative to response rates observed in similar consultations. The user responses came from organisations such as investor associations, as well as from individual users. The ISSB also conducted 328 individual and group events before the consultation period ended in July 2022. A further 143 individual and group meetings with stakeholders took place from August to December 2022.

BC23 Respondents welcomed the plan to consolidate several standards and frameworks to develop a single set of high-quality sustainability disclosure standards. The feedback also indicated that:

(a) most respondents welcomed the timely publication of the Exposure Draft. Many respondents encouraged the ISSB to continue moving at pace in issuing IFRS S1 and IFRS S2, with some respondents emphasising the importance of both timeliness and quality.

(b) most respondents agreed with the use of the TCFD recommendations as the structure of the requirements on core content in IFRS S1.

(c) most respondents highlighted the necessity for interoperability with jurisdictional initiatives and other sustainability-related standards. Respondents mainly focused their comments about interoperability on several proposals by other organisations that were open for comment at the same time as the ISSB's proposals. Almost all European preparers stressed the importance of interoperability with the sustainability reporting proposals of the European Financial Reporting Advisory Group (EFRAG) to minimise reporting burden and complexity. Almost all US preparers stressed the importance of interoperability with the proposals of the United States Securities and Exchange Commission (US SEC) in *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (the US SEC Climate Proposal). Many preparers from jurisdictions outside Europe and the US expressed concerns about potential duplication of requirements and 'double reporting' if they were subject to the requirements in IFRS Sustainability Disclosure Standards and to EFRAG or US SEC requirements in the future. Many respondents emphasised the importance of interoperability with multi-stakeholder standards, particularly the Global Reporting Initiative (GRI) Standards. They welcomed the Memorandum of Understanding (MoU) between the Foundation and GRI and encouraged the ISSB to continue to work closely with GRI.[1]

(d) most respondents supported the positioning of IFRS S1, as proposed in the Exposure Draft, as an overarching standard setting out the general requirements designed to apply with all IFRS Sustainability Disclosure Standards. They acknowledged the important role of the proposed requirements, concepts and principles in providing consistent and comparable sustainability-related financial information.

(e) many respondents suggested that the ISSB give more consideration to the range of capabilities and preparedness of entities around the world to apply the proposals.

(f) many respondents asked for more support, guidance and examples to enable entities to apply the proposals effectively. Preparers of sustainability-related financial disclosures also requested greater clarity on some aspects of the proposed requirements in the Exposure Draft.

(g) many respondents emphasised the importance of close collaboration between the ISSB and IASB. Respondents also stressed the importance of improving the understandability, consistency and connectivity of IFRS Sustainability Disclosure Standards by using the same definitions and concepts as IFRS Accounting Standards where relevant. Some respondents commented on the importance of promoting integrated reporting, and welcomed the announcement from the Chairs of the ISSB and IASB that the boards would work together to build on the Integrated Reporting Framework.[2]

BC24 The ISSB considered the feedback in deciding its general approach to redeliberation as well as the specific proposals and timetable for redeliberation. From the feedback, the ISSB identified:

(a) proposals that were well received;

(b) proposals that received mixed feedback;

(c) proposals that were seen as relatively well-established by previously published sustainability standards and frameworks; and

(d) proposals that might be better addressed through the future work plan of the ISSB.

BC25 The ISSB decided to focus its work on proposals that received mixed feedback, including suggestions to add to, remove or modify the proposed requirements. The ISSB also considered proposals for which stakeholders provided new information or emphasised different information from that relied on in developing the proposals in the Exposure Draft. In relation to IFRS S1, the ISSB decided to redeliberate:

(a) ‘enterprise value’;

(b) breadth of reporting required;

(c) ‘significant’ sustainability-related risks or opportunities;

(d) identifying ‘significant’ sustainability-related risks and opportunities and information to disclose (including using the work of other standard-setters, referred to later in this document as ‘sources of guidance’);

(e) application of the materiality assessment;

(f) connected information;

(g) frequency (or timing) of reporting; and

(h) comparative information and updated estimates.

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1 See IFRS Foundation, ‘IFRS Foundation and GRI to align capital market and multi-stakeholder standards to create an interconnected approach for sustainability disclosures’, IFRS Foundation, London, IFRS Foundation, 2022, https://www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-signs-agreement-with-gri/ (accessed 13 March 2023).

2 See IFRS Foundation, ‘Integrated Reporting—articulating a future path’, IFRS Foundation, London, IFRS Foundation, 2022, https://www.ifrs.org/news-and-events/news/2022/05/integrated-reporting-articulating-a-future-path/ (accessed 13 March 2023).

BC26 The ISSB also decided to redeliberate one topic and one proposal relating to both IFRS S1 and IFRS S2:

(a) proportionality of the proposals; and

(b) current and anticipated financial effects of sustainability-related and climate-related risks and opportunities on an entity's financial performance, financial position and cash flows.

Global baseline and interoperability with jurisdictional and regulatory initiatives

BC27 IFRS Sustainability Disclosure Standards are intended to establish a comprehensive global baseline of sustainability-related financial disclosures to meet the needs of users of general purpose financial reports and, therefore, of international capital markets. The global baseline is intended to serve as a comprehensive foundation of disclosure requirements, resulting in comparable, cost-effective and decision-useful sustainability-related financial disclosures that are designed to meet the needs of users. Jurisdictions will be able to build any necessary incremental disclosure requirements on this common baseline.

BC28 IFRS S1 is intended to be compatible with law or regulation in the jurisdictions in which entities operate, including law or regulation that specifies the documents, formats and structures for disclosing information. Entities are permitted to report additional information needed to meet jurisdictional requirements alongside information required by IFRS Sustainability Disclosure Standards. The ISSB observed that, for the purposes of comparability, it is important for the global baseline to be visible in an entity's sustainability-related financial disclosures. IFRS S1 permits additional disclosures if they do not obscure the information required by IFRS Sustainability Disclosure Standards.

BC29 Almost all respondents to the Exposure Draft agreed with, and strongly welcomed, the development of IFRS Sustainability Disclosure Standards to establish a comprehensive global baseline of sustainability-related financial disclosures for the capital markets.

BC30 A strong message from respondents to the Exposure Draft was the importance of achieving a high degree of interoperability with jurisdictional requirements, notably with proposals published by EFRAG and the US SEC. In response to the strong and widely held views on interoperability, the Foundation began several initiatives, including forming the Jurisdictional Working Group (JWG) to discuss important strategic matters relating to IFRS S1 and IFRS S2 and jurisdictional initiatives on sustainability reporting. When established, the JWG included:

(a) the Chinese Ministry of Finance;

(b) the European Commission and EFRAG;

(c) the Japanese Financial Services Agency and the Sustainability Standards Board of Japan;

(d) the UK's Financial Conduct Authority;

(e) the US SEC; and

(f) IOSCO (as an observer).

BC31 The JWG provided feedback on the urgency and importance of a global baseline and of achieving interoperability between proposed sustainability reporting standards. Participants in the JWG noted that interoperable global standards are essential for capital markets, and suggested that a lack of interoperability between sustainability-related reporting regimes in various jurisdictions would be costly for entities and would risk undermining the provision of clear and consistent information to users of general purpose financial reports. Participants also emphasised the importance of enabling users to clearly identify information relevant to them and information relevant to a broader set of stakeholders, so that material information for users is not obscured.

BC32 The ISSB works to collaborate with and learn from others. As part of this collaboration, the Trustees announced the establishment of the Sustainability Standards Advisory Forum (SSAF) in May 2022. Its membership was announced in December 2022. The SSAF is a formal technical advisory body to the ISSB. It provides an advisory forum in which members representing jurisdictional and regional bodies contribute their technical input and expertise to inform the ISSB's standard-setting. The ISSB continues to collaborate with others in the global sustainability reporting landscape, including with GRI as part of the MoU.

BC33 Furthermore, during the redeliberation process for the Exposure Draft, the ISSB made several decisions on matters related to IFRS S1 and IFRS S2 that are important to achieving interoperability. The ISSB clarified some details of the global baseline—in particular, that disclosures in accordance with IFRS Sustainability Disclosure Standards are designed to meet the information needs of investors, creditors and other lenders (that is, 'primary users of general purpose financial reports'); that the information to be provided in such disclosures is based on a materiality assessment consistent with that used in the application of IFRS Accounting Standards; and that the information may be presented with information disclosed to meet other requirements, such as specific jurisdictional requirements, but may not be obscured by that additional information.

BC34 Other decisions made by the ISSB to achieve interoperability included:

(a) confirming that the structure of the disclosure requirements proposed in the Exposure Draft aligns with TCFD recommendations on governance, strategy, risk management, and metrics and targets (see paragraphs BC91–BC122)—referred to as 'core content';

(b) removing the definition of 'enterprise value' and the words 'to assess enterprise value' from the objective of IFRS S1 and the description of the assessment of materiality (see paragraphs BC35–BC41 and BC67–BC74);

(c) confirming that information is required for short-, medium- and long-term time horizons, but that those horizons are not defined (see paragraph BC102);

(d) confirming the definition of 'value chain' proposed in the Exposure Draft (see paragraphs BC52–BC55); and

(e) introducing a requirement to permit, but not require, entities to consider the GRI Standards and the European Sustainability Reporting Standards (ESRS) in identifying information to provide about sustainability-related risks and opportunities (see paragraphs BC136–BC139).

Objective

BC35 The objective of IFRS S1 is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to users of general purpose financial reports in making decisions relating to providing resources to the entity. Most respondents to the Exposure Draft agreed with the focus of IFRS Sustainability Disclosure Standards on users and their information needs. However, respondents provided mixed feedback on the application of some of the fundamental concepts in the Exposure Draft. This feedback centred around the terms 'enterprise value', 'materiality' and 'significant', and how to apply these terms to identify and assess information that is potentially useful for users' decisions.

BC36 Some respondents requested more clarity about the concept of 'enterprise value' and others questioned whether 'enterprise value' was an appropriate term for anchoring sustainability-related financial disclosures and material information. The ISSB included the term 'enterprise value' in the Exposure Draft with the intention of broadening the scope of financial reporting and disclosures to capture a wider set of information. This information would extend beyond an entity's current financial position and performance, and might include, for example, the anticipated financial effects of sustainability-related risks and opportunities. The term was also intended to narrow the scope of disclosures to only include information about sustainability-related risks and opportunities that is useful to users of general purpose financial reports. However, contrary to the ISSB's intention, the use of the term might have constrained the objective of the Exposure Draft and created confusion for some respondents. For example, some users stated that 'enterprise value' can be defined or understood too narrowly, thereby creating a risk that the sustainability-related financial information disclosed in accordance with IFRS S1 would not be useful for their purposes. The definition of 'enterprise value' also gave rise to confusion, with many respondents believing that the reference to market capitalisation meant that the term applied only to listed entities. Some respondents stated that the use of this term could create confusion because it has a particular and different meaning in European legislation.

BC37 Some respondents expressed concerns about the adaptations made to the wording from the IASB's *Conceptual Framework* that was used to develop the concept of materiality in the Exposure Draft. The Exposure Draft adapted the definition of 'material information' from the *Conceptual Framework* to state in paragraph 2 of the Exposure Draft that 'the assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value'. For further discussion on materiality, see paragraphs BC67– BC84.

BC38 Respondents questioned the use of the term 'significant' to determine the sustainability-related risks and opportunities included within the scope of the Exposure Draft. Respondents expressed concerns about the use of the term and were confused by its relationship with materiality. Most respondents said the term lacked a clear definition, and some stated that the distinction between the use of the terms 'significant' and 'material' was unclear in the Exposure Draft.

BC39 In response to the feedback, the ISSB decided to change the wording of the objective, and to better align the definition of materiality in IFRS S1 with that used by the IASB. The ISSB also removed the definition of 'enterprise value' from the list of defined terms in Appendix A of IFRS S1 and removed the terms 'significant' and 'all significant' when describing, in the Standard, the sustainability-related risks and opportunities an entity is required to provide information about.

BC40 Although the ISSB decided against using these terms, its approach and its focus on users of general purpose financial reports remained unchanged. The ISSB decided to continue using definitions of 'material information' and 'primary users of general purpose financial reports' that are consistent with the IASB's definitions. In addition, although the ISSB decided against routinely using the term 'significant' in IFRS S1 to describe the sustainability-related risks and opportunities that an entity is required to report on, the ISSB's intention remained consistent with the Exposure Draft. That is, the intention is to require an entity to provide material information about sustainability-related risks and opportunities, specifically about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. The ISSB noted that the term 'significant' had been intended to assist an entity in identifying the sustainability-related risks and opportunities to report on and that 'material' was intended to be used in determining the information to provide—to clarify this distinction, the ISSB decided to provide guidance in Appendix B of IFRS S1.

BC41 In response to the feedback, the ISSB clarified the content in the 'Objective' section of IFRS S1. This section includes:

(a) a description of sustainability-related risks and opportunities that IFRS Sustainability Disclosure Standards address;

(b) a general requirement for an entity to provide information about all those risks and opportunities; and

(c) a description of the role of IFRS S1 in setting out the general requirements for the content and presentation of sustainability-related financial disclosures.

The objective of IFRS S1 builds on the Integrated Reporting Framework, but in some cases the Standard does not use identical terms.

Sustainability-related risks and opportunities

BC42 The concept of sustainability is frequently linked to 'sustainable development', which was defined in 1987 as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'.[3] The United Nations (UN) released definitions of sustainability, Sustainable Development Goals and international policy pronouncements identifying matters that the UN has concluded are important in considering sustainability, including:

(a) climate change (the UN Framework Convention on Climate Change);

(b) biodiversity (the Convention on Biological Diversity);

(c) oceans (the UN Convention on the Law of the Sea);

(d) desertification (the UN Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa); and

(e) human rights (the Universal Declaration of Human Rights).

[3] World Commission on Environment and Development, *The Brundtland Report: Our Common Future*, Oxford, Oxford University Press, 1987.

BC43 The terms 'sustainability' and 'sustainable development' therefore apply widely across social and ecological communities, and apply to current and future generations. The terms also encompass environmental and social notions of justice, health, welfare and preservation, and acknowledgement of planetary boundaries.

BC44 IFRS S1 focuses on sustainability-related financial information—information about an entity's sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. This includes information about an entity's governance, strategy and risk management in relation to those risks and opportunities, and related metrics and targets. Therefore, understanding sustainability-related risks and opportunities, including their relationship with the established notions of sustainability and sustainable development, is pivotal to understanding the scope of IFRS S1 and IFRS Sustainability Disclosure Standards more broadly.

BC45 IFRS S1 specifies that sustainability-related risks and opportunities arise out of the interactions between an entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. This description is intentionally broad. Furthermore, an entity's sustainability-related risks and opportunities—and their effects, as well as expectations of their effects, on an entity—will change over time and in relation to the interdependent system in which an entity operates. IFRS S1 elaborates that an entity both depends on resources and relationships throughout its value chain and affects those resources and relationships, which contributes to their preservation, regeneration and development, or to their degradation and depletion.

BC46 In describing the concepts underlying sustainability-related risks and opportunities, the ISSB decided to build on concepts from the Integrated Reporting Framework—a decision consistent with the ISSB's aim to build on the existing work of framework-providers and standard-setters. The fundamental concepts in the Integrated Reporting Framework emphasise that an entity's ability to create, preserve and erode value for itself over time—and hence to generate returns for the entity's investors, lenders and other creditors—is inextricably linked to value that the entity creates, preserves or erodes for others.

BC47 These concepts that underlie sustainability-related risks and opportunities are broadly consistent with the concepts and guidance in the IASB's Exposure Draft *Management Commentary*. For example, the Exposure Draft *Management Commentary* explains that an entity's activities create value for the entity if they enhance or preserve the net present value of the entity's future cash flows. Conversely, the entity's activities erode value if they reduce the net present value of the entity's future cash flows. It also explains that creating value is a precursor to generating cash flows. Conversely, some activities might increase cash inflows in the short term but can erode value in the long term.

BC48 The ISSB decided to enhance the description of the concepts that underlie sustainability-related risks and opportunities (and sustainability-related financial information) in the 'Objective' section (see paragraphs 1–3 of IFRS S1) and in the application guidance (see paragraphs B1–B12 of IFRS S1). The ISSB also noted that related definitions, including definitions of 'primary users' and 'material information', help further reinforce the understanding of sustainability-related risks and opportunities.

BC49 The ISSB emphasised that the focus of IFRS S1 on the information needs of users of general purpose financial reports distinguishes sustainability-related financial information from broader, multi-stakeholder reporting focused on an entity's contribution to sustainable development. The ISSB has not broadened its scope beyond investor-focused disclosure. Disclosures made in accordance with IFRS Sustainability Disclosure Standards are conceptually and practically complementary to—but not a replacement for—reporting on an entity's significant impacts on people, the environment and the economy. IFRS S1 focuses on information that is useful to users in making decisions relating to providing resources to an entity.

Identifying sustainability-related risks and opportunities

BC50 The ISSB decided to enhance the description in IFRS S1 of concepts that underlie sustainability-related risks and opportunities. This enhancement was one of many approaches intended to assist preparers in identifying sustainability-related risks and opportunities, including those risks and opportunities that could reasonably be expected to affect an entity's prospects. The ISSB noted other approaches intended to assist entities, including:

(a) the requirements and guidance in IFRS S2 specific to climate-related risks and opportunities;

(b) the sources of guidance in IFRS S1 that provide practical guidance on identifying sustainability-related risks and opportunities, including risks and opportunities across a range of sustainability-related issues and specific to industries; and

(c) the ISSB's ongoing and future work to continue developing IFRS Sustainability Disclosure Standards and educational materials.

BC51 Paragraph 3 of IFRS S1 requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. In feedback to the ISSB, preparers described challenges in identifying risks and opportunities, such as the breadth of assessments that would be necessary to cover all the sustainability-related risks and opportunities that might affect the entity. In response, the ISSB introduced the concept of an entity using 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort', including information about past events, current conditions and forecasts of future conditions when identifying sustainability-related risks and opportunities (see paragraphs BC10–BC17). The ISSB observed that introducing this concept clarifies that an entity:

(a) is prohibited from overstating or understating opportunities (or risks) premised on information that is unsupportable or unreasonable;

(b) is required to use all information that is available to the entity at the reporting date (including information about past events, current conditions and forecasts of future conditions);

(c) is not required to use information that was unavailable at the reporting date; and

(d) is not expected to carry out an exhaustive search for information to identify every sustainability-related risk or opportunity—because such an exhaustive search would represent 'undue cost or effort'.

BC52 Sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects include those that arise throughout the entity's value chain. IFRS S1 requires an entity to disclose a description of the current and anticipated effects of sustainability-related risks and opportunities on the entity's business model and value chain. An entity is also required to disclose a description of where in the entity's business model and value chain sustainability-related risks and opportunities are concentrated. Examples of the type of information an entity might provide include:

(a) a beverage company might need to disclose risks associated with water use, especially in areas where water is scarce. The entity might describe how its use of water affects the supply available to meet its operational needs. It might explain how its water consumption affects communities close to the entity's operations that rely on the same source of water. It might also explain how over-consumption of water in those locations could lead to risks of reputational damage and loss of customers, or to the imposition of taxes or limits on the use of the resource. It could describe how these risks have been assessed throughout its supply chain.

(b) a clothing brand company might describe the opportunity associated with changing to use less resource-intensive materials in its products and packaging. The potential effects might be driven by the entity's commitments to sustainable business practices, or consumer preferences for more sustainable or recycled alternatives. The entity might also disclose the areas of its value chain and operations that are potentially most affected by this opportunity, and the processes in place to assess and monitor the opportunity.

(c) an electronics manufacturer might describe the risks of human rights issues in its supply chain including reputational damage and supply chain disruptions. In doing so, the entity might describe the effects on its policies, actions it has taken to assess and monitor the risks, and how it manages any identified abuses.

BC53 During its redeliberation process, the ISSB confirmed that the definition of 'value chain' would remain the same as the definition proposed in the Exposure Draft. The ISSB made minor editorial changes to the definitions of 'value chain' and 'business model' to align those defined terms with the 'Objective' section of IFRS S1.

BC54 Joint ventures, associates and investments are not considered to be part of the reporting entity that is presenting consolidated financial statements, although these items are recognised in the financial statements. In the same way that financial statements recognise these investments and report aspects of the performance of associates and joint ventures, sustainability-related financial information related to those investments is relevant to users of general purpose financial reports in assessing the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term.

BC55 IFRS S1 does not specify how to include sustainability-related financial information about joint ventures, associates and investments. However, specific IFRS Sustainability Disclosure Standards, including IFRS S2, will provide requirements and guidance related to the disclosure of information about the sustainability-related risks and opportunities arising throughout an entity's value chain.

BC56 An entity is required to disclose information about sustainability-related risks and opportunities throughout its value chain. When doing so, the entity is required to identify the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects and determine the scope of its value chain, including its breadth and composition, in relation to each of those sustainability-related risks and opportunities. An entity is also required to disclose the current and anticipated effects of sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects throughout its business model and value chain and describe where these risks and opportunities are concentrated. In feedback to the ISSB, respondents described the challenges associated with obtaining the necessary information to determine the scope of an entity's value chain, due to the possible extent of the value chain, as well as potential complexities in obtaining information to prepare the required disclosures.

BC57 Some respondents to the Exposure Draft stated that obtaining information about the value chain might require a reporting entity to collect information from parties that the entity does not control or in which it has no ownership interest. Some of these respondents suggested that the ISSB limit the scope of the value chain that an entity is required to consider. The ISSB decided not to put limits on the scope of the value chain that an entity is required to consider and confirmed that an entity is required to provide material information about sustainability-related risks and opportunities arising throughout its value chain. For example, the ultimate consumers of an entity's products might be the most important contributors to the entity's Scope 3 greenhouse gas emissions, or the employment practices of a supplier in an entity's supply chain could have a reputational effect on the entity even if the supplier has no direct relationship with the reporting entity.

BC58 In response to concerns about the potential difficulties faced by an entity in obtaining information when assessing the scope of its value chain, the ISSB decided that an entity determining the scope of its value chain is required to use 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort', in relation to each sustainability-related risk and opportunity identified that could reasonably be expected to affect the entity's prospects. The ISSB noted that the concept of 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' assists entities by establishing parameters for the type of information they consider when preparing disclosures regarding the value chain, and the effort required to obtain such information. Specifically, the ISSB noted that this concept clarifies that an entity:

(a) is required to use all information available to it at the reporting date without undue cost or effort;

(b) is not required to carry out an exhaustive search for information associated with its value chain that would require undue cost or effort; and

(c) is required to determine the scope of its value chain using information that is reasonable and supportable.

This also provides relief to entities that face challenges associated with obtaining information from entities throughout their value chain.

Reassessing the scope of sustainability-related risks and opportunities throughout the value chain

BC59 The ISSB noted that in the Exposure Draft it was implicit that an entity would be required to reassess, at every reporting date, the scope of the sustainability-related risks and opportunities arising throughout its value chain. For example, an entity would be required to reassess, at every reporting date, which Scope 3 greenhouse gas emissions categories and entities throughout its value chain to include in the measurement of its Scope 3 greenhouse gas emissions.

BC60 In discussing the feedback, the ISSB acknowledged this issue is not unique to Scope 3 greenhouse gas emissions. The ISSB decided that the costs an entity would incur to reassess the scope of each sustainability-related risk and opportunity throughout its value chain at each reporting date would outweigh the benefit to users of general purpose financial reports, who typically would benefit from a reassessment only if a significant change had occurred. Therefore, the ISSB decided that a requirement for an entity to reassess at each reporting date was unnecessary.

BC61 Instead, in response to the feedback, the ISSB decided that an entity is required to reassess the scope of all affected sustainability-related risks and opportunities arising throughout its value chain only if a significant event or a significant change in circumstances occurs. Such a significant event or significant change in circumstances can occur without the entity being involved in that event or change in circumstances, or as a result of a change in what the entity assesses to be important to users of general purpose financial reports. For example, if a regulation is introduced that an entity had not anticipated for greenhouse gas emissions associated with employee travel, the entity might be required to reassess which categories to include in the measurement of its Scope 3 greenhouse gas emissions. However, if this regulation does not affect the entity's other sustainability-related risks and opportunities, for example the entity's identified risk of water scarcity in its supply chain, then the entity would not be required to reassess the scope of those other sustainability-related risks and opportunities. The ISSB observed that a significant event or significant change in circumstances may not necessarily arise from a change in an entity's value chain and therefore, the scope of a sustainability-related risk or opportunity may change even though the entity's value chain has not changed.

BC62 An entity could choose to reassess the scope of any sustainability-related risk or opportunity throughout its value chain more frequently—for example, each year.

Conceptual foundations

Fair presentation

BC63 Paragraph 11 of IFRS S1 requires that 'a complete set of sustainability-related financial disclosures shall present fairly all sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects'. Fair presentation requires disclosure of relevant information about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects and their faithful representation in accordance with the principles set out in IFRS S1. Fair presentation also requires an entity 'to disclose information that is comparable, verifiable, timely and understandable' and 'to disclose additional information if compliance with the specifically applicable requirements in IFRS Sustainability Disclosure Standards is insufficient to enable users of general purpose financial reports to understand the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term' (see paragraph 15(a)–(b) of IFRS S1). Fair presentation is a well-understood concept in IFRS Accounting Standards—its characteristics are set out in IAS 1—and in other GAAP. The concepts and language in IFRS S1 were derived from IAS 1 and adapted in the context of sustainability-related financial disclosures.

BC64 The ISSB does not have a separate conceptual framework that applies directly to sustainability-related financial information. IFRS S1 includes guidance on the qualitative characteristics of useful sustainability-related financial information, set out in Appendix D. This guidance is an integral part of IFRS S1 and thus is required to be applied by an entity using IFRS S1. The characteristics described in Appendix D are adapted from the IASB's *Conceptual Framework* and are intended to ensure that information in general purpose financial reports—including both sustainability-related financial disclosures and financial statements—is useful to users of those reports. The guidance is also intended to provide information to assist an entity in the preparation of sustainability-related financial disclosures.

BC65 As with the *Conceptual Framework*, the fundamental qualitative characteristics of useful sustainability-related financial information are relevance and faithful representation. The enhancing characteristics are comparability, verifiability, timeliness and understandability. IFRS S1 explains how these concepts apply to sustainability-related financial information. For example, IFRS S1 explains that information in the form of explanations or forward-looking statements is still verifiable.

BC66 Faithful representation is a component of the concept of 'fair presentation' in IAS 1. According to the *Conceptual Framework*, to be a perfectly faithful representation, a depiction would have three characteristics: it would be complete, neutral and free from error. In developing the Exposure Draft, the ISSB noted that individuals that prepare sustainability-related financial disclosures may not be the same individuals involved in preparing financial statements, and may not be familiar with IFRS Accounting Standards or the *Conceptual Framework*. Therefore, paragraph 3 of the Exposure Draft used the common label of 'accurate', instead of 'free from error', to describe a 'complete depiction' of an entity's sustainability-related financial information. The ISSB has aligned the terms used in paragraph D10 of IFRS S1 with those used in paragraph 13 of IFRS S1.

Materiality

BC67 The Exposure Draft proposed that materiality be assessed in relation to the effects of sustainability-related risks and opportunities on an entity's enterprise value. In response to the feedback, the ISSB confirmed that the materiality definition in IFRS Sustainability Disclosure Standards is aligned with the IASB's definitions of 'material information' and 'material' in its *Conceptual Framework* and IAS 1 respectively, which do not refer to enterprise value. To improve alignment, the ISSB removed 'enterprise value' from its description of materiality and removed the definition of 'enterprise value' from IFRS S1.

BC68 The ISSB has clarified that IFRS S1 requires an entity to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. The ISSB based its definition of material information on the definitions of 'material information' and 'material' in the *Conceptual Framework* and IAS 1, respectively. All the definitions highlight that materiality judgements are made in relation to a specific reporting entity and focus on information that could reasonably be expected to influence decisions of users of general purpose financial reports. The definition in IFRS S1 is specific to sustainability-related financial disclosures and states that materiality judgements are made in the context of an entity's sustainability-related financial disclosures. This approach is consistent with how the definitions of 'material information' in IAS 1 and in the IASB's Exposure Draft *Management Commentary* are specific to financial statements and management commentary, respectively. The definition in IFRS S1 also acknowledges that users do not make their decisions on the basis of just one form of general purpose financial reports published by the entity. Using conceptually aligned definitions facilitates connectivity across an entity's general purpose financial report prepared applying IFRS Standards.

BC69 Materiality judgements for sustainability-related financial disclosures will inevitably differ from those for financial statements. Different materiality judgements are necessary because sustainability-related financial disclosures and financial statements serve their specific objectives and provide different types of information about a reporting entity. Sustainability-related financial disclosures provide information about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects, while financial statements provide information about the entity's assets, liabilities, equity, income and expenses. The ISSB noted that information about sustainability-related risks and opportunities is unconstrained by definitions of assets and liabilities and the criteria for recognising them. Furthermore, the ISSB expects that in preparing sustainability-related financial disclosures, entities will often have to consider financial implications over longer time periods than the time periods considered in preparing financial statements. In addition, in preparing sustainability-related financial disclosures, entities will need to consider the financial implications of interactions throughout their value chain. Finally, the ISSB observed that sustainability-related financial information may have different measurement bases compared to information included in financial statements.

BC70 Risk severity is commonly expressed in terms of probability and impact. Opportunities can also be expressed in the same terms. IFRS S1 states that when making materiality judgements, an entity is required to consider risks and opportunities that are unlikely to occur but have a potentially high impact. An entity is required to consider:

(a) relationships between the impacts of its activities on the environment and society, and the impacts of the environment and society on an entity's cash flows, cost of capital and access to finance;

(b) changes in assumptions and conditions over time; and

(c) potential changes in the information needs of users of general purpose financial reports.

BC71 The definition of material information in IFRS S1 is aligned with the *Conceptual Framework* and IAS 1. However, IFRS Sustainability Disclosure Standards are designed to be applied with any GAAP, and the definition of materiality is not the same in every GAAP. For example, the Financial Accounting Standards Board (FASB), in its Statement of Financial Accounting Concepts No. 8, defines materiality as follows:

> The omission or misstatement of an item in a financial report is material if, in light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item.[4]

BC72 Furthermore, there is some variation in how the concept of materiality is interpreted, applied and enforced in various jurisdictions. Therefore, including a definition in IFRS S1 ensures entities that apply the requirements in IFRS Sustainability Disclosure Standards are applying and interpreting the same words. All entities applying these Standards are required to use the same definition of material information.

BC73 In making decisions relating to materiality, the ISSB has reiterated that material information must not be obscured by other information, including information that is provided to satisfy law, regulation or other requirements outside those of IFRS Sustainability Disclosure Standards. Because the ISSB is using a definition of material information that is consistent with IAS 1, it decided to include guidance in IFRS S1 with regards the obscuring of material information based on guidance in IAS 1.

BC74 The ISSB emphasised that to avoid obscuring material information, an entity is required to make material information required by IFRS Sustainability Disclosure Standards prominent and distinguishable from immaterial information provided to satisfy law, regulation or other requirements. Ways in which this distinction might be achieved include:

(a) using digital tagging to ensure that users of general purpose financial reports could extract the information required by IFRS Sustainability Disclosure Standards;

(b) presenting the information required by IFRS Sustainability Disclosure Standards together with immaterial information in a single report, using formatting to distinguish the information required by IFRS Sustainability Disclosure Standards (for example, using boxes or shading to emphasise the information required by IFRS Sustainability Disclosure Standards or to make the distinction clear);

(c) presenting the information required by IFRS Sustainability Disclosure Standards separately so that information is clearly distinguished from immaterial information (for example, splitting the report into parts); and

(d) providing two sets of information—one that includes the entire package of information without distinction (both the information required by IFRS Sustainability Disclosure Standards and immaterial information) and an accompanying report that only provides the information required by IFRS Sustainability Disclosure Standards.

Aggregation and disaggregation

BC75 The concepts of aggregation and disaggregation in relation to the financial statements in IAS 1 are equally important for sustainability-related financial disclosures to ensure that users of general purpose financial reports are provided with information at appropriately aggregated and disaggregated levels. IFRS S1 requires an entity to consider all facts and circumstances when deciding how to aggregate and disaggregate information in sustainability-related financial disclosures. It also requires that the understandability of disclosures is not reduced 'by obscuring material information with immaterial information or by aggregating material items of information

[4] See the section in the FASB Statement of Financial Accounting Concepts No. 8, Conceptual Framework for Financial Reporting—Chapter 3 'Qualitative Characteristics of Useful Financial Information' (paragraph QC11) as amended August 2018.

that are dissimilar to each other' (see paragraph B29 of IFRS S1). These principles of aggregation and disaggregation build on IAS 1.

Commercially sensitive information

BC76 In reviewing feedback on the Exposure Draft, a strong theme emerged regarding stakeholder concerns about being required to disclose information about opportunities that could be commercially sensitive. Respondents were concerned that disclosure of such information could reveal too much detail associated with an entity's strategy and planned actions, which are integral to competitive advantage.

BC77 Some preparers said they would be reluctant to disclose commercially sensitive information about opportunities because it might reduce their competitiveness in the market or otherwise be commercially harmful.

BC78 In response, the ISSB decided to introduce a targeted exemption, noting that the circumstances in which an entity is exempt from providing material information to users of general purpose financial reports would be limited. The exemption in IFRS S1 permits an entity, in limited circumstances described in paragraph B35 of IFRS S1, to omit information about a sustainability-related opportunity from its sustainability-related financial disclosures.

BC79 The ISSB decided that the exemption would be intentionally narrow and apply only to the disclosure of information about opportunities. The ISSB acknowledged that this decision might create asymmetry between the disclosure of information about risks and the disclosure of information about opportunities. However, the ISSB observed that many entities already voluntarily report on sustainability-related opportunities, despite no requirement to report this information. As stated by a few respondents to the ISSB's Exposure Draft, entities are often in favour of sharing the opportunities available to them. In contrast, it is typically necessary for a standard to require disclosure of risks to ensure information is provided in a comparable and neutral way.

BC80 In assessing the circumstances in which an entity would apply the exemption, the ISSB agreed that the entity is required to first consider whether it is possible to disclose the information about the opportunity at a sufficiently aggregated level to resolve the entity's concerns about commercial sensitivity, while still meeting the objectives of the disclosure requirements in IFRS S1. The ISSB explained that, in such circumstances, an entity would consider how to disclose information without identifying specific information that might cause a significant loss of competitive advantage. The ISSB emphasised that an entity is required to ensure that aggregation does not obscure material information.

BC81 The ISSB included additional requirements in IFRS S1 that an entity is required to apply for each item of information omitted if it applies this exemption. The ISSB discussed and agreed that:

(a) an entity that applies the exemption is required to disclose that it has done so. The ISSB decided that this disclosure would signal to users of general purpose financial reports that specific information has been omitted for reasons of commercial sensitivity, without requiring the entity to disclose information about what has been omitted, thus reducing the effect of the exemption.

(b) an entity is required to have a specific reason for non-disclosure, but is not required to disclose this reason. The ISSB considered whether to require an entity to disclose the reason it has omitted information, similar to the requirement in paragraph 92 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. However, the ISSB decided that an entity would be unable to provide a useful disclosure of its reasoning without revealing the commercially sensitive information. Instead, the ISSB decided to require an entity to disclose that it has used the exemption to make users aware that information has been excluded. The ISSB noted that a general risk that an entity's competitiveness could be weakened by disclosure would not, on its own, be an adequate reason for the entity to avoid disclosure.

(c) an entity is required to reassess, at each reporting date, whether the information still qualifies for the exemption. If the entity is no longer eligible for the exemption, it would be required to disclose that information at that reporting date.

BC82 The approach taken by the ISSB is broadly consistent with the approach taken in IFRS Accounting Standards; in specific circumstances in which an exemption from disclosure has been considered appropriate, the IASB has permitted non-disclosure of commercially sensitive information. The approach is also similar to that taken in the US SEC Climate Proposal and by EFRAG in [Draft] ESRS 1 *General requirements* (November 2022). The disclosure of commercially sensitive information in financial reporting is an area that standard-setters and regulators other than the IASB have also examined. For example, the Australian Securities and Investments Commission permits an entity not to provide information likely to result in 'unreasonable prejudice' to the entity.

BC83 The exemption in IFRS S1 from providing information about specific opportunities does not apply to information that is already publicly available. Disclosing information that is already contained in continuous disclosure notices, investor presentations, briefings to analysts, or other publicly available documents is unlikely to harm an entity's advantage in pursuing the opportunity (that is, the disclosure is unlikely to prejudice seriously the economic benefits the entity could realise). The exemption is not intended to permit broad non-disclosure of information about opportunities; neither is it permitted to be applied for non-disclosure of information about risks.

BC84 The exemption in IFRS S1 applies to the disclosure of information about sustainability-related opportunities in all circumstances, unless an IFRS Sustainability Disclosure Standard states otherwise. Therefore, the exemption is applicable to information about climate-related opportunities in IFRS S2.

Reporting entity

BC85 An entity is required to disclose sustainability-related financial information for the same reporting entity as the related financial statements. For example, if a parent prepares consolidated financial statements, the reporting entity is the parent and its subsidiaries. The reporting entity's sustainability-related financial disclosures focus on the sustainability-related risks and opportunities that enable users of general purpose financial reports to assess the effects of those risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term—that is, in information presented with consolidated financial statements, the effects on the parent and its subsidiaries. Requiring the same reporting entity for both financial statements and sustainability-related financial disclosures is designed to enable information disclosed in the financial statements to be connected with sustainability-related financial information.

Connected information

BC86 IFRS S1 requires an entity to provide information in a manner that enables users of general purpose financial reports to understand the following types of connections:

(a) the connections between the items to which the information relates—such as connections between various sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects; and

(b) the connections between disclosures provided by the entity:

  (i) within its sustainability-related financial disclosures—such as connections between disclosures on governance, strategy, risk management, and metrics and targets; and

  (ii) across its sustainability-related financial disclosures and other general purpose financial reports published by the entity—such as its related financial statements.

BC87 The requirements in IFRS S1 on connected information are intended to provide users of general purpose financial reports with a better understanding of the connections between various disclosures in an entity's general purpose financial reports, as well insight into the connections between the items to which the information relates (such as connections between various sustainability-related risks and opportunities, or connections between those risks and opportunities and the entity's performance). Entities are also required to explain the relationships and trade-offs that arise between various sustainability-related risks and opportunities. For example, an entity could explain how environmental risks affect its reputation or ability to operate, and how developing new products to respond to those risks affects the workforce composition or financial performance reported in the entity's financial statements.

BC88 Examples of the types of connections IFRS S1 is designed to elicit include:

(a) a pharmaceutical company has been exposed to claims of unethical testing. The entity might need to explain how its strategic response has, or has not, led to the recognition of provisions and associated operating costs in its financial statements.

(b) an electronics manufacturer has publicly announced a target of net zero for its corporate greenhouse gas emissions, which are primarily created during its manufacturing process. Accordingly, the entity adopts a new strategy that involves shifting its procurement of energy to renewable sources and investing in more energy-efficient machinery. The entity might need to explain how this strategy to achieve the target led to an increase in capital expenditure and possibly an impairment review of non-energy-efficient machinery, as well as lower (and less volatile) energy prices, increased revenue due to a related increased demand from its customers, and an increase in margins on sales.

(c) a supplier finds that demand for its goods has risen due to its treatment of workers and its record on respecting workers' rights, especially because its approach in this area was better than many of its peers. The entity might need to explain how its strategy and performance in relation to the treatment of its workers has positioned the entity favourably and has led to increases in revenue.

(d) an entity has a net zero greenhouse gas emissions plan that relies on replacing its fleet of diesel-powered vehicles with electric vehicles. Shifting to electric vehicles will require much more capital investment than was necessary for diesel vehicles. The transition plan is that each vehicle will be replaced when it reaches the end of its useful economic life. The entity concludes that the vehicles are not impaired and no changes to depreciation rates or useful life estimates are required to be reflected in the financial statements. The entity might need to explain that the transition plan will have consequences for its future cash flows and that its accounting, as reflected in the financial statements, is consistent with its transition plan.

BC89 The ISSB acknowledges that some sustainability-related risks and opportunities are linked. For example, an entity might face decreasing demand for its products because of changing consumer preferences for lower-carbon alternatives, affecting its workforce and communities. IFRS S1 requires disclosures that show the connections between sustainability-related risks and opportunities, on the one hand, and financial position, financial performance and cash flows in the related financial statements, on the other. For example, such a connection could be demonstrated by a disclosure about the anticipated financial effects of new or potential products that minimise environmental impacts. IFRS S1 states that if an entity provides quantitative information about anticipated financial effects, the entity is permitted to disclose a single estimate or a range of possible outcomes. This acknowledges that ranges of possible outcomes could be more useful in some cases than single estimates. The requirements in paragraph 38 of IFRS S1 are drafted in a way that acknowledges that the nature of the connections between various sustainability-related risks and opportunities might make it difficult for an entity to isolate the implications of individual risks and opportunities.

BC90 Respondents to the Exposure Draft asked for clarification on how users of general purpose financial reports draw connections between items of information if the entity uses different data and assumptions to prepare its sustainability-related financial disclosures and its related financial statements. The ISSB clarified in paragraph 23 of IFRS S1 that an entity is required to align data and assumptions to the extent possible by taking into consideration the requirements in IFRS Accounting Standards (or other GAAP) instead of mandating full alignment. This requirement is intended to promote connectivity between sustainability-related financial information and information included in an entity's financial statements. The ISSB noted that there could be legitimate reasons for data and assumptions to vary between an entity's sustainability-related financial disclosures and its financial statements. Paragraph B42 of IFRS S1 requires an entity to disclose information about significant differences between the data and assumptions used preparing the entity's sustainability-related financial disclosures and the data and assumptions used in preparing the related financial statements.

Core content

BC91 Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise in specified circumstances, an entity is required to provide disclosures about:

(a) *governance*—the governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities;

(b) *strategy*—the approach the entity uses to manage sustainability-related risks and opportunities;

(c) *risk management*—the processes the entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities; and

(d) *metrics and targets*—the entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation.

BC92 The information required includes general aspects of the way an entity operates, referred to as 'core content'. The core content is based on the TCFD recommendations. The ISSB confirmed that this approach, which was proposed in the Exposure Draft, is required. In the Trustees' 2020 consultation on sustainability reporting, the feedback on essential requirements for success showed that stakeholders thought it was important to align with and build on the work of the TCFD.

BC93 Accordingly, IFRS S1 requires that the disclosure of information about sustainability-related risks and opportunities be built around consideration of governance, strategy, risk management, and related metrics and targets. Information focusing on this core content is necessary for users of general purpose financial reports to assess the effects of sustainability-related risks and opportunities on an entity's cash flows, its access to finance and cost of capital over the short, medium and long term. The disclosures about core content require an explanation of what the entity is doing, instead of prescribing how an entity governs, manages risks and opportunities, and sets its strategy in managing its business. The ISSB noted that other jurisdictional requirements (such as ESRS) have been developed based on the TCFD recommendations, and these shared origins help facilitate interoperability for entities applying IFRS Sustainability Disclosure Standards and other jurisdictional requirements.

BC94 Entities are exposed to a range of sustainability-related risks and opportunities. IFRS S1 permits an entity to integrate information in its disclosures relating to the core content if appropriate, instead of having to repeat information in disclosures. However, an entity is required to explain any adaptations that have been made to its processes to take into account the unique characteristics of those risks and opportunities if that information is material. For example:

(a) users of general purpose financial reports understand better how an entity's integrated risk management processes are applied to sustainability-related risks and opportunities if the entity explains how and why those processes have been adapted in response to the unique characteristics of sustainability-related risks and opportunities, such as longer time frames.

(b) an entity might disclose that it has an overall process, controls and procedures for monitoring and managing sustainability-related risks and opportunities. In applying other IFRS Sustainability Disclosures Standards (for example, IFRS S2), it might explain that the monitoring and managing of specific sustainability-related risks and opportunities—in this example, climate-related risks and opportunities—is integrated into its overall process, controls and procedures. The entity might also highlight any aspects of the governance of those risks or opportunities that is different from its overall approach to monitoring and managing sustainability-related risks and opportunities.

Governance

BC95 Users of general purpose financial reports have expressed interest in understanding the role of an entity's governance bodies and their members in overseeing sustainability-related risks and opportunities. Users are also interested in understanding management's role in assessing and managing sustainability-related risks and opportunities. Such information could help users evaluate whether sustainability-related risks and opportunities receive attention from individual(s) or body(s) such as the board and management.

BC96 Paragraph 26 of IFRS S1 requires an entity to disclose information that enables users of general purpose financial reports to understand the governance processes, controls and procedures the entity uses to monitor, manage and oversee sustainability-related risks and opportunities. To achieve this objective, IFRS S1 requires an entity to disclose information about the governance body(s) or individual(s) with oversight of sustainability-related risks and opportunities, and to disclose information about management's role in the governance processes, controls and procedures used to monitor, manage and oversee sustainability-related risks and opportunities. 'Governance body(s)' includes boards, committees or equivalent bodies charged with governance who have oversight of sustainability-related risks and opportunities. The responsibility for the oversight of sustainability-related risks and opportunities in some entities might be held by an individual(s) rather than a governance body(s). For example, an individual(s) might be charged with the overall oversight of sustainability-related risks and opportunities due to their specific expertise and experience.

BC97 These governance disclosure requirements are based mostly on the TCFD recommendations, but with some additional requirements. For example, IFRS S1 requires an entity to disclose how the responsibilities of a governance body(s) or an individual(s) for sustainability-related risks and opportunities are reflected in terms of reference, mandates, role descriptions and other related policies. The disclosure requirements in IFRS S1 that supplement the TCFD recommendations are included to meet the information needs of users of general purpose financial reports.

BC98 Some stakeholders said that information about the governance body(s) or individual(s) responsible for the oversight of sustainability-related risks and opportunities could be enhanced by an entity also providing information about the specific expertise these bodies or their members possess on sustainability-related matters. Accordingly, IFRS S1 requires the disclosure of information about how the body(s) or individual(s) determines that the appropriate skills and competencies are available, or will be developed, to oversee strategies designed to respond to sustainability-related risks and opportunities. This level of specificity in skills and competencies might be challenging for some entities to reach—especially smaller corporate boards. For many governance bodies, the expertise needed is likely to focus on a specific sustainability-related risk or opportunity—for example, physical risks associated with climate change for an entity with operations in flood-prone regions. In such cases, industry experience is often the most relevant source of expertise. IFRS S1 does not prescribe the approach an entity is required to take, but requires an entity to explain the approach it has taken and why. Accordingly, a smaller entity with a less complex governance structure than a larger entity would explain that structure in applying IFRS S1.

BC99 IFRS S1 differentiates between the governance body(s) and the individual(s) responsible for oversight of sustainability-related risks and opportunities, and management-level positions or committees that are similarly responsible. This distinction enables users of general purpose financial reports to understand how responsibilities are delegated in relation to sustainability-related matters, which might be similar in nature to how roles and responsibilities are delegated as part of their existing management and governance processes. For example, an entity's board of directors (governance body) might provide oversight on broader sustainability-related matters, whereas the executive body (management) might make operational decisions about how specific sustainability-related risks and opportunities are assessed and managed.

Strategy

BC100 The Exposure Draft proposed that an entity provide information about its strategy for addressing sustainability-related risks and opportunities. The ISSB decided to replace 'addressing' with 'managing' in the strategy disclosure objective to be consistent with the requirements for disclosures on identifying, assessing, managing and monitoring sustainability-related risks and opportunities.

Sustainability-related risks and opportunities

BC101 IFRS S1 requires an entity to disclose information that enables users of general purpose financial reports to understand the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. For further discussion of sustainability-related risks and opportunities, see paragraphs BC42– BC62.

BC102 The Exposure Draft proposed disclosures reflecting short-, medium- and long-term perspectives without prescribing specific time frames to be used by entities. Time horizons are an entity-specific concept. How an entity defines and assesses what it considers to be short, medium and long term is a result of many factors, including the industry it operates in and the associated business and investment cycles. Entity- or industry-specific time horizons often translate into management processes such as rolling forecast horizons, budget periods and strategic planning cycles. The ISSB decided that relevant information about an entity's sustainability-related risks and opportunities is best understood in the context of entity-specific assessments of short, medium and long term. Although some jurisdictions define time horizons in their requirements, the ISSB confirmed the approach used in the Exposure Draft and did not define time horizons in IFRS S1. An entity is required by IFRS S1 to provide information about the time horizon it has used for 'short term', 'medium term' and 'long term'.

Current and anticipated financial effects

BC103 The Exposure Draft proposed that an entity be required to disclose the effects of its sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period (current financial effects). It also proposed requiring an entity to disclose the anticipated effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how sustainability-related risks and opportunities are included in the entity's financial planning (anticipated financial effects). Feedback on the Exposure Draft showed agreement with this proposal, but suggested that respondents did not share an understanding of the type of quantitative or qualitative information an entity is required to provide, or of the circumstances in which quantitative information is required. Respondents said that the circumstances in which an entity would be considered 'unable' to provide quantitative information were unclear.

BC104 The requirements in paragraph 34 of IFRS S1 are designed to produce information that supplements or expands upon information provided in the related financial statements, identifying and explaining the connections between sustainability-related risks and opportunities and the information reported in the financial statements.

BC105 The ISSB observed that the connections between items of information can be explained without duplicating information. For example, in some circumstances, information in the notes to the financial statements would satisfy the requirement to disclose how sustainability-related risks and opportunities have affected an entity's current and anticipated financial position, financial performance and cash flows. The ISSB noted that an entity might consider providing that information in the sustainability-related financial disclosures by cross-reference to the related financial statements (provided the specific requirements for cross-referencing in paragraphs B45–B47 of IFRS S1 are met).

BC106 To assist entities in applying the requirements about anticipated financial effects, the ISSB introduced the requirement to use 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort'. This clarifies that an entity:

(a) is prohibited from overstating or understating the anticipated financial effects of opportunities or risks premised on information that is unsupportable or unreasonable.

(b) is not required to carry out an exhaustive search for information to determine the anticipated financial effects of risks and opportunities. The entity is permitted to carry out an information search that is proportional to the cost and effort involved in obtaining that information.

(c) is not required to carry out an exhaustive search for information to measure the anticipated financial effects. In measuring anticipated financial effects of such risks and opportunities, the entity is required to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort.

(d) is permitted to use only the information that is available to the entity at the reporting date (including information about past events, current conditions and forecasts of future conditions) and is not required to use information that only becomes available after that date.

BC107 The ISSB decided that an entity is required to use an approach that is commensurate with the skills, capabilities and resources that are available to the entity in preparing disclosures about the anticipated financial effects of a sustainability-related risk or opportunity. The ISSB noted that an entity cannot avoid providing quantitative information for anticipated financial effects because it does not have the skills or capabilities to do so if it has the resources available to obtain or develop those skills or capabilities.

BC108 Feedback indicated that it is not always possible for an entity to provide information about the current and anticipated financial effects of individual sustainability-related risks and opportunities because financial effects might arise from many risks or opportunities and affect many items in the financial statements. It might be difficult to attribute financial effects to an individual sustainability-related risk or opportunity. Therefore, the ISSB decided that an entity is not required to provide quantitative information about the current or anticipated financial effects of a sustainability-related risk or opportunity if the entity determines that:

(a) those effects are not separately identifiable; or

(b) the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful.

BC109 In determining whether an entity is required to provide quantitative information (as discussed in BC107–BC108), the ISSB referred to concepts in IFRS Accounting Standards. The concept of 'separately identifiable' is found in various IFRS Accounting Standards, in which the term has been used to describe items that can be isolated in a manner that supports robust measurement. The ISSB decided that the concept of measurement uncertainty from the IASB's *Conceptual Framework* could be adapted for IFRS S1 to clarify that an entity might not be able to quantify current and anticipated financial effects if quantifying the effects of individual sustainability-related risks and opportunities would involve a high level of measurement uncertainty.

BC110 The ISSB decided that if an entity is not required to provide quantitative information about the current or anticipated financial effects of a sustainability-related risk or opportunity, the entity would be required to:

(a) explain why it has not provided quantitative information;

(b) provide qualitative information about those financial effects, including identifying the line items, totals and subtotals within the related financial statements that are likely to be affected, or have been affected, by that sustainability-related risk or opportunity; and

(c) provide quantitative information about the combined effects of that sustainability-related risk or opportunity with other sustainability-related risks or opportunities and other factors unless the entity determines that quantitative information about the combined financial effects would not be useful.

BC111 The ISSB noted that although an entity might not be in a position to provide quantitative information about the current or anticipated financial effects of a particular sustainability-related risk or opportunity, it is still required to provide other quantitative and qualitative information that is useful to users of general purpose financial reports. For example, if an entity does not provide quantitative information for a particular sustainability-related risk or opportunity, it is required to provide quantitative information about the combined financial effects of that risk or opportunity and the other factors affecting it, unless that information is not useful. The ISSB noted that the requirements to disclose current and anticipated financial effects provide users with an understanding of how the financial statements are currently affected by or are anticipated to be affected by sustainability-related risks and opportunities. The ISSB also noted that the requirement to identify affected line items, subtotals and totals in the financial statements is useful in situations in which an entity cannot provide quantitative information about financial effects of individual sustainability-related risks and opportunities. This requirement is useful because it highlights which area in the financial statements is most likely to have been, or will be, affected by the sustainability-related risk or opportunity.

BC112 The ISSB considered the feedback on some of the terms used in the requirements relating to current and anticipated financial effects. The ISSB decided to consistently use the term 'reporting period' to refer to the period for which sustainability-related financial disclosures are prepared and to refer to the related financial statements for that reporting period. The ISSB also decided to use the phrase 'short, medium and long term' consistently in IFRS S1, replacing the term 'over time' used in the Exposure Draft.

BC113 The ISSB decided to clarify the relationship between the disclosure requirements for information about resilience and the disclosure requirements for information about current and anticipated financial effects. The ISSB noted that the two sets of requirements are distinct and are intended to serve different information needs. The requirements on the resilience of an entity's strategy and business model are intended to inform users of general purpose financial reports about the entity's ability to cope with and withstand the effects of sustainability-related risks and related uncertainties in different scenarios. The requirements on the current and anticipated financial effects of sustainability-related risks and opportunities are intended to provide information about the effects of these risks and opportunities on an entity's financial performance, financial position and cash flows. The requirements can be applied independently. An entity is not required to carry out a resilience assessment to determine the anticipated financial effects of sustainability-related risks and opportunities. However, if the entity does carry out a resilience assessment, the entity might find that assessment useful and relevant in determining the anticipated financial effects of sustainability-related risks and opportunities.

Risk management

BC114 IFRS S1 requires an entity to disclose information about the processes it uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities.

BC115 The risk management disclosure requirements are based on the TCFD recommendations that were used to develop the four aspects of core content, but with some changes. The TCFD recommendations focus only on processes related to risks, whereas IFRS S1 extends disclosure to include opportunities. This extension reflects the view that risks and opportunities could result from or relate to the same source of uncertainty. It also reflects the evolution of common practice in risk management, whereby processes for identification, assessment, prioritisation and response are increasingly being extended to cover opportunities as well.

BC116 A few respondents to the Exposure Draft misunderstood the proposed risk management disclosure requirements as requiring an entity to disclose information about the sustainability-related risks and opportunities to which it is exposed. The risk management disclosure requirements focus on providing information about the processes used to identify, assess, prioritise and monitor sustainability-related risks and opportunities—in contrast to the strategy disclosure objective of the core content requirements, which is to enable users of general purpose financial reports to understand an entity's strategy for managing sustainability-related risks and opportunities.

BC117 The requirements set out in IFRS S1 seek to capture the interrelated nature of the core content areas (governance, strategy, risk management, and metrics and targets) without duplicating disclosure requirements. Therefore, IFRS S1 requires disclosures on both:

(a) *risk management*—the processes an entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities, collectively referred to as an entity's risk management processes, while the management of those risks and opportunities is part of an entity's strategy; and

(b) *strategy*—the sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects; the current and anticipated effects of those sustainability-related risks and opportunities on the entity's business model and value chain; the effects of sustainability-related risks and opportunities on the entity's strategy and decision-making; the current and anticipated financial effects of sustainability-related risks and opportunities on its financial position, financial performance and cash flows; and the resilience of the entity's strategy and its business model to sustainability-related risks.

BC118 To improve the clarity of the requirements in the risk management core content, the ISSB clarified the disclosure requirements about the processes an entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities, and the disclosure requirements about how these processes are integrated into the entity's overall processes for managing risks and opportunities. An entity might, for example, disclose that climate-related risks and opportunities are integrated into its overall process for managing risks and opportunities, such as general strategic or operational risks and opportunities, but that the identification, assessment, prioritisation and monitoring of other sustainability-related risks and opportunities are not part of its overall risk management process and occur separately.

BC119 Disclosure requirements for sustainability-related risks are more detailed than those for opportunities, reflecting the relative maturity of risk management processes and the necessity for users of general purpose financial reports to have information about an entity's processes for identifying, assessing, prioritising and monitoring risks.

Metrics and targets

BC120 Some respondents to the Exposure Draft expressed concerns that the wording of the objective of the 'Metrics and targets' section did not fully reflect the intention of disclosures about metrics and targets. The feedback suggested that some respondents interpreted the objective of these disclosures as being limited to disclosures of the metrics and targets an entity already uses. The ISSB concluded that this interpretation could lead to an entity excluding metrics required by IFRS Sustainability Disclosure Standards that were not used by the entity, even though information provided by disclosing those metrics is material.

BC121 The ISSB decided to clarify that the objective is to require an entity:

(a) to disclose the metrics required by IFRS Sustainability Disclosure Standards (even if the entity does not use these metrics);

(b) to disclose information about the metrics the entity uses to measure and monitor sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects (even if those metrics are not required by IFRS Sustainability Disclosure Standards); and

(c) to disclose information on its performance in relation to those risks and opportunities, including progress towards any targets the entity has set, or is required to meet by law or regulation.

The ISSB noted that these disclosures are subject to materiality. The ISSB stated that its intention in clarifying the objective was not to prescribe how entities manage their businesses, but instead to clarify the disclosure requirements for metrics and targets, which set out the information that is important for users of general purpose financial reports. Similarly, the ISSB did not stipulate that an entity is required to set specific targets, but IFRS S1 requires an entity to disclose information about targets if they have been set by the entity or if the entity is required by law or regulation to set specific targets.

BC122 The ISSB also noted that paragraphs 49–50 of IFRS S1 require an entity to disclose information about metrics taken from a source other than IFRS Sustainability Disclosure Standards or developed by the entity. In doing so, the ISSB observed that paragraph 59 of IFRS S1 requires an entity to disclose information about the specific standards, pronouncements, industry practice and other sources of guidance that the entity has applied in preparing its sustainability-related financial disclosures, including the industries specified in the IFRS Sustainability Disclosure Standards, the SASB Standards or other sources of guidance. The ISSB noted that other IFRS Sustainability Disclosure Standards will provide further disclosure requirements in relation to metrics and targets.

General requirements

BC123 The 'General requirements' section of IFRS S1 sets out requirements related to the location of disclosures, timing of reporting, comparative information, sources of guidance, and the statement of compliance with IFRS Sustainability Disclosure Standards.

BC124 Some of the requirements in IFRS S1 are based on principles in IFRS Accounting Standards. The reason for this is that these principles will be familiar to entities that prepare financial statements, and particularly to entities that comply with IFRS Accounting Standards. This approach helps ensure that all the information in the general purpose financial reports is prepared consistently if appropriate and that entities make connections across its related financial statements and its sustainability-related financial disclosures.

Sources of guidance

BC125 IFRS S1 includes requirements for entities on how to use sources of guidance to identify the sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects. These requirements are necessary to facilitate reporting on a range of sustainability-related risks and opportunities. The sources of guidance are particularly important at the time of publication of IFRS S1 because the only specific requirements the ISSB has issued for disclosing information about sustainability-related risks and opportunities are in relation to climate-related risks and opportunities in IFRS S2. Furthermore, the sources of guidance are important because IFRS S1 requires an entity to disclose industry-based metrics in relation to its sustainability-related risks and opportunities—that is, metrics that are associated with particular business models, activities or other common features that characterise participation in an industry (see paragraph 48 of IFRS S1). Although the sources of guidance are intended to assist entities in applying IFRS S1 by reducing the costs of application, the guidance might be particularly useful for entities that have not previously reported sustainability-related financial disclosures focused on meeting the needs of users of general purpose financial reports.

BC126 The Exposure Draft proposed that an entity be required to refer to ('shall consider') sources of guidance in addition to applying IFRS Sustainability Disclosure Standards to determine which sustainability-related risks and opportunities to provide information about. The Exposure Draft also proposed that an entity be required to refer to such guidance to identify appropriate disclosure requirements and provide information to meet the needs of users of general purpose financial reports in the absence of a specifically applicable IFRS Sustainability Disclosure Standard. This approach was based on similar requirements in IAS 8. To help entities identify sustainability-related risks and opportunities to report on and identify the information to be provided about those risks and opportunities, it was proposed that an entity be required to refer to the SASB Standards, the *CDSB Framework Application Guidance for Water-related Disclosures* and the *CDSB Framework Application Guidance for Biodiversity-related Disclosures* (collectively referred to as 'CDSB Framework Application Guidance'). These standards and guidance were released by other sustainability standard-setters focused on meeting users' information needs and on the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographical regions. The wording 'shall consider' was used in the Exposure Draft, requiring an entity to refer to these sources of guidance.

BC127 In feedback on the Exposure Draft, many respondents agreed with the proposed sources of guidance. Respondents stated that they agreed with the ISSB's approach of building on established standards and frameworks for sustainability reporting, including the SASB Standards and the CDSB Framework. However, some respondents noted that the wording 'shall consider' would require consideration of all the sources of guidance listed in the Exposure Draft, which led them to comment on the potentially large burden these requirements would place on entities and assurance providers. Some respondents suggested that, instead of the 'shall consider' requirement, the proposals could be modified to 'may consider' for some or all of the sources of guidance listed. Some respondents asked what the instruction 'shall consider' meant in practice and whether an entity could determine it was not required to apply these sources of guidance.

BC128 The proposed reference to other sources of guidance was intended to provide a clear range of sources of guidance for an entity to consider, thereby reducing diversity in reporting in practice and improving comparability between information provided by peer entities and information that might otherwise result in the absence of further IFRS Sustainability Disclosure Standards. The sources of guidance referenced were selected with the objective of identifying sources that were likely to result in the provision of information that would enable entities to meet the objective of IFRS S1. As the ISSB develops additional IFRS Sustainability Disclosure Standards, entities will have less need to rely on the sources of guidance referenced in IFRS S1 than they will initially because forthcoming Standards will identify sustainability-related risks and opportunities to report on and will set out requirements for disclosures designed to meet the needs of users of general purpose financial reports. However, even though more IFRS Sustainability Disclosure Standards will be developed, the sources of guidance will still be useful to entities in identifying sustainability-related risks and opportunities and information to provide about those risks and opportunities.

BC129 In response to the feedback, the ISSB examined whether requiring an entity to consider a long list of sources of guidance is warranted for incremental benefit. The ISSB noted that limiting the sources of guidance in IFRS S1 that an entity is required to refer to and consider—both in addition to IFRS Sustainability Disclosure Standards in identifying sustainability-related risks and opportunities and in the absence of a specifically applicable IFRS Sustainability Disclosure Standard in identifying information to provide about those risks and opportunities—would make the requirement less burdensome to apply. The ISSB noted that this change would also help reduce the burden on assurance providers.

BC130 Due to feedback that industry-specific disclosures are important to users of general purpose financial reports, the ISSB decided to confirm that an entity is required to refer to and consider the applicability of the SASB Standards in identifying sustainability-related risks and opportunities and information to report about those risks and opportunities. The rationale for the decision was that the SASB Standards were developed with a similar objective to IFRS S1 and that the overall design of the SASB Standards—that is, disclosure topics and associated metrics—generally matches the structure of the requirements in IFRS S1—that is, requirements for identifying sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects and for providing information, including metrics, about those risks and opportunities. The ISSB noted that using the SASB Standards is expected to reduce application costs for entities and to yield useful and comparable disclosures for users. The feedback, particularly from users, generally favoured the use of the SASB Standards. In addition, the disclosure topics in the SASB Standards are useful in helping entities understand the range of sustainability-related risks and opportunities that are within the scope of IFRS S1, which is particularly important in assisting preparers in identifying sustainability-related risks and opportunities.

BC131 In discussing the feedback on the Exposure Draft, the ISSB noted that the proposal that an entity 'shall consider' particular sources of guidance was intended to create a requirement to review and consider the use of those sources of guidance in a systematic manner, but was not intended to require the application of those sources of guidance. The Basis for Conclusions of the Exposure Draft stated that:

> Consistent with the proposals in the Exposure Draft, applying the SASB Standards and CDSB pronouncements would be considered good practice for an entity applying IFRS Sustainability Disclosure Standards, but applying those pronouncements would not be a formal requirement for an entity. For example, an entity could still assert compliance with IFRS Sustainability Disclosure Standards in accordance with paragraph 91 if it did not apply the requirements in these documents.

BC132 The ISSB decided that it would be helpful to clarify what it means to 'consider' the sources of guidance. It noted that the consideration of the sources of guidance is generally expected to occur through a process that an entity has in place. Although an entity is required to consider the SASB Standards, it is not required to apply the SASB Standards. Instead, an entity is required to provide information that is relevant to the decision-making needs of users of general purpose financial reports and that faithfully represents the entity's sustainability-related risks and opportunities. If the entity determines that the sources of guidance considered do not result in disclosures that meet those requirements specified in paragraph 57 of IFRS S1, the entity is not required to apply these sources of guidance. The ISSB agreed it was important to distinguish between sources an entity is required to consider ('shall consider') and sources that it is permitted but not required to consider ('may consider'). The ISSB noted that requiring an entity to consider the SASB Standards is beneficial for users by helping to limit diversity in practice and improve comparability, especially among peer companies. However, the ISSB also noted that requiring an entity to 'consider' rather than 'apply' the sources of guidance reduces that benefit.

BC133 In the SASB Standards, disclosure topics and metrics are organised by industry, enabling an entity to identify sustainability-related risks and opportunities that are applicable to its business model and associated activities. The disclosure topics in the SASB Standards represent those sustainability-related risks and opportunities that are likely to be applicable for entities in that industry. The associated metrics are likely to be applicable in assessing the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term. The judgements about what sustainability-related risks and opportunities could reasonably be expected to affect an entity's prospects and what information, including metrics, is material is entity-specific. However, the ISSB expects that the disclosure topics in the SASB Standards and associated metrics are typically applicable for an entity with the given business model and associated activities.

BC134 The ISSB noted a complementary relationship between IFRS S1, which establishes general requirements that apply to all entities, and the guidance provided by the SASB Standards, which is industry-based. Therefore, an entity can expect the guidance provided by the SASB Standards to be tailored to the activities of entities within a particular industry. SASB Standards include disclosure topics focused on sustainability-related risks and opportunities that arise in an industry throughout the value chain. Furthermore, the metrics that accompany disclosure topics in the SASB Standards are commonly tailored to the activities of entities within a particular industry. As a result, the SASB Standards provide guidance that can complement or inform an entity's application of IFRS Sustainability Disclosure Standards, including the requirements related to value chain. However, in applying the SASB Standards to support the application of IFRS Sustainability Disclosure Standards, an entity is required to comply with all the requirements in IFRS Sustainability Disclosure Standards to assert compliance with these Standards.

BC135 In discussing the feedback, the ISSB decided that it is more appropriate to permit the CDSB Framework Application Guidance to be considered rather than to require it to be considered. The ISSB decided similarly to permit an entity to refer to the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reports, and to also refer to the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographical regions instead of requiring those sources to be considered. The ISSB noted that not requiring entities to consider these sources avoids requiring entities to consider an extensive list of open-ended sources of guidance, which would increase the reporting burden for entities and increase complexities for assurance providers. The ISSB also noted that permitting entities to refer to these sources would facilitate transition to IFRS Sustainability Disclosure Standards by enabling entities to use sources that they might already be familiar with.

BC136 The ISSB noted that in referring in the Exposure Draft to the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reports, an entity would not be permitted to refer to the materials of standard-setters with a broader remit than the ISSB, even if particular disclosures required by those standard-setters would have met the needs of those users. This restriction was included in the Exposure Draft to reduce the risk of disclosures being provided that would not meet users' information needs. In discussing its proposals on sources of guidance, the ISSB decided an entity is permitted to consider the GRI Standards and ESRS to identify information to provide, including metrics, about sustainability-related risks and opportunities. However, an entity is permitted to consider these sources only to the extent that the information identified assists the entity in meeting the objective of IFRS S1 and that these sources do not conflict with IFRS Sustainability Disclosure Standards. The ISSB agreed that the references to the GRI Standards and ESRS as sources of guidance would be located in an appendix in IFRS S1.

BC137 The ISSB noted that the Exposure Draft only permitted an entity to refer to the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of 'primary users' of general purpose financial reports. Therefore, the addition of references to the GRI Standards and ESRS would be necessary to permit an entity to refer to these sources of guidance. Under the revised approach, an entity is permitted to refer to the GRI Standards and ESRS to identify information to provide once the entity has identified sustainability-related risks and opportunities. Allowing these standards to be referred to in identifying information to provide but not to identify sustainability-related risks or opportunities, is intended to ensure that any information disclosed by entities relates to a topic that has been identified as of interest to users of general purpose financial reports. Thus, an entity identifies sustainability-related risks and opportunities by using IFRS Sustainability Disclosure Standards, SASB Standards, or the other sources of guidance listed in paragraph 55(b) of IFRS S1, but not by using the GRI Standards or ESRS.

BC138 The ISSB noted that referencing the GRI Standards and ESRS in the sources of guidance could help improve interoperability with other sustainability-reporting requirements and reduce the burden for entities, especially entities that are already using the GRI Standards to provide metrics or other information or those who are mandated to comply with ESRS. The ISSB also noted that it has an MoU with GRI and is working closely with the European Commission and EFRAG to facilitate interoperability between ESRS and IFRS Sustainability Disclosure Standards. Both these arrangements were an important consideration in determining the appropriateness of referring to these sources of guidance. However, unlike the SASB Standards and the CDSB Framework Application Guidance, the GRI Standards and ESRS are intended to meet the information needs of a broader audience than users of general purpose financial reports. The ISSB noted that a subset of disclosures provided in accordance with these standards could produce information that is useful to users.

BC139 The ISSB emphasised that, if using the GRI Standards or ESRS, an entity is prohibited from obscuring material information required by IFRS Sustainability Disclosure Standards with immaterial information. An entity is prohibited from making an explicit and unreserved statement of compliance with IFRS Sustainability Disclosure Standards if, in preparing its sustainability-related financial disclosures, the entity applied those sources of guidance without considering the requirements in IFRS Sustainability Disclosure Standards. The ISSB noted that because an entity is required to ensure information identified through using the GRI Standards or ESRS meets the objective of IFRS S1, an entity would not be permitted to simply repurpose a report prepared in accordance with the GRI Standards or ESRS to meet the requirements in IFRS Sustainability Disclosure Standards.

BC140 The Exposure Draft proposed that an entity be required to disclose the industry or industries specified for the disclosures that it has provided. This requirement was intended to provide greater transparency for users of general purpose financial reports on how disclosures have been prepared. The requirement was also intended to assist users in understanding the materiality judgements made by an entity in applying the industry-based disclosure requirements (for example, if an entity used the SASB Standards to prepare disclosures in the absence of specifically applicable requirements in IFRS Sustainability Disclosure Standards). In particular, once the industry has been disclosed as required, users are able to see if an entity omitted a metric that is applicable for an entity in that industry.

BC141 During its redeliberation, the ISSB decided to confirm the requirement in the Exposure Draft for an entity to disclose the industry or industries specified in the applicable IFRS Sustainability Disclosure Standards or the SASB Standards that the entity has applied in preparing its sustainability-related financial disclosures, including in identifying applicable metrics. The ISSB also decided to broaden the requirement in the Exposure Draft to capture the disclosure of the sources of guidance that the entity has applied in preparing its sustainability-related financial disclosures including, if applicable, identifying the disclosure topics in the SASB Standards. IFRS S1 also requires an entity to disclose information about the judgements the entity has made in the process of preparing its sustainability-related financial disclosures and that have the most significant effect on the information included in those disclosures (see paragraph 74 of IFRS S1). An example of such a judgement is an entity determining which sources of guidance to apply in preparing its sustainability-related financial disclosures. In applying the requirement, it might be necessary for an entity to disclose that it applied particular sources of guidance that it considered and also to disclose that it considered other sources of guidance but did not apply those other sources of guidance.

Location of disclosures

BC142 Sustainability-related financial disclosures are required to be published as part of a reporting entity's general purpose financial reports. A consequence of this requirement is that the entity is required to report its sustainability-related financial disclosures at the same time as it issues its related financial statements (subject to transition relief, as described in paragraph E4 of IFRS S1). General purpose financial reports provide financial information about a reporting entity that is useful to users in making decisions relating to providing resources to the entity. The ISSB decided to require an entity to publish its sustainability-related financial disclosures as part of the entity's general purpose financial reports to ensure users of general purpose financial reports are provided with a comprehensive and connected package of reports. This requirement is a change for entities that previously disclosed sustainability-related financial information in a report intended for other stakeholders and for entities that published a report later than their financial statements.

BC143 Though corporate reporting varies between jurisdictions, the term 'general purpose financial reports' includes—but is not restricted to—an entity's financial statements and sustainability-related financial disclosures. IFRS S1 does not prescribe the exact location of sustainability-related financial disclosures in general purpose financial reports. The ISSB acknowledges that jurisdictions might specify the exact location in which an entity is required to provide its sustainability-related financial disclosures. Management commentary—or a similar report if it forms part of an entity's general purpose financial reports—is a possible location for sustainability-related financial disclosures. IFRS S1 states that management commentary might be known by, or included in reports with, various names, such as 'management report', 'management's discussion and analysis', 'operating and financial review', 'integrated report' or 'strategic report'.

BC144 IFRS S1 permits an entity to cross-reference between reports to provide sustainability-related financial disclosures, subject to the requirements being met in paragraphs B45–B47 in IFRS S1. For example, if information is included by cross-reference, that information must be available on the same terms and at the same time as all other sustainability-related financial disclosures, and the location of that information must be precisely specified. Most respondents supported the proposal in the Exposure Draft, which permitted cross-referencing. Many preparers commented on the cost-effectiveness, while many users of general purpose financial reports commented on the importance of the conditions in which cross-referencing is permitted, which were further clarified in IFRS S1. The ISSB observed that information provided by cross-reference is required to be available whenever an entity's sustainability-related financial disclosures are available. If the information is not part of the same report as the entity's sustainability-related financial disclosures, an entity would explain how users can access the information.

Timing of reporting

BC145 The Exposure Draft proposed that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements. Most respondents to the Exposure Draft agreed with the proposed requirement for sustainability-related financial disclosures to be published at the same time and for the same reporting period as the financial statements; however, many respondents commented that entities would find it challenging to meet the requirement, at least in the near term. Despite the challenges involved, most respondents agreed that it makes sense to report sustainability-related financial disclosures at the same time as the financial statements. These respondents agreed because simultaneous publication would provide users of general purpose financial reports with a coherent, holistic and connected picture of an entity's financial position and performance, and provide users with a comprehensive set of sustainability-related financial disclosures, which would enable them to make more informed capital allocation decisions. In discussing this feedback, the ISSB noted that many entities are new to reporting sustainability-related financial information. As such, the ISSB agreed with respondents' view that entities would face challenges in meeting the proposed requirement, including:

(a) perceptions of an increased reporting burden and higher than usual costs, especially in the first years of application;

(b) reporting systems that are underdeveloped—meaning collating and aggregating sustainability-related data could be time-consuming;

(c) calculation of some metrics might be delayed by the need to wait for information from, for example, finalised financial statements or third-party data providers;

(d) jurisdictional reporting requirements might be inconsistent with the proposed requirement; and

(e) additional reliance on assumptions and estimates might be necessary to complete the data for the reporting period, which could affect the quality of the data.

BC146 During its redeliberation process, the ISSB confirmed that an entity is required to report its sustainability-related financial disclosures at the same time and for the same reporting period as the related financial statements. However, the ISSB also decided to introduce transition relief in response to preparers' concerns (see paragraph E4 of IFRS S1).

Comparative information

BC147 IFRS S1 requires an entity to disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period. The wording used was adapted from and follows requirements in paragraph 38 of IAS 1. The Exposure Draft proposed that an entity disclose comparative information for all metrics. However, the ISSB noted that it would be more useful to users of general purpose financial reports for IFRS S1 to require the disclosure for 'all amounts' rather than limiting the disclosure to metrics. The ISSB clarified that amounts reported in sustainability-related financial disclosures might relate, for example, to the current and anticipated financial effects of sustainability-related risks and opportunities or to metrics and targets.

BC148 If the information would be useful for an understanding of the reporting period's disclosures, an entity is also required to disclose comparative information for narrative and descriptive sustainability-related financial disclosures. As a transition relief, comparative information is not required to be disclosed in the first annual reporting period in which an entity applies IFRS S1 (see paragraph E3 of IFRS S1).

BC149 Most respondents agreed with the principle of providing comparative information. However, they gave mixed feedback on the proposals that an entity be required to disclose comparative information that reflects updated estimates. Most users of general purpose financial reports who provided comments agreed with the proposal to require entities to disclose comparative information that reflects updated estimates. However, many other respondents, including preparers, audit firms and accounting standard-setters, raised concerns about the proposed requirement. Some of their concerns were that:

(a) the proposed requirement was inconsistent with the approach to changes in estimates set out in IAS 8—this inconsistency might lead to challenges in connecting sustainability-related financial disclosures with the financial statements;

(b) the costs and complexity associated with updating estimates might outweigh the benefits in some situations;

(c) the potential challenges for the assurance process; and

(d) the proposals are unclear about whether and how to distinguish the requirements for revising comparative information to reflect updated estimates and correction of errors, respectively.

BC150 The requirement to revise comparative information differs from the approach to changes in estimates in financial statements established in IFRS Accounting Standards. Changes in estimates are recognised in the current and future periods affected by the change according to the requirements in IFRS Accounting Standards—that is, in the period of the change. Under this approach, the comparative information is not changed and the change in estimate is reflected in the reporting period profit or loss. This practice is followed, for example, for changes in estimates of the useful life of an asset, fair value, and expected credit losses. Changes in such estimates are also reflected in reported equity because they are part of a double-entry model. In sustainability-related financial disclosures, however, estimates and metrics cannot affect equity—for example, a change in a Scope 3 greenhouse gas emissions estimate affects only the estimate itself—which is a reason behind the ISSB's decision that IFRS S1 should require an entity to revise comparatives for sustainability-related metrics. Another reason for requiring that an entity revise comparatives to reflect updated estimates is so the entity provides users of general purpose financial reports with the best information possible about trends.

BC151 The nature of some sustainability-related metrics necessitates a significant element of estimation, including estimation related to the entity's value chain. The ISSB decided that an entity would provide more useful information if the entity revised comparatives to reflect changes in estimates that relate to the preceding period rather than changing reporting period information.

BC152 An entity is required to revise the estimated amount disclosed for a metric, but is not required to revise narrative or descriptive disclosures. This requirement applies only if information about a change is material and if updating the estimate is not impracticable. To clarify the meaning of 'impracticable', the ISSB decided to base the definition of 'impracticable' in IFRS S1 on the definition in IAS 1, confirming that the term is used in a manner consistent with IFRS Accounting Standards. Accordingly, IFRS S1 sets a high threshold for how an entity determines whether it is 'impracticable' to meet the requirements. Applying the requirement is 'impracticable' if the entity cannot do so after making every reasonable effort to do so. For the avoidance of doubt, this threshold is higher than a cost-benefit threshold.[5]

BC153 In response to the feedback, the ISSB decided to clarify the requirements for revising comparative information. It decided that if an entity identifies new information in relation to the estimated amount disclosed for a metric in the preceding period and that information provides evidence of circumstances that existed in the preceding period, the entity is required to disclose a revised comparative amount for the metric taking into account the new information. In doing so, the entity is also required to disclose the difference between the amount disclosed for the metric in the preceding period and the revised comparative amount, and to explain why the comparative amount has been revised.

BC154 The ISSB decided to exclude forward-looking metrics from the requirement to revise comparative information to reflect updated estimates. However, an entity is permitted to revise a comparative amount disclosed for a forward-looking metric if doing so does not involve hindsight.

BC155 The ISSB confirmed what an entity is required to do if the entity redefines or replaces a metric in the reporting period. In those circumstances, the entity is required to disclose a revised comparative amount for the metric, unless it is impracticable to do so. The entity is required to explain the changes in the metric and the reasons for the changes, including why the redefined or replaced metric provides more useful information than the previous metric.

5 The IASB considered 'lowering the impracticability threshold to a cost-benefit threshold' as part of amending IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Statement of compliance

BC156 An entity is permitted to include an explicit and unqualified statement of compliance only if its sustainability-related financial disclosures comply with all the requirements of IFRS Sustainability Disclosure Standards. Qualified statements of compliance with IFRS Sustainability Disclosure Standards are prohibited. This requirement reflects the importance of communicating to users of general purpose financial reports whether the entity has been selective in its approach to reporting sustainability-related financial information or whether the entity has applied all the requirements.

BC157 IFRS S1 does not require an entity to implement strategic goals, such as following a particular transition plan to a lower-carbon economy, but does require the entity, for example, to disclose information about the targets it has set or is required to set by law or regulation. Therefore, an entity that does not manage some of its sustainability-related risks and opportunities, or that has not established its own metrics and targets for them, could still assert compliance with IFRS Sustainability Disclosure Standards if its disclosures explain that fact. Similarly, an entity might not have governance processes, controls or procedures in place to monitor and manage specific sustainability-related risks or opportunities. The fact that an entity does not have such processes, controls and procedures in place is itself likely to be material information for users of general purpose financial reports.

Judgements, uncertainties and errors

Judgements

BC158 In preparing sustainability-related financial disclosures, an entity will need to apply judgement and use assumptions and estimates specific to its circumstances. The ISSB considered feedback asking for a requirement to be introduced for an entity to disclose the judgements, assumptions and estimates that it has made in preparing and presenting its sustainability-related financial disclosures. Respondents indicated that such a requirement would help users of general purpose financial reports understand how sustainability-related financial disclosures have been prepared, and would support assurance of the information and assessment of the completeness of information.

BC159 IAS 1 includes a requirement to disclose the judgements an entity has made in applying its accounting policies that have the most significant effects on the amounts recognised in its financial statements (paragraphs 122–123 of IAS 1). The ISSB decided to adapt the principle of this requirement in the requirements in IFRS S1 related to disclosures about judgements an entity has made in the process of preparing and disclosing its sustainability-related financial information.

BC160 The ISSB decided to confirm a requirement for an entity to disclose the judgements that it has made that have the most significant effects on the information provided in its sustainability-related financial disclosures. Judgements disclosed to meet this requirement would contribute to users' understanding of information presented in the entity's sustainability-related financial disclosures. Furthermore, the ISSB noted that such a requirement sets an overarching requirement for an entity to disclose significant judgements that it has made in the absence of a specifically applicable disclosure requirement about judgements in other IFRS Sustainability Disclosure Standards.

BC161 The requirement to disclose information about significant judgements complements the proposal in the Exposure Draft for an entity to disclose the industry or industries specified in the relevant IFRS Sustainability Disclosure Standard or industry-based SASB Standards that it used in preparing its sustainability-related financial information. As discussed in paragraphs BC140–BC141, the ISSB decided to expand that requirement to require an entity to identify the specific sources of guidance that have been applied in preparing its sustainability-related financial disclosures. The entity is required to identify these sources in addition to disclosing the industry or industries specified in IFRS Sustainability Disclosure Standards, SASB Standards or other industry-based sources of guidance.

BC162 The ISSB noted that other IFRS Sustainability Disclosure Standards might also require disclosures about judgements and estimates. In this case, the ISSB noted that the requirements in IFRS S1 would complement those more specific requirements in other IFRS Sustainability Disclosure Standards.

Measurement uncertainty

BC163 The Exposure Draft proposed that an entity identifies metrics it has disclosed that have significant estimation uncertainty. These requirements were adapted from and are consistent with similar requirements in paragraph 125 of IAS 1. Following feedback from respondents, the ISSB acknowledged that measurement uncertainty does not solely arise if metrics cannot be measured directly and can only be estimated. Measurement uncertainty also arises, for example, in providing information about the effects of sustainability-related risks and opportunities on an entity's financial position, financial performance and cash flows for the reporting period, and the anticipated financial effects over the short, medium and long term. For example, some of an entity's assets might be increasingly at risk from climate-related forest fire events and, therefore, this risk would be considered as part of the impairment analysis and measurement of those assets. If the frequency and severity of these fires are highly uncertain, users would need information about this uncertainty, including the fact that there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of these assets.

BC164 The Exposure Draft referred to metrics in proposing disclosures about uncertainty. However, the ISSB decided that the disclosure requirements relating to measurement uncertainty would not be limited to metrics but would also cover other amounts reported in sustainability-related financial disclosures—for example, the requirements relating to current and anticipated financial effects. Therefore, IFRS S1 requires an entity to disclose information to enable users of general purpose financial reports to understand the most significant uncertainties affecting the amounts reported in the sustainability-related financial disclosures. In doing so, an entity identifies the amounts it has disclosed that are subject to a high level of measurement uncertainty, including information about assumptions, approximations and judgements in measuring the amount. This requirement is consistent with and based on paragraph 125 of IAS 1.

Errors

BC165 The ISSB decided to maintain the distinction between the requirements for an entity that revises a comparative amount to, for example, update an estimate for a metric or redefine a metric, and the requirements for restating an amount due to an error. Prior period errors are omissions from and misstatements in the entity's sustainability-related financial disclosures for one or more prior periods. Potential reporting period errors discovered in that period are corrected before the sustainability-related financial disclosures are authorised for issue. However, material errors are sometimes not discovered until a subsequent period. The ISSB confirmed that if an entity identifies a material error in the sustainability-related financial disclosures for its prior periods, it is required to disclose:

(a) the nature of the prior period error;

(b) the correction, to the extent practicable, for each prior period disclosed; and

(c) if correction of the error is impracticable, the circumstances that led to the existence of that condition, and a description of how and from when the error has been corrected.

Effective date

BC166 In determining the effective date of IFRS S1, the ISSB considered feedback on the Exposure Draft. Most respondents provided suggestions on the effective date:

(a) a few respondents suggested that IFRS S1 should become effective as soon as possible or within one year of being issued;

(b) most respondents suggested an effective date of two or more years after issuance; and

(c) a few respondents suggested an effective date of three or more years after issuance.

BC167 A few users of general purpose financial reports asked for effective dates for IFRS S1 and IFRS S2 of no more than 12 months after issuance, noting that the proposed requirements build on well-established standards and frameworks. Many respondents commented on the urgency of creating a global baseline of sustainability-related financial disclosures given similar proposals developed by EFRAG and the US SEC.

BC168 The IASB generally has had a practice of allowing a period of 12–18 months between the issuance of a new Standard and its effective date. The ISSB observed that in the IASB's early standard-setting work the period between the issuance of a new IFRS Accounting Standard and its effective date was 6–12 months. The IASB's most recent IFRS Accounting Standards had periods of up to three years between the issuance of a Standard and the effective date.

BC169 However, the ISSB's situation is different from that of the IASB. If the IASB sets an effective date for a new IFRS Accounting Standard, that date is relevant to those entities already applying IFRS Accounting Standards. It is relevant because, to continue to assert compliance with IFRS Accounting Standards, an entity is required to apply the Standards in accordance with the effective date requirements established by the IASB. Typically, jurisdictions applying IFRS Accounting Standards use the same effective dates as those set by the IASB. However, because the ISSB is issuing its first Standards, there will be a range of dates over which jurisdictions will adopt the IFRS Sustainability Disclosure Standards for the first time and regulators will subsequently require entities to apply the Standards.

BC170 The ISSB understands the importance of taking into account the preparedness of entities when setting the effective date for IFRS S1 and IFRS S2. The requirements will be new, and entities will need time to create or adjust internal systems, processes and controls to prepare the disclosures required by IFRS Sustainability Disclosure Standards. The length of this adoption period will depend, among other things, on an entity's current approach to sustainability-related risks and opportunities and the reporting of these, as well as on the entity's circumstances—for example, its size and the requirements or regulations that apply. The ISSB has made a number of decisions to help preparers apply the requirements and comply with IFRS S1 and IFRS S2 at an earlier date than would otherwise be the case. The ISSB has decided to introduce transition relief and, for example, requirements to permit entities to consider other possibly familiar sources of guidance.

BC171 The ISSB decided that setting an effective date for annual reporting periods beginning on or after 1 January 2024 is consistent with the ISSB's current pace in meeting users' urgent need for sustainability-related and climate-related financial disclosures. The ISSB also decided that early application of IFRS S1 and IFRS S2 is only permitted for entities applying both Standards at the same time. The ISSB decided that if an entity applies the Standards early, it is required to disclose that fact.

Note from the HKICPA: *The effective date for HKFRS S1 is for annual reporting periods beginning on or after 1 August 2025.*

Transition

BC172 In reviewing the feedback on the Exposure Draft, the ISSB identified several concerns about data availability and preparer readiness. In response to these concerns, the ISSB noted that it would be helpful to provide transition relief to give entities more time to prepare to align reporting of sustainability-related financial disclosures and financial statements. The ISSB decided to permit an entity not to report its sustainability-related financial disclosures at the same time as its related financial statements (see paragraph E4 of IFRS S1). The relief is available for one year from the date an entity first applies IFRS S1 and IFRS S2. The ISSB decided that the relief permits the annual sustainability-related financial disclosures to be provided with the following second-quarter or half-year interim general purpose financial report rather than just permitting a delay. The reason for specifying the timing of the reporting was to enable users of general purpose financial reports to know when the information would be provided, therefore ensuring that this information is brought to their attention, given its importance. An entity taking advantage of this relief is permitted to report its sustainability-related financial disclosures for its first annual reporting period:

(a) at the same time as its next second-quarter or half-year interim general purpose financial report, if the entity is required to provide such an interim report;

(b) at the same time as its next second-quarter or half-year interim general purpose financial report, but within nine months of the end of the annual reporting period in which the entity first applies IFRS S1, if the entity voluntarily provides such an interim report; or

(c) within nine months of the end of the annual reporting period in which the entity first applies IFRS S1, if the entity is not required to and does not voluntarily provide an interim general purpose financial report.

BC173 The ISSB decided that this relief is a reasonable balance between providing relief to entities while seeking to maintain the objective of timely reporting, and enabling users of general purpose financial reports to have the information necessary to inform investment decisions. In introducing this relief, the ISSB is not suggesting that an entity is required to provide quarterly or half-yearly reporting.

BC174 The ISSB decided to provide relief for an entity from the requirement to disclose comparative information in the first annual reporting period in which it applies IFRS S1. Permitting an entity to report on only that reporting period enables it to provide users of general purpose financial reports with the information they need sooner. Therefore, this relief allows the requirements in IFRS S1 to become effective sooner than if comparative information were required.

BC175 The ISSB also decided to introduce a transition relief that permits, in the first annual reporting period in which an entity applies IFRS S1, the entity to disclose information on only climate-related risks and opportunities (in accordance with IFRS S2). Therefore, the entity would apply the requirements in IFRS S1 only to the extent that they relate to the disclosure of information about climate-related risks and opportunities. If an entity applies the relief in paragraphs E5–E6 of IFRS S1, an entity applies IFRS S2 to identify climate-related risks and opportunities to provide information about. That is, an entity discloses information about climate-related risks and opportunities as set out in IFRS S2.

BC176 If an entity uses this transition relief, then it is required to disclose that fact. The ISSB decided that if an entity uses this transition relief in the first annual reporting period in which the entity applies IFRS S1, the relief from providing comparative information would be extended. So, an entity electing only to report on climate-related risks and opportunities in the first annual reporting period it applies IFRS S1 is not required to disclose comparative information about its climate-related risks and opportunities (applying the relief described in paragraph BC174). In the second annual reporting period in which the entity applies IFRS S1, it is not required to disclose comparative information about its sustainability-related risks and opportunities, other than its climate-related risks and opportunities. Thus, in the second annual reporting period, comparative information is only required to be provided in relation to climate-related risks and opportunities.

BC177 The ISSB observed that an entity might want to disclose information about sustainability-related risks and opportunities, in addition to climate-related risks and opportunities, in the first annual reporting period in which the entity applies IFRS S1 and IFRS S2. The entity might still apply the relief to the extent that it does not disclose information about all sustainability-related risks and opportunities that could be reasonably expected to affect the entity's prospects, in accordance with IFRS S1. In such circumstances, the intention of this relief is not to restrict an entity from providing incremental information to users of general purpose financial reports—that is, the entity is permitted to disclose information about other sustainability-related risks and opportunities, in addition to climate, in that first annual reporting period. However, the ISSB emphasised that if an entity uses the relief, the entity must disclose that it has used the relief and ensure that the information about climate-related risks and opportunities provided in accordance with IFRS S1 and IFRS S2 is not obscured by the incremental information.

BC178 The ISSB noted that the transition relief in paragraphs E5–E6 of IFRS S1 would provide entities with more time to prepare to report on all sustainability-related risks and opportunities. The ISSB also noted that entities could benefit from becoming more familiar with the language and concepts in IFRS S1 and IFRS S2, and better understand their own value chain, while focusing their efforts on providing information about climate-related risks and opportunities. Such an understanding would be beneficial to an entity's preparedness for broader reporting in accordance with IFRS S1.