

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 2: Considerations of Skills, Capabilities and Resources in Climate-Related Scenario Analysis

In this guidance, we delve into the concept of skills, capabilities, and resources, specifically focusing on their integration when conducting climate-related scenario analysis. It is substantially based on the Application Guidance in Appendix B to IFRS S2, in particular, paragraphs B6-B7 and B16-B18. The aim of this guidance is to draw readers' attention to the guidance that is already in the standard and to present it in a more understandable way.

As referenced in our preceding publication titled "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" the present guidance delves into the concept of skills, capabilities and resources, specifically focusing on their application when conducting climate-related scenario analysis.

Entities embarking on climate-related scenario analysis must take stock of their internal and external skills, capabilities and resources. This comprehensive assessment provides valuable context for evaluating the potential costs and level of effort required for different approaches to scenario analysis. For instance, entities that are new to climate-related scenario analysis may lack the capacity to employ quantitative or technically sophisticated methods without incurring excessive costs or efforts. However, if resources are available, entities can invest in acquiring or developing the necessary skills and capabilities. (IFRS S2.B6)

Climate-related scenario analysis is resource-intensive and typically undergoes refinement over multiple planning cycles. As entities repeat the analysis, they naturally develop skills and capabilities that enhance their approach. Entities that have not yet utilized climate-related scenario analysis or operate in industries where it is not commonly practiced may require more time to develop their skills and capabilities. In contrast, entities in industries like extractives and mineral processing, where climate-related scenario analysis is established practice, are expected to have strengthened their approach through their experience. (IFRS S2.B7)

Climate-related scenario analysis is an evolving practice, and entities should anticipate changes in their approach over time. An entity should determine its approach based on its specific circumstances, including its exposure to climate-related risks and opportunities, as well as the available skills, capabilities and resources for scenario analysis. These circumstances are subject to change over time, meaning that an entity's approach to climate-related scenario analysis need not remain static from one reporting period or strategic planning cycle to the next. (IFRS S2.B16)

Entities may initially adopt simpler approaches, such as qualitative scenario narratives, if they align with their circumstances. For instance, if an entity lacks the necessary skills, capabilities, or resources to conduct quantitative climate-related scenario analysis but faces high degree of

climate-related risks, a simpler approach can still provide valuable insights. Over time, as the entity gains experience and builds its capabilities, it can transition to more advanced quantitative approaches. Entities with a high degree of exposure to climate-related risks and opportunities and with the requisite skills, capabilities, or resources are expected to employ a more advanced quantitative approach to climate-related scenario analysis. (IFRS S2.B17)

While entities are required to disclose information about their climate resilience at each reporting date, the frequency of conducting climate-related scenario analysis may align with the entity's strategic planning cycle, which could span multiple years. Consequently, there may be reporting periods where the disclosures remain unchanged from the previous period if the entity does not conduct an annual scenario analysis. However, it remains essential for the entity to update its climate-related scenario analysis in line with its strategic planning cycle. In addition, an annual assessment of the entity's resilience is necessary to incorporate updated insights into the implications of climate uncertainty on its business model and strategy. Therefore, the entity's disclosure of resilience assessment results should be updated at each reporting period. (IFRS S2.B18)

The considerations of available skills, capabilities and resources is crucial for climate-related scenario analysis. Entities must assess internal and external factors to determine the appropriate approach, considering the costs and effort involved. By evaluating their capacity for quantitative or sophisticated methods, entities can make informed decisions. As climate-related scenario analysis is iterative, entities can enhance their approach and adapt as skills and capabilities develop over time.

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