IFRS® Sustainability

March 2022

Exposure Draft—Snapshot

IFRS® Sustainability Disclosure Standards

[Draft] IFRS S1

General Requirements for Disclosure of Sustainability-related Financial Information

[Draft] IFRS S2

Climate-related Disclosures

Proposals

The International Sustainability Standards Board (ISSB) proposes issuing two IFRS Sustainability Disclosure Standards that would:

- require a company to disclose information that enables investors to assess the effect of significant sustainability-related risks and opportunities on its enterprise value; and
- establish disclosure requirements specific to climate-related risks and opportunities.

Project stage

The ISSB is seeking comments on the two proposed IFRS Sustainability Disclosure Standards (exposure drafts).

Next steps

The ISSB will consider comments it receives on the exposure drafts in developing its final requirements. It plans to consider the comments in the second half of 2022 and aims to finalise the requirements by the end of 2022.

Comment deadline

29 July 2022

Introduction

Global capital markets demand better information about sustainability-related matters to enable investors to factor in sustainability-related risks and opportunities in their assessment of enterprise value.

The ISSB has been created to meet this demand.

The ISSB has now published its first two proposed IFRS Sustainability Disclosure Standards which—once finalised—will form **a comprehensive global baseline of sustainability disclosures designed to meet the information needs of investors when assessing enterprise value.**

The proposed IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (*General Requirements* Exposure Draft) would require companies to disclose information about all of their significant sustainability-related risks and opportunities.

The proposed IFRS S2 *Climate-related Disclosures* (*Climate* Exposure Draft) focuses on climate-related risks and opportunities. It incorporates the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and includes metrics tailored to industry classifications derived from the industry-based SASB Standards.

The idea of a global baseline is supported by G20 leaders, the International Organization of Securities Commissions (IOSCO) and others. The ISSB is working closely with other international organisations and jurisdictions to support the incorporation of the global baseline into jurisdictional requirements and ensuring it is compatible with requirements aimed at broader stakeholder groups. Stakeholders are encouraged to respond to consultations by jurisdictions on sustainability reporting.

The ISSB will consult later this year on its future standard-setting priorities.

September 2020

Trustees consult on demand for, and potential IFRS Foundation role in, sustainability-related financial information for global capital markets

December 2020

'Group of five' publishes climate prototype, showing how their work could be combined to create global sustainability disclosure standards

March 2021

Trustees establish Technical Readiness Working Group (TRWG), to provide recommendations to proposed new board

November 2021

Trustees announce creation of ISSB, publication of TRWG prototypes and consolidation with Climate Disclosure Standards Board (CDSB) and Value Reporting Foundation (which houses Integrated Reporting and SASB Standards)

March 2022

ISSB publishes two exposure drafts for consultation:

General Requirements for Disclosure of Sustainability-related Financial Information

Climate-related Disclosures

July 2022

Consultation comment deadline **29 July 2022**

About the ISSB

At the UN Climate Change Conference (COP26) in November 2021, the IFRS Foundation Trustees announced the creation of the ISSB, a new standard-setting board within the IFRS Foundation.

The ISSB's remit is to issue standards that deliver a comprehensive global baseline of sustainability-related financial disclosures for the capital markets. It will operate alongside the International Accounting Standards Board. Both boards are overseen by the Trustees.

The ISSB's standards will be called IFRS Sustainability Disclosure Standards.

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

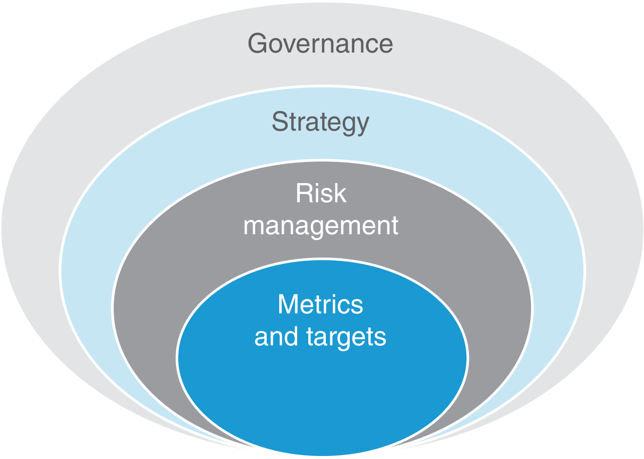
The *General Requirements* Exposure Draft sets out the core content for a complete set of sustainability-related financial disclosures, establishing a comprehensive baseline of sustainability-related financial information.

- To comply with the proposed requirements, a company would disclose material information about all significant sustainability-related risks and opportunities to which it is exposed—the materiality judgement is made in the context of the sustainability-related financial information necessary for users of general purpose financial reporting (investors) to assess enterprise value.
- Enterprise value is the total value of an entity's equity and net debt and reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value attributed to those cash flows (reflecting the cost of capital).
- Information that could be relevant to the assessment of enterprise value is broader than information reported in the financial statements. It includes information about a company's impacts and dependencies on people, the planet and the economy when relevant to the assessment of the company's enterprise value.
- Information the *General Requirements* Exposure Draft proposes a company be required to disclose—and any information required by an IFRS Sustainability Disclosure Standard—would need to be disclosed as a part of a company's general purpose financial reporting. A consequence is that the sustainability-related financial disclosures would be required to be published at the same time as the financial statements.

Core content

The *General Requirements* Exposure Draft proposes requiring the disclosure of information about significant sustainability-related risks and opportunities. The sustainability-related financial information disclosed would be centred on a company's consideration of its governance, strategy and risk management and the metrics and targets it uses to measure, monitor and manage significant sustainability-related risks and opportunities.

This approach is consistent with the recommendations of the TCFD, but extends them to sustainability-related risks and opportunities beyond those related to climate.



Governance

Information to enable investors to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.

Strategy

Information to enable investors to assess a company's strategy for addressing significant sustainability-related risks and opportunities, whether these risks and opportunities are incorporated into its strategic planning, including financial planning; and whether they are core to its strategy.

Risk management

Information to enable investors to understand the process by which a company identifies, assesses and manages current and anticipated sustainability-related risks and opportunities and whether that process is integrated into its overall risk management processes. This information helps an investor evaluate the company's overall risk profile and risk management processes.

Metrics and targets

Information to enable investors to understand how a company measures, monitors and manages significant sustainability-related risks and opportunities and assesses its performance, including progress towards the targets it has set.

Fair presentation

The *General Requirements* Exposure Draft proposes requiring companies to present fairly a complete set of sustainability-related financial disclosures.

Fair presentation is the faithful representation of information about sustainability-related risks and opportunities, applying the principles set out in the *General Requirements* Exposure Draft. To identify significant sustainability-related risks and opportunities—and their related metrics and targets—a company would apply IFRS Sustainability Disclosure Standards. A company would also be required to 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) and the most recent pronouncements of other standard-setters whose requirements are designed to meet investors' information needs. A company would also be required to consider the sustainability-related risks and opportunities identified by companies that operate in the same industries or geographical areas.

To identify appropriate disclosures, including metrics, companies 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, a company would be required to use its judgement in identifying disclosures that would be relevant to the decision-making needs of investors.

The proposed Standard provides guidance and examples for identifying appropriate metrics, including cross-industry and industry-based metrics.

Information related to a company's value chain

The proposed Standard requires disclosure of material information about sustainability-related risks and opportunities across a company's value chain. The proposed Standard defines a value chain as the 'full range of activities, resources and relationships related to a company's business model and the external environment in which it operates'.

Relevant activities, resources and relationships include those in the company's operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the company operates.

The sustainability-related financial information relevant to a company would depend on many factors, such as the company's activities or the industry to which it belongs, the locations in which it operates, its products and manufacturing processes and the nature of its reliance on employees and supply chains. Disclosures would be specific to each company and while the definition of value chain is broad, the information a company would be required to provide is limited to that necessary to enable investors to assess the company's enterprise value.

The proposed Standard would require the sustainability-related financial information to be reported at the same time as the financial statements are reported.

Connected information

The proposed Standard would require companies to provide information that allows investors to assess the connections between different sustainability-related risks and opportunities. It would also require a company to disclose how sustainability-related financial information is related to information in its financial statements.

Connected information—Examples

- A company's supplier has recently been found to have employment practices that fall well short of international norms. The company decides to terminate its contract with that supplier.

  In its disclosures the company states that it is confident that its new supplier has employment practices that meet the international norms. The decision might also have consequences for the cost of its supplies, and that would also be disclosed.

- A company has a production facility that generates high levels of greenhouse gas (GHG) emissions. The company decides to close the facility.

  In its disclosures the company explains the financial consequences of that decision: a revised useful economic life of the affected asset and, if relevant, recognition of an impairment expense. The company also discloses that the decision has consequences for the staff who will lose their jobs and for businesses in the local community, because the company assesses that this information affects its reputation.

General features

The proposed Standard sets out requirements related to:

- comparative information;
- frequency of reporting;
- location of information;
- specifying the reporting entity and the related financial statements;
- use of financial data and assumptions;
- sources of estimation and outcome uncertainty;
- errors; and
- statement of compliance.

These proposed general features were adapted from the IFRS Accounting Standards IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The general features will be familiar to companies that prepare general purpose financial statements, particularly to companies that prepare them in accordance with IFRS Accounting Standards. A company would be required to disclose sustainability-related financial information as a part of its general purpose financial reporting. This requirement is designed to ensure that financial statement information and sustainability-related financial disclosures can be considered together, highlighting interrelationships and connections between different types of risks and opportunities.

IFRS Sustainability Disclosure Standards

Proposed **IFRS S1**

Proposed **IFRS S2**

Other IFRS Sustainability Disclosure Standards

Industry-based disclosure requirements etc

IAS 1 *Presentation of Financial Statements* defines a complete set of financial statements and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides guidance on the establishment and implementation of accounting policies.

The *General Requirements* Exposure Draft is designed to be the sustainability equivalent of these Standards.

A complete set of sustainability-related financial disclosures presents fairly the sustainability-related risks and opportunities to which a company is exposed that are relevant to its enterprise value. Guidance is provided to enable reporting by a company on all significant sustainability-related risks and opportunities. Climate is addressed in more detail by an IFRS Sustainability Disclosure Standard.

2 Proposed **IFRS S2 *Climate-related Disclosures***

A company applying the proposals in the *General Requirements* Exposure Draft would apply the *Climate* Exposure Draft to provide material information about its significant climate-related risks and opportunities. The *Climate* Exposure Draft proposes requiring a company to disclose information that would enable an investor to assess the effect of climate-related risks and opportunities on its enterprise value.

The *Climate* Exposure Draft uses the same approach as the *General Requirements* Exposure Draft, so it would require a company to centre its disclosures on the consideration of the governance, strategy and risk management of its business, and the metrics and targets it uses to measure, monitor and manage its significant climate-related risks and opportunities. The proposed Standard includes a requirement for companies to disclose information about climate-related physical and transition risks and opportunities.

Governance

The proposed Standard would require disclosure of information about the governance processes, controls and procedures the company uses to monitor and manage climate-related risks and opportunities. The company would be required to disclose a description of the governance body, such as a board or committee, with oversight of climate-related risks and opportunities.

- What are the terms of reference for the company's climate-monitoring governance body?
- What is management's role in assessing and managing climate-related risks and opportunities?
- How does the company ensure that it has people with the right skills and competencies available to oversee its strategies?

The *General Requirements* Exposure Draft emphasises that companies are required to provide information that enables investors to assess the connections between various sustainability-related risks and opportunities, including the specific risks and opportunities set out in the *Climate* Exposure Draft. When a company integrates its oversight of sustainability-related risks and opportunities, the company should also integrate its disclosures on governance rather than providing separate governance disclosures for each significant sustainability-related risk and opportunity.

Strategy

The proposed Standard would require companies to disclose information about how climate change could reasonably be expected to affect their business model, strategy and cash flows over the short, medium or long term, their access to finance and their cost of capital. For example, continuing to operate a particular line of the company's business might be harmful to its reputation and could limit its ability to access financing.

Climate-related risks and opportunities

A company would be required to identify physical risks and transition risks. For physical risks, the company would be required to explain whether the risks are acute or chronic.

Physical risks	Transition risks
Acute physical risks could include the increased severity of extreme weather events such as cyclones and floods, putting a company's assets at risk or disrupting its supply chain (such as disruption to a just-in-time delivery process). Chronic physical risks include rising sea levels or rising mean temperatures. These changes in the climate could affect a company's strategy, for example, it may need to consider moving its production facilities.	Risks associated with a company's transition to a lower-carbon economy. Transition risk includes policy or legal, market, technology and reputation. An example of a market risk is reduced demand for high-carbon-based products, a legal risk is regulatory action banning the sale of a company's products—gas water heaters or diesel vehicles. A technology risk or opportunity could be lower-emission substitutes for diesel vehicles.

Strategy and decision-making

A company would be required to disclose a description of its plans for responding to climate-related transition risks and opportunities, such as:

- how it plans to achieve any climate-related targets, including how these plans will be resourced and how it will review targets.
- how it expects to adapt or mitigate climate-related risks (for example, through changes in production processes, workforce adjustments, changes in materials used, product specifications or through introduction of efficiency measures).
- how it expects to adapt or mitigate indirect climate-related risks in its value chain (for example, by working with customers and supply chains or use of procurement).
- whether carbon-offsetting is part of its plan. If it is, a company would be required to disclose specific information to enable an investor to assess the offset schemes.

Some companies use carbon prices to internalise the cost of emissions when they make capital expenditure decisions. The proposed Standard would require a company to explain how it applies carbon pricing, and disclose the price it uses for each metric tonne of GHG emissions.

Financial position, financial performance and cash flows

A company would be required to include in its disclosures an explanation of how significant climate-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows. For example, the company might disclose a material asset impairment as a consequence of the company's strategy for managing a transition risk. Equally, it could be the investment in new technologies to take advantage of a climate-related opportunity.

A company would also be required to explain how it expects its financial position to change over time given its strategy to address significant climate-related risks and opportunities. Examples include the financial accounting consequences of increased revenue from, or costs of, products and services aligned with a lower-carbon economy, physical damage to assets from climate events and the costs of climate adaptation or mitigation. When providing quantitative information, companies are permitted to disclose single amounts or ranges of amounts.

Climate resilience

Climate-related risks and opportunities can test a company's resilience. To help investors understand its resilience to these risks and opportunities, a company would be required to disclose information such as whether it can continue to use its assets and investments the way it has been doing or whether a climate-related risk, such as an increased flooding risk, is likely to cause the company to relocate, decommission or upgrade assets. The company would be required to disclose whether it has sufficient finance available to withstand the climate-related risks and to take advantage of climate-related opportunities.

The proposed Standard would require a company to use climate-related scenario analysis to assess its risks and opportunities when it is able to, but it also addresses other quantitative methods. The *Climate* Exposure Draft proposes requiring the company to disclose how its climate-related analysis aligns with the latest international agreement on climate change—for example, the Paris Agreement, which sets a goal of limiting the global temperature increase in this century to 2 degrees Celsius while pursuing efforts to limit the increase even further to 1.5 degrees.

Risk management

The risk management disclosures follow the structure of the *General Requirements* Exposure Draft. The Exposure Draft proposes requiring information about the processes a company is using to manage climate-related risks and opportunities.

A company would be required to explain the extent to which and how processes to identify, assess and manage climate-related risks and opportunities are integrated into the company's overall risk management process. It would also be required to disclose how it prioritises climate-related risks relative to other types of risk, including its use of risk assessment tools (such as science-based risk assessment tools).

Metrics and targets

A company would be required to disclose the metrics and targets it uses to manage its significant climate-related risks and opportunities.

GHG emissions

The proposed Standard would require a company to disclose its absolute gross Scope 1, Scope 2 and Scope 3 GHG emissions, in metric tonnes of CO2 equivalent, and the intensity of those emissions. The company would be required to calculate these emissions using the GHG Protocol. A consolidated group would be required to disclose GHG emissions by associates and joint ventures separately from those by the consolidated group.

The requirement to disclose Scope 3 emissions reflects the importance of providing information related to a company's value chain.

Industry-based disclosures

The proposed Standard includes industry-based disclosure requirements. A company would identify the requirements applicable to its business model and associated activities.

Disclosure topics included in the requirements relate to climate-related risks or opportunities for each industry group and a set of metrics is associated with each disclosure topic. The disclosure topics represent the climate-related risks and opportunities most likely to be significant to companies in that industry, and the associated metrics that are most likely to result in the disclosure of information relevant to an assessment of enterprise value. Examples of disclosure topics include Ingredient Sourcing, Design for Resource Efficiency and Environmental Footprint of Hardware.

The proposed Standard includes 77 industry classifications across 11 sectors, such as 'Alcoholic Beverages', 'Appliance Manufacturing' and 'Medical Equipment & Supplies'. The related disclosure requirements are derived from SASB Standards.

This information has been identified as relevant to an assessment of the enterprise value of companies in that industry. The industry classifications are intended to be useful for companies and investors by identifying relevant disclosures.

The industry-based topics and associated metrics have been included in Appendix B of the proposed Standard. A company can view all of the topics and metrics, or just those for a specific industry. There are 68 industry-based sets of disclosure requirements in separate volumes. The remaining nine industry classifications do not have climate-related disclosure topics.

Disclosure topic—Example

A company in the automobiles industry might review the requirements and determine that the disclosure topic, 'Fuel Economy and Use-phase Emissions', is relevant to its circumstances. The disclosure topic notes that 'more stringent emissions standards and changing consumer demands are driving the expansion of markets for electric vehicles and hybrids, as well as for conventional vehicles with high fuel efficiency'.

The disclosure topic identifies:

- a transition risk—if the company needs to mitigate the risk of changing buyer preferences and adapt its business model; or
- a climate-related opportunity—if the company innovates to meet or exceed regulatory standards and capture an increasing share of an evolving market.

Industry-based metrics—Example

One proposed requirement is to disclose information about how a company plans to achieve its climate-related targets. If an automotive company has established an emissions reduction target, it could demonstrate progress towards that target by disclosing the metrics associated with the 'Fuel Economy and Use-phase Emissions' disclosure topic, which include:

- the fuel economy of the company's fleet; and
- sales of zero-emission vehicles.

These metrics are set out in the disclosure requirements for the automobiles industry in Appendix B of the proposed Standard.

Frequently asked questions

Would a company that applies IFRS Accounting Standards also be required to comply with IFRS Sustainability Disclosure Standards?

No. IFRS Accounting Standards apply to the financial statements. Even if a jurisdiction requires the application of IFRS Accounting Standards, it will decide whether companies under its jurisdiction will be required to comply with IFRS Sustainability Disclosure Standards.

The proposed *General Requirements* Exposure Draft would require a company to make a separate statement that it has complied with all the relevant requirements of IFRS Sustainability Disclosure Standards.

Is a company required to apply IFRS Accounting Standards to be able to apply IFRS Sustainability Disclosure Standards?

No. The Sustainability Disclosure Standards are designed to work with any GAAP, including IFRS Accounting Standards.

Would IFRS Sustainability Disclosure Standards be mandatory?

Jurisdictional authorities would decide whether to require the application of IFRS Sustainability Disclosure Standards, just as they have decided whether to require the application of IFRS Accounting Standards. The ISSB does not have the right to mandate the application of its Standards. However, companies can choose to apply them.

When are the proposed Standards likely to come into effect?

One of the questions in the proposals is how long companies think they would need to prepare to apply the proposals.

The ISSB will consider all feedback on the proposals, in compliance with the IFRS Foundation's rigorous due process requirements, and aim to finalise two IFRS Sustainability Disclosure Standards by the end of 2022. During these redeliberations, the ISSB will consider the effective dates of the Standards. Once the Standards are issued, the requirements would be available for immediate voluntary adoption.

Would the proposed Standards be phased in?

The exposure drafts propose that a company would not have to provide comparative information the first time it applies the Standards, although it could choose to do so. This proposal should make it easier for a company to meet the requirements and get sustainability-related information to investors as soon as possible.

Will the reporting of the sustainability-related information be required to be in a particular place or format or in a separate report?

The sustainability-related financial information would be required to be part of the company's general purpose financial reporting, but a company can provide the information in various ways. The proposals do not prescribe a specific structure, such as in the form of a physical report, a specified document format, as a tagged data file or on a website.

Some jurisdictions have specific formats or delivery requirements such as XBRL-based files or a PDF report. The proposals were developed to enable companies to apply the requirements in any jurisdiction.

In the absence of an IFRS Sustainability Disclosure Standard that addresses a company's sustainability-related risks and opportunities, what guidance or requirements would it follow?

The *General Requirements* Exposure Draft directs companies to sources that would help them to identify relevant sustainability-related risks and opportunities and to develop disclosures to enable investors to assess enterprise value.

A company is told to consider the requirements in the SASB Standards, non-mandatory requirements of the ISSB (such as CDSB Framework application guidance for water- and biodiversity-related disclosures) and standards created by some other bodies. What is important is that the standards the company considers must be designed to meet investor information needs. Companies can also consider accepted industry practices.

Are the industry-based metrics in Appendix B of the *Climate* Exposure Draft the same as the climate-related industry-based requirements in SASB Standards?

The climate-related requirements of the SASB Standards are the basis for Appendix B of the *Climate* Exposure Draft. These requirements are largely unchanged from the SASB requirements—proposed changes from the SASB requirements are marked up in Appendix B for ease of reference. The proposed changes would update some metrics to improve their international applicability and add requirements for metrics about financed and facilitated emissions for industries in the finance sector.

Could a company choose to apply only the proposals in the *Climate* Exposure Draft?

To be able to state that it had complied with IFRS Sustainability Disclosure Standards, a company needs to comply with all IFRS Sustainability Disclosure Standards.

If a company applied the proposals in the *Climate* Exposure Draft, would it then meet the TCFD recommendations (which some jurisdictions require)?

Yes. The *Climate* Exposure Draft incorporates and adds to the recommendations of the TCFD.

Does the ISSB have plans to develop additional IFRS Sustainability Disclosure Standards?

Later this year, the ISSB will consult on its standard-setting priorities. This consultation will include seeking feedback on other sustainability-related risks and opportunities relevant to the assessment of enterprise value and on further development of industry-based requirements, building on SASB Standards.

Information for respondents

The deadline for comments on the exposure drafts is 29 July 2022

Everyone is invited to respond to the questions in the exposure drafts. The ISSB welcomes responses on any or all questions and any other aspect of the proposals.

You can convey your comments by responding to the survey or by sending a comment letter—please follow the instructions on our Open for comment page.

Stay informed

To receive relevant news stories as email alerts, sign in to ifrs.org, go to the follows dashboard and choose to follow 'Sustainability disclosure standards'. You must have an IFRS Foundation account—registration is free.

View the progress on these projects on the IFRS Foundation work plan.

Exposure drafts package

Both exposure drafts include:

- questions for respondents; and
- detailed proposals, in the format of draft Standards.

The exposure drafts include illustrative guidance to support the proposals.

The bases for conclusions on the exposure drafts include a summary of the factors considered in developing the proposals.

This document

This Snapshot has been compiled by the staff of the IFRS Foundation for the convenience of interested parties. The views expressed in this document are those of the staff who prepared it and are not necessarily the views or the opinions of the ISSB. The content of this Snapshot does not constitute advice and should not be considered as an authoritative document issued by the ISSB.

Official pronouncements and publications are available in electronic format at ifrs.org. Access to some documents is limited to IFRS Digital subscribers.

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