

This guidance is intended for individuals involved in the preparation of sustainability disclosures. IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* (IFRS SDS) were issued in June 2023 effective for annual reporting periods beginning on or after 1 January 2024. There is a transitional relief in IFRS S1 which allows an entity to apply the requirements in IFRS S1 insofar as they relate to climate-related risks and opportunities (as set out in IFRS S2) in the first year it applies IFRS S1 and IFRS S2.

Guidance 1: Two important ideas in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* to facilitate proportionality and scalability

In this guidance, we delve into the realm of IFRS S1 and IFRS S2 with the aim of shedding light on its two important ideas to facilitate proportionality and scalability. It is informed by the insights presented by Sue Lloyd, ISSB Vice-Chair during a recent training session on [Considerations of proportionality and scalability in sustainability reporting](#). It is important to note that the content presented here draws heavily on the wisdom and expertise shared by Sue Lloyd as we strive to reinforce and promote the key concepts discussed in the training. By paraphrasing the ideas put forth in the training, we aim to synthesize the knowledge gained and present it in a manner that is accessible and beneficial to our readers.

Proportionality and Scalability

One of the notable [feedback points](#) conveyed to the International Sustainability Standards Board (ISSB) regarding the Exposure Drafts of IFRS S1 and IFRS S2 pertains to the concepts of proportionality and scalability. This feedback is in line with the perspectives expressed by stakeholders in Hong Kong, as articulated in our [comment letter](#) to the ISSB.

Stakeholders have emphasized the need for certain requirements within IFRS S1 and IFRS S2 to consider the varying capabilities and preparedness of companies worldwide. In light of this, the ISSB has incorporated two important ideas into IFRS S1 and IFRS S2 to facilitate proportionality and scalability.

Reasonable and Supportable Information

The first is the concept of what a company can achieve without undue cost and effort, using reasonable and supportable information. This concept is applied in areas such as IFRS S2, where there is a high degree of measurement uncertainty, such as the measurement of greenhouse gas emissions and the identification of climate-related risks and opportunities. This measure aims to assure companies that they can report information with confidence, even if it is less than perfect, given their earnest efforts. This concept will assist all companies and should be particularly helpful for preparers that are less able to comply with the requirements in the standards.

It is important to note that this phrase is not novel; it has been borrowed from the sister board of the ISSB, the International Accounting Standards Board (IASB), and is used in several of their recent IFRS Accounting Standards (e.g. IFRS 9 *Financial Instruments*) where there is measurement uncertainty.

The use of reasonable and supportable information means that a company must have a basis for its actions. It cannot be a cursory exercise; there must be evidence and support for the information used. The effort required should be proportionate to the benefits for users of the information.

A company does not need to conduct an exhaustive search. If information is already being used for reporting processes or management purposes, it would be reasonable to consider that as a source of information. However, what is applicable depends on the resources, capabilities, skills, and experience of the company. Judgment must be applied to determine what is appropriate given a company's facts and circumstances.

The standards emphasize that expectations in the early years of application will differ from those in later years. It is anticipated that both the market and entities will gain experience and improve over time.

Skills, Capabilities and Resources

Another important idea designed to assist with proportionality and scalability, is the concept of what might be appropriate given a company's skills, capabilities and resources. This concept is used, for example, in two instances within IFRS S2, where the emphasis shifts from a quantitative requirement to a more qualitative request. This relief was introduced to ensure that preparers could apply the requirements in a way that is proportionate to their circumstances but that would still provide useful information for investors.

For instance, information about the anticipated effects on the financial statements of climate-related risks and opportunities should ideally be provided on a quantitative basis. However, if this is not feasible given a company's skills, capabilities and resources, then a qualitative disclosure is permitted under IFRS S2.

The concept of skills, capabilities and resources is also applicable in the context of scenario analysis. IFRS S2 acknowledges that a variety of approaches can be considered for scenario analysis. The approach a company adopts, whether it's a more qualitative form of scenario analysis to support its climate resilience disclosures or a more sophisticated and quantitative method, should be commensurate with the company's circumstances.

What is deemed commensurate is based in part on the skills, experience, and expertise of a company, as well as the extent of its climate exposure. For instance, a well-resourced company with significant climate risk, which has been contemplating climate resilience for many years, would be expected to adopt a more quantitative form of scenario analysis. Conversely, a smaller company just embarking on its sustainability reporting journey and beginning to consider climate risk might opt for a more qualitative approach.

This notion of proportionality and scalability is embedded in the scenario analysis requirements included within IFRS S2. It ensures that the standards are adaptable and can accommodate the unique circumstances and capabilities of different companies, promoting a more inclusive and effective approach to sustainability reporting. In the [next guidance](#), we will delve deeper into the considerations of skills, capabilities, and resources in climate-related scenario analysis.

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