IFRS® Sustainability

March 2022

# Exposure Draft

IFRS® Sustainability Disclosure Standard

## [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Comments to be received by 29 July 2022

**International Sustainability Standards Board**

ED/2022/S1

# Exposure Draft

General Requirements for Disclosure of Sustainability-related Financial Information

*Comments to be received by 29 July 2022*

Exposure Draft ED/2022/S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is published by the International Sustainability Standards Board (ISSB) for comment only. Comments need to be received by 29 July 2022 and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.



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[Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is set out in paragraphs 1–92 and Appendices A–C. All the 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 [draft] Standard. Definitions of other terms are given in other IFRS Sustainability Disclosure Standards. The [draft] Standard should be read in the context of its objective and the Basis for Conclusions.

## Introduction

### Why is the ISSB publishing the Exposure Draft?

These proposals respond to calls from primary users (investors, lenders and other creditors) of general purpose financial reporting for more consistent, complete, comparable and verifiable sustainability-related financial information to help them assess an entity's enterprise value. An entity's ability to remain resilient will rely on a range of resources and relationships. Such resources and relationships include its workforce, any specialised knowledge it has developed and its relationships with local communities and natural resources. Investors, lenders and other creditors, therefore, seek information about the significant sustainability-related risks and opportunities facing an entity to inform their decisions about providing resources to the entity. Such information supplements and complements the information contained in the entity's financial statements.

Sustainability-related risks and opportunities arise from an entity's dependencies on resources and its impacts on resources, and the relationships the entity maintains that may be positively or negatively affected by those impacts and dependencies. When an entity's business model depends, for example, on a natural resource—like water—it is likely to be affected by changes in the quality, availability and pricing of that resource. When an entity's activities result in adverse, external impacts—on, for example, local communities—it could be subjected to stricter government regulation and consequences of reputational effects—for example, negative effects on the entity's brand and higher recruitment costs. Furthermore, when an entity's business partners face significant sustainability-related risks and opportunities, the entity could be exposed to related consequences of its own. When such impacts, dependencies and relationships create risks or opportunities, they can create or erode the value of the enterprise, the financial returns to providers of financial capital, and the assessment of enterprise value by primary users.

Enterprise value reflects expectations of the amount, timing and certainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. The information contained in its financial statements and the information included in an entity's sustainability-related financial disclosures are essential inputs to a primary user's assessment of an entity's enterprise value. The proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed.

### A summary of the proposals in the Exposure Draft

The proposals set out the overall requirements for disclosing sustainability-related financial information in order to provide primary users with a complete set of sustainability-related financial disclosures. The Exposure Draft is based on the general requirements for disclosure of sustainability-related financial information prototype published on the IFRS Foundation website in November 2021, developed by the Technical

Readiness Working Group (TRWG).[1] The prototype and the Exposure Draft include the recommendations by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and components of the frameworks and standards of international sustainability bodies, as published in a prototype of a sustainability-related financial disclosure presentation standard in December 2020.[2]

The Exposure Draft includes proposals for definitions and requirements that are consistent with the IASB's *Conceptual Framework for Financial Reporting*, IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The proposals include requirements and guidance to support the disclosure of material information about significant sustainability-related risks and opportunities not specifically addressed by an IFRS Sustainability Disclosure Standard. In such cases, to identify sustainability-related risks and opportunities and to disclose information about them, entities are directed to consider sources that include the disclosure topics in the industry-based Sustainability Accounting Standards Board (SASB) Standards, the International Sustainability Standards Board's (ISSB) non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

The information requirements are designed to enable primary users to assess enterprise value. The information required reflects the way in which an entity operates, covering governance, strategy, risk management and metrics and targets. This approach responds to feedback on key requirements for success in the IFRS Foundation Trustees' (Trustees) 2020 consultation on sustainability reporting by building upon the well-established work of the TCFD.

The proposals would require an entity to explain the connections between different pieces of information, including between various sustainability-related risks and opportunities and information in the entity's financial statements.

The sustainability-related financial information must be for the same reporting entity as the financial statements and published as part of its general purpose financial reporting. This means the information must be disclosed at the same time as the financial statements.

To be able to assert compliance with IFRS Sustainability Disclosure Standards, an entity must meet all of the requirements of these Standards.

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1 The TRWG included the International Accounting Standards Board (IASB), the Climate Disclosure Standards Board (CDSB), the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), the Value Reporting Foundation (previously the SASB Foundation and the International Integrated Reporting Council) and the World Economic Forum and its Measuring Stakeholder Capitalism Initiative.

2 https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf

## Due process provisions applicable to the Exposure Draft

The urgent need for the ISSB to deliver its initial Standards has been repeatedly highlighted, including in feedback to the September 2020 consultation on sustainability reporting held by the Trustees and to the April 2021 Exposure Draft of proposed amendments to the IFRS Foundation *Constitution*. The International Organization of Securities Commissions has also emphasised the urgent need for disclosure standards on climate change. Such urgency can pose significant challenges to standard-setting, which aims to achieve effective outcomes by balancing timely responsiveness to market needs with the rigour of formal due process.

The Trustees recognised the opportunity to use and build upon existing sustainability standards and frameworks, including those developed in accordance with prior due process by the organisations that developed them and that enjoy broad user and preparer support. The main components of the Exposure Draft are based on work that has been subject to extensive public consultation and redeliberation and have since garnered significant market uptake. The Trustees viewed this as a signal that these foundational standards and frameworks help to address the information needs of investors and other capital market participants.

The Trustees noted the need for prompt action and the background to the content of the Exposure Draft. However, they also noted that this does not negate the need for formal due process and exposure by the ISSB. It is important that the ISSB's stakeholders are given the opportunity to provide feedback on the proposals consistent with the IFRS Foundation's inclusive and thorough due process.

To balance the need to advance the work of the ISSB on a timely basis while obtaining input from interested parties, the Trustees decided to grant special powers to the Chair and Vice-Chair of the ISSB to enable timely publication of initial exposure drafts for stakeholder input. The Trustees agreed it would be appropriate that as the ISSB is being established (that is, as a transitional measure) the ISSB Chair and Vice-Chair be provided with the ability to publish exposure drafts of a climate-related disclosure standard and/or a general requirements disclosure standard. This decision is reflected in paragraph 56 of the IFRS Foundation's *Constitution* published in November 2021.

The effect of this provision in the *Constitution* is only to enable the exposure drafts to be published prior to the ISSB being quorate. The exposure drafts are subject to public consultation and will be redeliberated by a quorate ISSB. The ISSB Chair and Vice-Chair's right was made subject to oversight by the Due Process Oversight Committee of the Trustees who were consulted at a meeting convened on 21 March 2022 during which they confirmed they did not object to the ISSB Chair and Vice-Chair publishing these exposure drafts.

## Next steps

The Chair and Vice-Chair anticipate significant interest from stakeholders on the Exposure Draft and on [draft] IFRS S2 *Climate-related Disclosures* which has been published at the same time as the Exposure Draft. The ISSB will analyse and consider the comments and feedback it receives and will decide how to proceed.

The ISSB intends to redeliberate the Exposure Draft in the second half of 2022 based on feedback from stakeholders and seeks to issue the resulting IFRS Sustainability Disclosure Standard based on these proposals expeditiously.

## Invitation to comment

The Chair and Vice-Chair invite comments on the proposals in the Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) address the questions as stated;

(b) specify the paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative the ISSB should consider, if applicable.

The Chair and Vice-Chair are requesting comments only on matters addressed in the Exposure Draft.

 

## Questions for respondents

**Question 1—Overall approach**

The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it.

Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. 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.

(a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?

(b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?

(c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 *Climate-related Disclosures*? Why or why not? If not, what aspects of the proposals are unclear?

(d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

| **Question 2—Objective (paragraphs 1–7)** |
|---|
| The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value.<br><br>Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information.<br><br>Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability-related financial information should, therefore, include information about the entity's governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements. Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets.<br><br>The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value.<br><br>(a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?<br><br>(b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer? |

| Question 3—Scope (paragraphs 8–10) |
| --- |
| Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures.<br><br>The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction's GAAP (so with IFRS Accounting Standards or other GAAP).<br><br>Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not? |

**Question 4—Core content (paragraphs 11–35)**

The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates.

This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting, and builds upon the well-established work of the TCFD.

**Governance**

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on governance would be:

> to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.

**Strategy**

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on strategy would be:

> to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.

**Risk management**

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be:

> to enable the users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.

**Metrics and targets**

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on metrics and targets would be:

> to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

(a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

(b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

 

**Question 5—Reporting entity (paragraphs 37–41)**

The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements.

The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as:

- its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain;
- the assets it controls (such as a production facility that relies on scarce water resources);
- investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and
- sources of finance.

The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate.

(a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

(b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

| **Question 6—Connected information (paragraphs 42–44)** |
|---|
| The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements.<br>(a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?<br>(b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why? |

| **Question 7—Fair presentation (paragraphs 45–55)** |
|---|
| The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation.<br><br>To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.<br><br>To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity, an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are neutral. In making that judgement, entities would consider the same sources identified in the preceding paragraph, to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard.<br><br>(a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?<br><br>(b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft. |

| **Question 8—Materiality (paragraphs 56–62)** |
|---|
| The Exposure Draft defines material information in alignment with the definition in IASB's *Conceptual Framework for General Purpose Financial Reporting* and IAS 1. 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 reporting make on the basis of that reporting, which provides information about a specific reporting entity'.<br><br>However, the materiality judgements will vary because the nature of sustainability-related financial information is different to information included in financial statements. Whether information is material also needs to be assessed in relation to enterprise value.<br><br>Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date. The Exposure Draft proposes that even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would need not to provide that disclosure if the resulting information was not material. Equally, when the specific requirements would be insufficient to meet users' information needs, an entity would be required to consider whether to disclose additional information. This approach is consistent with the requirements of IAS 1.<br><br>The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction.<br><br>(a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?<br><br>(b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?<br><br>(c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?<br><br>(d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why? |

 

| Question 9—Frequency of reporting (paragraphs 66–71) |
| --- |
| The Exposure Draft proposes that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements, and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements.<br><br>Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not? |

**Question 10—Location of information (paragraphs 72–78)**

The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—ie as part of the same package of reporting that is targeted at investors and other providers of financial capital.

However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting.

The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information.

Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements.

The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication.

(a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

(b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?

(c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not?

(d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

 

**Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)**

The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —ie the comparatives would be restated to reflect the better estimate.

The Exposure Draft also includes a proposed requirement that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements, to the extent possible.

(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

(b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

(c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

**Question 12—Statement of compliance (paragraphs 91-92)**

The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements.

The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

| **Question 13—Effective date (Appendix B)** |
| --- |
| The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard.<br>(a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.<br>(b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not? |

| **Question 14—Global baseline** |
| --- |
| IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of sustainability-related risks and opportunities. Those needs may be met by requirements set by others, including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.<br>Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why? |

| **Question 15—Digital reporting** |
| --- |
| The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption as compared to paper-based consumption is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S2 *Climate-related Disclosures* Standards are the sources for the Taxonomy.<br>It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.<br>Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)? |

 

| Question 16—Costs, benefits and likely effects |
| --- |
| The ISSB is committed to ensuring that implementing the Exposure Draft proposals appropriately balances costs and benefits.<br>(a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?<br>(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider? |

| Question 17—Other comments |
| --- |
| Do you have any other comments on the proposals set out in the Exposure Draft? |

## How to comment

Please submit your comments electronically:

| | |
| --- | --- |
| Survey and comment letter online | https://www.ifrs.org/projects/work-plan/general-sustainability-related-disclosures/exposure-draft-and-comment-letters/ |
| Comment letter by email | commentletters@ifrs.org |

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We normally grant such requests only if they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your survey response or letter.

## Deadline

The ISSB will consider all written comments and responses to the survey received by 29 July 2022.

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

## Objective

1 **The objective of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is to require an entity to disclose information about its significant sustainability-related risks and opportunities that is useful to the *primary users of general purpose financial reporting* when they assess *enterprise value* and decide whether to provide resources to the entity.**[3]

2 **A *reporting entity* shall disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. 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.**

3 **An entity's *general purpose financial reporting* shall include a complete, neutral and accurate depiction of its *sustainability-related financial information*.**

4 This [draft] Standard sets out how an entity is required to disclose sustainability-related financial information in order to provide the users of that information with a sufficient basis to assess the implications of sustainability-related risks and opportunities on the entity's enterprise value.

5 Enterprise value reflects expectations of the amount, timing and certainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information that is provided by the entity in its financial statements and sustainability-related financial information.

6 Sustainability-related financial information is broader than information reported in the financial statements and could include information about:

(a) an entity's governance of sustainability-related risks and opportunities, and its strategy for addressing them;

(b) decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements;

(c) the entity's reputation, performance and prospects as a consequence of the actions it has undertaken, such as its relationships with people, the planet and the economy, and its impacts and dependencies on them; and

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

 

(d) the entity's development of knowledge-based assets.

7 This [draft] Standard also prescribes the basis for disclosing sustainability-related financial information that:

(a) is comparable both with the entity's sustainability-related financial information of previous periods and with the sustainability-related financial information from other entities; and

(b) is connected to the other information in the entity's general purpose financial reporting.

## Scope

8 **An entity shall apply this [draft] Standard in preparing and disclosing sustainability-related financial information in accordance with *IFRS Sustainability Disclosure Standards*. An entity may apply IFRS Sustainability Disclosure Standards when the entity's related financial statements are prepared in accordance with IFRS Accounting Standards or other GAAP.**

9 Sustainability-related risks and opportunities that cannot reasonably be expected to affect assessments of an entity's enterprise value by primary users of general purpose financial reporting are outside the scope of this [draft] Standard.

10 This [draft] 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 [draft] Standard, they may need to amend the descriptions used for some disclosure items when applying IFRS Sustainability Disclosure Standards.

## Core content

11 **Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise, 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;**

**(b) strategy—the approach for addressing sustainability-related risks and opportunities that could affect the entity's *business model* and strategy over the short, medium and long term;**

**(c) risk management—the processes the entity used to identify, assess and manage sustainability-related risks; and**

**(d) metrics and targets—information used to assess, manage and monitor the entity's performance in relation to sustainability-related risks and opportunities over time.**

## Governance

12 **The objective of *sustainability-related financial disclosures* on governance is to enable users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage sustainability-related risks and opportunities.**

13 To achieve this objective, an entity shall disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of sustainability-related risks and opportunities, and information about management's role in those processes. Specifically, an entity shall disclose:

(a) the identity of the body or individual within a body responsible for oversight of sustainability-related risks and opportunities;

(b) how the body's responsibilities for sustainability-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies;

(c) how the body ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to sustainability-related risks and opportunities;

(d) how and how often the body and its committees (audit, risk or other committees) are informed about sustainability-related risks and opportunities;

(e) how the body and its committees consider sustainability-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions, and its risk management policies, including any assessment of trade-offs and analysis of sensitivity to uncertainty that may be required;

(f) how the body and its committees oversee the setting of targets related to significant sustainability-related risks and opportunities, and monitor progress towards them (see paragraphs 27–35), including whether and how related performance metrics are included in remuneration policies; and

(g) a description of management's role in assessing and managing sustainability-related risks and opportunities, including whether that role is delegated to a specific management-level position or committee and how oversight is exercised over that position or committee. The description shall include information about whether dedicated controls and procedures are applied to management of sustainability-related risks and opportunities and, if so, how they are integrated with other internal functions.

## Strategy

14 **The objective of sustainability-related financial disclosures on strategy is to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.**

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

(a) the significant sustainability-related risks and opportunities that it reasonably expects could affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term (see paragraphs 16–19);

(b) the effects of significant sustainability-related risks and opportunities on its business model and *value chain* (see paragraph 20);

(c) the effects of significant sustainability-related risks and opportunities on its strategy and decision-making (see paragraph 21);

(d) the effects of significant sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how sustainability-related risks and opportunities are included in the entity's financial planning (see paragraph 22); and

(e) the resilience of its strategy (including its business model) to significant sustainability-related risks (see paragraphs 23–24).

### Sustainability-related risks and opportunities

16 An entity shall disclose information that enables users of general purpose financial reporting to understand the significant sustainability-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. Specifically, the entity shall disclose:

(a) a description of significant sustainability-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term; and

(b) how it defines short, medium and long term and how these definitions are linked to the entity's strategic planning horizons and capital allocation plans.

17 An entity's sustainability-related risks and opportunities arise from its dependencies on resources and its impacts on resources, and from the relationships it maintains that may be positively or negatively affected by those impacts and dependencies. When an entity's business model depends, for example, on a natural resource—like water—it is likely to be affected by changes in the quality, availability and pricing of that resource. When an

entity's activities result in adverse, external impacts—on, for example, local communities—it could be subjected to stricter government regulation and consequences of reputational effects—for example, negative effects on the entity's brand and higher recruitment costs. Furthermore, when an entity's business partners face significant sustainability-related risks and opportunities, the entity could be exposed to related consequences of its own. When such impacts, dependencies and relationships create risks or opportunities for an entity, they can affect the entity's performance or prospects, create or erode the value of the enterprise and the financial returns to providers of financial capital, and the assessment of enterprise value by the primary user.

18 The short, medium and long term time horizons referred to in paragraph 16(a) can vary and depend on many factors, including industry-specific characteristics, such as cash flow and business cycles, the expected duration of capital investments, the time horizons over which the users of general purpose financial reporting conduct their assessments, and the planning horizons typically used in an entity's industry for strategic decision-making.

19 In identifying the significant sustainability-related risks and opportunities described in paragraph 16, an entity shall apply paragraph 51.

20 An entity shall disclose information that enables users of general purpose financial reporting to understand its assessment of the current and anticipated effects of significant sustainability-related risks and opportunities on its business model. Specifically, an entity shall disclose:

(a) a description of the current and anticipated effects of significant sustainability-related risks and opportunities on its value chain; and

(b) a description of where in its value chain significant sustainability-related risks and opportunities are concentrated (for example, geographical areas, facilities or types of assets, inputs, outputs or distribution channels).

### Strategy and decision-making

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

(a) how it is responding to significant sustainability-related risks and opportunities;

(b) quantitative and qualitative information about the progress of plans disclosed in prior reporting periods; and

(c) what trade-offs between sustainability-related risks and opportunities were considered by the entity (for example, in a decision on the location of new operations, a trade-off between the environmental impacts of those operations and the employment opportunities they would create in a community, and the related effects on enterprise value).

 

### Financial position, financial performance and cash flows

22 **An entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how sustainability-related risks and opportunities are included in the entity's financial planning. An entity shall disclose quantitative information unless it is unable to do so. If an entity is unable to provide quantitative information, it shall provide qualitative information. When providing quantitative information, an entity can disclose single amounts or a range. Specifically, an entity shall disclose:**

(a) **how significant sustainability-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows;**

(b) **information about the sustainability-related risks and opportunities identified in paragraph 22(a) for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year;**

(c) **how it expects its financial position to change over time, given its strategy to address significant sustainability-related risks and opportunities, reflecting:**

   (i) **its current and committed investment plans and their anticipated effects on its financial position (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements);**

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

(d) **how it expects its financial performance to change over time, given its strategy to address significant sustainability-related risks and opportunities.**

### Resilience

23 **An entity shall disclose information that enables users of general purpose financial reporting to understand its capacity to adjust to the uncertainties arising from significant sustainability-related risks. An entity shall disclose a qualitative and, when applicable, a quantitative analysis of the resilience of its strategy and cash flows in relation to its significant sustainability-related risks, including how the analysis was undertaken and its time horizon. When providing quantitative information, an entity can disclose single amounts or a range.**

24 **Other IFRS Sustainability Disclosure Standards will specify the type of information an entity is required to disclose about its resilience to specific sustainability-related risks, such as when scenario analysis shall be used.**

## Risk management

25 **The objective of sustainability-related financial disclosures on risk management is to enable users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.**

26 To achieve this objective, an entity shall disclose:

(a) the process, or processes, it uses to identify sustainability-related:

(i) risks; and

(ii) opportunities;

(b) the process, or processes, it uses to identify sustainability-related risks for risk management purposes, including when applicable:

(i) how it assesses the likelihood and effects associated with such risks (such as the qualitative factors, quantitative thresholds and other criteria used);

(ii) how it prioritises sustainability-related risks relative to other types of risks, including its use of risk-assessment tools;

(iii) the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions); and

(iv) whether it has changed the processes used compared to the prior reporting period;

(c) the process, or processes, it uses to identify, assess and prioritise sustainability-related opportunities;

(d) the process, or processes, it uses to monitor and manage the sustainability-related:

(i) risks, including related policies; and

(ii) opportunities, including related policies;

(e) the extent to which and how the sustainability-related risk identification, assessment and management process, or processes, are integrated into the entity's overall risk management process; and

(f) the extent to which and how the sustainability-related opportunity identification, assessment and management process, or processes, are integrated into the entity's overall management process.

 

## Metrics and targets

27 **The objective of sustainability-related financial disclosures on metrics and targets is to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.**

28 **Metrics shall include those defined in any other applicable IFRS Sustainability Disclosure Standard, metrics identified from the other sources identified in paragraph 54 and metrics developed by an entity itself.**

29 **An entity shall identify metrics that apply to its activities in line with its business model and in relation to specific sustainability-related risks or opportunities. Some entities will have a range of activities and, therefore, may need to apply metrics that are applicable to more than one industry.**

30 An entity shall disclose the metrics it uses to manage and monitor sustainability-related risks and opportunities; and the metrics it uses to measure performance, including progress towards the targets it has set.

31 When a metric has been developed by an entity, it shall disclose:

(a) how the metric is defined, including whether it is an absolute measure or expressed in relation to another metric (such as revenue or floor space) and any sources that have been used to construct the metric;

(b) whether measurement of the metric is validated by an external body and, if so, which body; and

(c) explanations of the methods used to calculate the targets and the inputs to the calculation, including the significant assumptions made and the limitations of those methods.

32 An entity shall disclose the targets it has set to assess progress towards achieving its strategic goals, specifying:

(a) the metric used;

(b) the period over which the target applies;

(c) the base period from which progress is measured; and

(d) any milestones or interim targets.

33 An entity shall disclose:

(a) performance against its disclosed targets and an analysis of trends or significant changes in its performance; and

(b) revisions to its targets and the explanation for those revisions.

34 The definition and calculation of metrics, including metrics used to set and monitor targets, shall be consistent over time. If a metric or target is redefined or replaced, an entity shall:

(a) explain the changes;

(b) explain the reasons for those changes, including why any replacement metric provides more useful information; and

(c) provide restated comparative figures, unless it is impracticable to do so.

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

## General features

36 **For sustainability-related financial information to be useful, it shall be relevant and faithfully represent what it purports to represent. These are fundamental qualitative characteristics. Usefulness is enhanced if the information is comparable, verifiable, timely and understandable. Appendix C sets out the characteristics of useful information.**

### Reporting entity

37 **An entity's sustainability-related financial disclosures shall be for the same reporting entity as the related general purpose financial statements. For example, if the reporting entity is a group, the consolidated financial statements will be for a parent and its subsidiaries; consequently, that entity's sustainability-related financial disclosures shall enable users of general purpose financial reporting to assess the enterprise value of the parent and its subsidiaries.**

38 **An entity shall disclose the financial statements to which the sustainability-related financial disclosures relate.**

39 **When currency is specified as the unit of measure, the entity shall use the presentation currency of its financial statements.**

40 Paragraph 2 requires an entity to disclose material information about all significant sustainability-related risks and opportunities to which it is exposed. These risks and opportunities relate to activities, interactions and relationships and to the use of resources along its value chain, such as:

(a) its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain;

(b) the assets it controls (such as a production facility that relies on scarce water resources);

(c) investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and

 

(d) sources of finance.

41 Other IFRS Sustainability Disclosure Standards will specify how an entity is required to disclose or measure its significant sustainability-related risks and opportunities, including those related to its associates, joint ventures and other financed investments, and those related to its value chain.

## Connected information

42 **An entity shall provide information that enables users of general purpose financial reporting to assess the connections between various sustainability-related risks and opportunities, and to assess how information about these risks and opportunities is linked to information in the general purpose financial statements.**

43 An entity shall describe the relationships between different pieces of information. Doing so could require connecting narrative information on governance, strategy and risk management to related metrics and targets. For example, to allow users of general purpose financial reporting to assess connections in information, an entity might need to explain the effect or likely effect of its strategy on its financial statements or financial plans, or on metrics and targets used to measure progress against performance. Furthermore, the entity might need to explain how its use of natural resources and changes within its supply chain could amplify, change or reduce its significant sustainability-related risks and opportunities. The entity may need to link this information to the potential or actual effect on its production costs, its strategic response to mitigate such risks and its related investment in new assets. This information may also need to be linked to information in the financial statements and to specific metrics and targets. Information that describes connections shall be clear and concise.

44 Examples of connected information include:

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

(b) an explanation of the potential options that were evaluated when an entity assessed its sustainability-related risks and opportunities, and the consequences of its decisions to address those risks and opportunities, including the trade-offs that were considered, as detailed in paragraph 21(c). For example, an entity might need to explain how a decision to restructure its operations in response to a sustainability-related risk could have consequential effects on the future size and composition of the entity's workforce.

## Fair presentation

45 **A complete set of sustainability-related financial disclosures shall present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation requires the faithful representation of sustainability-related risks and opportunities in accordance with the principles set out in this [draft] Standard.**

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

47 A fair presentation also requires an entity:

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

(b) to provide additional disclosures when compliance with the specific requirements in IFRS Sustainability Disclosure Standards is insufficient to enable users of general purpose financial reporting to assess the implications of sustainability-related risks and opportunities on the entity's enterprise value.

48 When applying this [draft] Standard and other IFRS Sustainability Disclosure Standards, an entity, after it has considered all relevant facts and circumstances, shall decide how to aggregate the information in its sustainability-related financial disclosures. An entity shall not reduce the understandability of its sustainability-related financial disclosures by obscuring material information with immaterial information or by aggregating material items that are dissimilar.

49 Information shall not be aggregated if doing so would obscure information that is material. Rather, aggregation and disaggregation shall be based on the characteristics of the sustainability-related risks and opportunities. Information shall be aggregated when it shares those characteristics and disaggregated when it does not share them. Information about sustainability-related risks and opportunities might need to be disaggregated, such as 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 disclosures about its use of water to distinguish between water drawn from abundant sources and water drawn from high-stress sources.

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

50 This [draft] Standard requires an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed (see paragraph 2).

51 To identify sustainability-related risks and opportunities about which information could reasonably be expected to influence decisions that the users of general purpose financial reporting make on the basis of that information, an entity shall refer to IFRS Sustainability Disclosure Standards, including

 

identified *disclosure topics*. In addition to IFRS Sustainability Disclosure Standards, an entity shall consider:

(a) the disclosure topics in the industry-based SASB Standards;

(b) the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures);

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

(d) the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

52 To identify disclosures, including metrics, about a significant sustainability-related risk or opportunity, an entity shall refer to the relevant IFRS Sustainability Disclosure Standards.

53 In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk or opportunity, management shall use its judgement in identifying disclosures that:

(a) are relevant to the decision-making needs of users of general purpose financial reporting;

(b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and

(c) are neutral.

54 In making the judgement described in paragraph 53, management shall consider, to the extent that these do not conflict with an IFRS Sustainability Disclosure Standard, the metrics associated with the disclosure topics included in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and the metrics used by entities in the same industries or geographies.

55 An entity shall disclose the industry or industries specified in the relevant IFRS Sustainability Disclosure Standard or industry-based SASB Standards that it has used when identifying disclosures about a significant sustainability-related risk or opportunity.

## Materiality

56 **Sustainability-related financial 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 reporting make on the basis of that reporting, which provides information about a specific reporting entity.**

57 Material sustainability-related financial information provides insights into factors that could reasonably be expected to influence primary users' assessments of an entity's enterprise value. The information relates to activities, interactions and relationships and to the use of resources along the entity's value chain if it could influence the assessment primary users make of its enterprise value. It can include information about sustainability-related risks and opportunities with low-probability and high-impact outcomes.

58 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 general purpose financial reporting. This [draft] Standard does not specify any thresholds for materiality or predetermine what would be material in a particular situation.

59 An entity shall apply judgement to identify material sustainability-related financial information. Materiality judgements shall be reassessed at each reporting date to take account of changed circumstances and assumptions.

60 An entity need not provide a specific disclosure that would otherwise be required by an IFRS Sustainability Disclosure Standard if the information resulting from that disclosure is not material. This is the case even if the IFRS Sustainability Disclosure Standard contains a list of specific requirements or describes them as minimum requirements.

61 An entity shall also consider whether to disclose additional information when compliance with the specific requirements in an IFRS Sustainability Disclosure Standard is insufficient to enable users of general purpose financial reporting to assess the effect on enterprise value of the sustainability-related risks and opportunities to which the entity is exposed.

62 An entity need not disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit 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.

## Comparative information

63 **An entity shall disclose comparative information in respect of the previous period for all metrics disclosed in the current period. When such information would be relevant to an understanding of the current period's sustainability-related financial disclosures, the entity shall also disclose comparative information for narrative and descriptive sustainability-related financial disclosures.**

64 When providing sustainability-related financial disclosures an entity shall disclose comparative information that reflects updated estimates. When the entity reports comparative information that differs from the information reported in the previous period it shall disclose:

(a) the difference between the amount reported in the previous period and the revised comparative amount; and

(b) the reasons the amounts have been revised.

65 Sometimes, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data might not have been collected in the prior period(s) in a way that allows either retrospective application of a new definition of a metric or target or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information. When it is impracticable to adjust comparative information for one or more prior periods, an entity shall disclose that fact.

## Frequency of reporting

66 **An entity shall report its sustainability-related financial disclosures at the same time as its related financial statements and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements.**

67 When an entity changes the end of its reporting period and discloses 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.

68 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 [draft] Standard does not preclude this practice.

69 This [draft] Standard does not mandate which entities would be required to disclose interim sustainability-related financial information, how frequently it shall be disclosed, or how soon after the end of an interim period it shall be disclosed. However, governments, securities regulators, stock exchanges and accountancy bodies may require entities whose debt or equity securities are publicly traded to publish interim reports. Paragraph 70 applies if an entity is required or elects to publish interim sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards.

70 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 disclosures. The interim 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 disclosures, an entity is not prohibited or discouraged from publishing a complete set of

sustainability-related financial disclosures as described in this [draft] Standard in its interim reporting.

71 Information about transactions, other events and conditions that occur after the end of the reporting period, and before the date on which the sustainability-related financial disclosures are authorised for issue, shall be disclosed if non-disclosure could reasonably be expected to influence decisions that the users of general purpose financial reporting make on the basis of that reporting.

## Location of information

72 **An entity is required to disclose information required by IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting.**

73 Subject to any regulation or other requirements that apply to an entity, there are various possible locations in its general purpose financial reporting in which to disclose sustainability-related financial information. Sustainability-related financial disclosures could be included in an entity's management commentary when management commentary forms part of an entity's general purpose financial reporting. Management commentary complements an entity's financial statements. It provides insights into the factors that have affected the entity's financial performance and financial position and the factors that could affect the entity's ability to create value and generate cash flows. Management commentary can be known by or incorporated in reports with various names, including management's discussion and analysis, operating and financial review, integrated report and strategic report.

74 An entity might disclose information required by an IFRS 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.

75 Information required by an IFRS Sustainability Disclosure Standard can be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements. Including information by cross-referencing rather than providing information directly shall not make the complete set of sustainability-related financial disclosures less understandable.

76 Material information included by cross-reference becomes part of the complete set of sustainability-related financial disclosures. Information included by cross-reference shall comply with the requirements of IFRS Sustainability Disclosure Standards. For example, it needs to be relevant, representationally faithful, comparable, verifiable, timely and understandable. The bodies or individuals that authorise the general purpose financial

 

reporting take the same responsibility for the information included by cross-reference as they do for the information included directly.

77 If information required by an IFRS Sustainability Disclosure Standard is included by reference to information in another location:

(a) the general purpose financial reporting shall identify the location of that information and explain how to access it; and

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

78 When IFRS Sustainability Disclosure Standards require the disclosure of common items of information, an entity shall avoid unnecessary duplication. For example, when an entity integrates its oversight of sustainability-related risks and opportunities, the disclosures on governance shall also be integrated rather than provided in the form of separate governance disclosures for each significant sustainability-related risk and opportunity.

## Sources of estimation and outcome uncertainty

79 **When metrics cannot be measured directly and can only be estimated, measurement uncertainty arises. The use of reasonable estimates is an essential part of preparing sustainability-related metrics 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. An entity shall identify metrics it has disclosed that have significant estimation uncertainty, disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties.**

80 **When sustainability-related financial disclosures include financial data and assumptions, such financial data and assumptions shall be consistent with the corresponding financial data and assumptions in the entity's financial statements, to the extent possible.**

81 Some IFRS Sustainability Disclosure Standards require the disclosure of information such as explanations about possible future events that have 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 value, timing and certainty of the entity's future cash flows, including in the long term (the possible outcome); and

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

82 When considering possible outcomes, an entity shall consider all relevant facts and circumstances, and consider including information about low-probability and high-impact outcomes, which, when aggregated, could become material. For example, an entity might be exposed to several sustainability-related risks, each of which could cause the same type of disruption—such as disruptions 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.

83 **An entity shall disclose information about the assumptions it makes about the future, and other sources of significant uncertainty, related to the information it discloses about the possible effects of sustainability-related risks or opportunities, when there is significant outcome uncertainty.**

## Errors

84 **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.**

85 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 general purpose financial reporting for those periods was authorised for issue; and

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

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

87 Potential current period errors discovered in that period are corrected before the general purpose financial reporting is authorised for issue. However, material errors are sometimes not discovered until a subsequent period.

88 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.

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

90 If an entity identifies a material error in its prior period 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 not practicable, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

 

## Statement of compliance

91 **An entity whose sustainability-related financial disclosures comply with all of the relevant requirements of IFRS Sustainability Disclosure Standards shall include an explicit and unqualified statement of compliance.**

92 Paragraph 62 relieves an entity from disclosing information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

## Appendix A
## Defined terms

*This appendix is an integral part of [draft] IFRS S1 and has the same authority as the other parts of the [draft] Standard.*

| | |
|---|---|
| **Business model** | An entity's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value 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 **IFRS Sustainability Disclosure Standard** or an industry-based SASB Standard. |
| **Enterprise value** | The total value of an entity. It is the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt. |
| **General purpose financial reporting** | The provision of 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:<br>(a) buying, selling or holding equity and debt instruments;<br>(b) providing or selling loans and other forms of credit; or<br>(c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.<br>General purpose financial reporting encompasses—but is not restricted to—an entity's general purpose financial statements and **sustainability-related financial disclosures**. |
| **IFRS Sustainability Disclosure Standards** | Standards issued by the International Sustainability Standards Board. |
| **Primary users of general purpose financial reporting (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. |
| **Sustainability-related financial disclosures** | Disclosures about sustainability-related risks and opportunities that are useful to **users of general purpose financial reporting** when they assess an entity's **enterprise value**, including information about its governance, strategy and risk management, and related metrics and targets. |

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| **Sustainability-related financial information** | Information that gives insight into sustainability-related risks and opportunities that affect **enterprise value**, providing a sufficient basis for **users of general purpose financial reporting** to assess the resources and relationships on which an entity's **business model** and strategy for sustaining and developing that model depend. |
| **Users** | See **primary users of general purpose financial reporting** (primary users). |
| **Value chain** | The full range of activities, resources and relationships related to a **reporting entity's business model** and the external environment in which it operates.<br><br>A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include those in the entity's operations, such as human resource; 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
## Effective date

*This appendix is an integral part of [draft] IFRS S1 and has the same authority as the other parts of the [draft] Standard.*

B1 An entity shall apply this [draft] Standard for annual reporting periods beginning on or after 1 January 20XX. Earlier application is permitted. If an entity applies this [draft] Standard earlier, it shall disclose that fact.

B2 An entity is not required to provide the disclosures specified in this [draft] Standard for any period before the date of initial application. Accordingly, comparative information is not required to be disclosed in the first period in which an entity applies this [draft] Standard.

# Appendix C
# Qualitative characteristics of useful sustainability-related financial information

*This appendix is an integral part of [draft] IFRS S1 and has the same authority as the other parts of the [draft] Standard.*

## Introduction

C1 The *Conceptual Framework for Financial Reporting (Conceptual Framework)* was issued by the International Accounting Standards Board (IASB). It describes the objective of, and the concepts for, general purpose financial reporting. One of the purposes of the *Conceptual Framework* is to assist the IASB to develop Standards for the preparation of general purpose financial statements that are based on consistent concepts.

C2 Sustainability-related financial information is part of general purpose financial reporting. 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 objectives of this Standard differs from the information provided in general purpose financial statements.

C3 Sustainability-related financial information is useful if it is relevant and faithfully represents what it purports to represent. These are fundamental qualitative characteristics. Usefulness is enhanced if the information is comparable, verifiable, timely and understandable.

## Fundamental qualitative characteristics

### Relevance

C4 Relevant sustainability-related financial information is capable of making a difference in the decisions made by the 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.

C5 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 its pollution, could inform the expectations of investors, lenders and other creditors about the ability of an entity to meet local water-quality requirements.

C6 Sustainability-related financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

C7 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 carbon emissions, which can be used as the basis for predicting such emissions in future years, can also be compared with predictions about carbon 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

C8 Sustainability-related financial 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 reporting make on the basis of that reporting, which provides information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance. The materiality of a specific sustainability-related financial disclosure is assessed in the context of an entity's general purpose financial reporting and is based on the nature or magnitude of the item to which the information relates, or both.

## Faithful representation

C9 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.

C10 To be a faithful representation, a depiction would be complete, neutral and free from error. The objective of general purpose financial reporting is to maximise those qualities to the maximum extent.

C11 A complete depiction of a sustainability-related risk or opportunity includes all material information necessary for the primary users to understand that risk or opportunity, including how the entity has adapted its strategy, risk management and governance in response to that sustainability-related risk or opportunity, as well as the metrics identified to set targets and measure performance.

C12 Sustainability-related financial disclosure 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 the 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.

C13 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.

C14 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.

C15 Sustainability-related financial disclosures shall be accurate. Information can be accurate without being perfectly precise in all respects. The amount of precision needed and attainable, and the factors that make information accurate, depend on the nature of the information and the nature of the matters it addresses. 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 have been made in selecting and applying an appropriate process for developing an estimate, approximation or forecast, and the inputs to that process are reasonable and supportable;

(e) assertions are reasonable and based on information of sufficient quality and quantity; and

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

## Enhancing qualitative characteristics

C16 The usefulness of sustainability-related financial information is enhanced if it is comparable, verifiable, timely and understandable.

### Comparability

C17 The decisions made by the primary users of general purpose financial reporting 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 investors and creditors 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.

C18 Sustainability-related financial disclosures shall be provided in a way that enhances comparability without omitting material information.

C19 Consistency is related to, but is not the same as, comparability. Consistency refers to the use of the same approaches or methods for 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.

C20 Comparability is not uniformity. For information to be comparable, like components shall look alike and different components 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

C21 Verifiability helps to give investors and creditors 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.

C22 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 can also be verified.

C23 Sustainability-related financial disclosures shall be provided in a way that enhances their 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 the entity's business, about other businesses or about the external environment;

(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.

C24 Some sustainability-related financial disclosures will be in the form of explanations or forward-looking information. Those disclosures can be supportable by faithfully representing fact-based strategies, plans and risk analyses, for example. To help investors and creditors 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 verify that it reflects the actual plans or decisions made by the entity.

## Timeliness

C25 Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the 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

C26 Sustainability-related financial disclosures shall be clear and concise. For sustainability-related financial disclosures to be concise, they need to:

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

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

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

C27 The clearest form of disclosure depends on the nature of the information and might sometimes include tables, graphs or diagrams in addition to narrative text. If graphs or diagrams are used, additional text or tables may be necessary to avoid obscuring material detail.

C28 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.

C29 Disclosures are concise if they include only material information. Any immaterial information included shall be provided in a way that avoids obscuring material information.

C30 Some sustainability-related risks and opportunities are inherently complex and may be challenging 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 reporting to make those reports easier to understand. The exclusion of such information would render those reports incomplete and, therefore, possibly misleading.

C31 The completeness, clarity and comparability of sustainability-related financial disclosures all rely on information being presented as a coherent whole. For sustainability-related financial disclosures to be coherent, they shall be presented in a way that explains the context and the relationships between the related information.

C32 If sustainability-related risks and opportunities located in one part of an entity's general purpose financial reporting have implications for information disclosed in other parts, the entity shall include the information necessary for users to assess those implications.

C33 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.

 

## Approval by the ISSB Chair and Vice-Chair of Exposure Draft IFRS S1 *General Requirements for the Disclosure of Sustainability-related Financial Information* published in March 2022

The Exposure Draft IFRS S1 *General Requirements for the Disclosure of Sustainability-related Financial Information* was approved for publication by the Chair and Vice-Chair of the International Sustainability Standards Board.

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