

The IFRS Standards: What's New & What's to Come?

On 26th June, 2023, the ISSB finally launched its inaugural sustainability standards, ushering in a new era in international corporate reporting

The International Sustainability Standards Board (ISSB) has issued its first two IFRS Sustainability Disclosure Standards: the IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. Both standards fully incorporate the 4 pillars of the Task Force on Climate-related Financial Disclosures (TCFD) as well as the Sustainability Accounting Standards Board (SASB) Standards; both are now subsumed under the ISSB as part of the efforts to establish a global baseline for sustainability reporting.

In this article, we highlight the key changes in the final S1 & S2 standards since the 2022 drafts, explore the implications of the Standards on voluntary & mandatory reporting, and discuss the things to expect from the ISSB in the future. For a more general overview & introduction to the ISSB Standards, [click here](#).

The IFRS S1 and IFRS S2: What's New?

The final Standards incorporate feedback from more than 1,400 global stakeholders and contain [several notable changes from the 2022 drafts \(see Table 1 below\)](#):

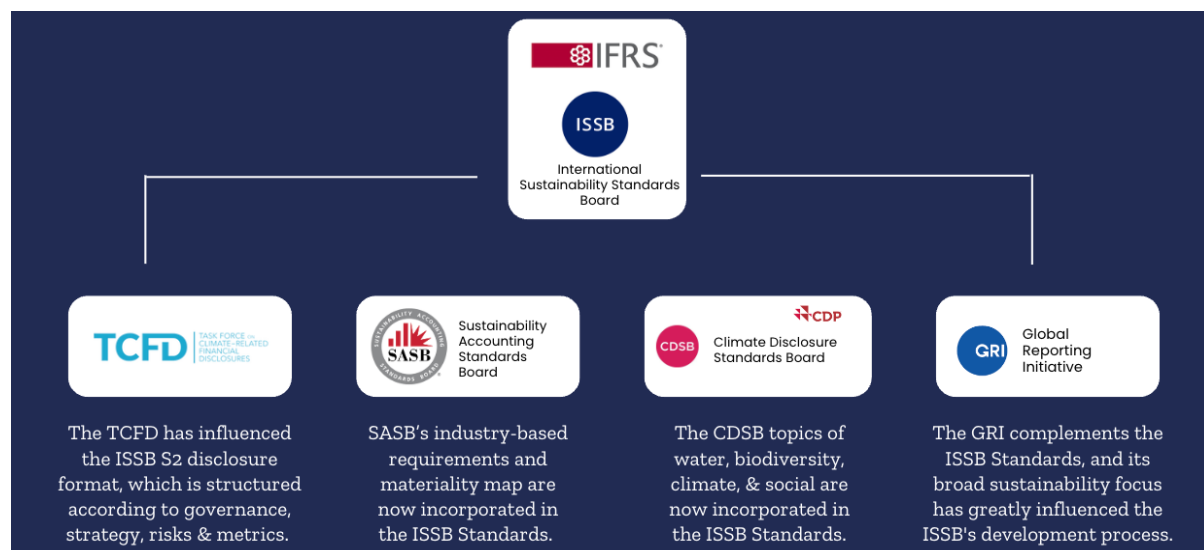
Revisions	S1 – Final Standard	S2 – Final Standard
Reliefs for First-Year Reporting	On April 4, the ISSB announced its intent to prioritize climate-related disclosures and provide other “transitional reliefs” to facilitate companies’ initial reporting pursuant to the Standards. So, in the first reporting cycle (i.e. January 2024, which we are currently in), companies only have to report on IFRS S2 and Scope 1 & 2 emissions. By the second reporting cycle (i.e. January 2025), companies have to add IFRS S1 and Scope 3 emissions to their reporting obligations. By the third reporting cycle (i.e. January 2026), IFRS S1 and S2, along with Scope 1, 2 & 3 emissions, must be fully incorporated for all entities	
Revised Framework for Identifying Sustainability Risks and Opportunities:	In the S1 Exposure Draft, companies were required to disclose “significant sustainability-related risks and opportunities that [were] useful to the primary users of general-purpose financial reporting when they assess enterprise value and decide whether to provide resources to the entity.” In contrast, the final S1 Standard omits the terms “significant” and “enterprise value” and instead calls for disclosure of information about all “sustainability-related risks and opportunities that could reasonably be	Nil

	expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium, or long term."	
Additional Requirements for Metrics and Targets (Including Scope 3 Emissions)	In the S1 Exposure Draft, companies were required to disclose metrics and targets as per the Standards. In the final S1 Standard, companies must now disclose <i>both</i> metrics and targets required by the Standards <i>and</i> any additional metrics or targets that are not included in the Standards but that the company uses to measure and monitor sustainability-related risks and opportunities.	In the S2 Exposure Draft, disclosures on absolute Scope 3 emissions were under review & debate. In the Final S2 Standard, companies must now disclose absolute Scope 3 greenhouse gas emissions, unless not material. The Final S2 Standard also contains supplemental guidance on sector-specific disclosure metrics.
Mandatory Scenario Analysis and Resilience Assessment, and Disclosure of Transition Plan Assumptions	Nil	In the S2 Exposure Draft, there were no requirements on mandatory scenario analysis, resilience assessments, and disclosure of transition plans. In contrast, the Final S2 Standard requires companies to identify climate-related risks and opportunities using scenario analysis and a resilience assessment. Additionally, if a company has a transition plan, it must disclose information about it, including the assumptions used to develop it.
Exemption of Commercially Sensitive Information	In the S1 Exposure Draft, there was no exemption for commercially sensitive information. In contrast, the Final S1 Standard allows companies to omit information on sustainability-related opportunities — though <i>not</i> sustainability-related risks — if information about the opportunities is deemed to be commercially sensitive.	Nil

Table 1: Key Changes in the Final Standards, S1 & S2

Despite these changes, the Standards continue to lean heavily on industry-specific disclosure topics issued by the SASB and strongly align with the European Sustainability Reporting Standards (ESRS), Global Reporting Initiative (GRI), the Greenhouse Gas Protocol, and many more (see Figure 1 below).

Figure 1



Potential Impact of S1 & S2 on Voluntary & Mandatory Reporting Regimes

The fact that 1) an advisory group of prominent asset managers from around the world helped the ISSB develop its Standards, 2) influential sustainability reporting organizations like the Principles for Responsible Investment (PRI) are advocating for governments and companies to adopt ISSB-aligned reporting, and 3) the CDP's 2024 corporate questionnaire aligns with the IFRS S2, indicates that the Standards are already shaping investor expectations and global corporate sustainability reporting.

In fact, 20+ jurisdictions (including Canada, the UK, Australia, New Zealand, China, & Japan) are already engaged in the adoption process, and a snowball effect is now occurring, especially since the International Organizations of Securities Commissions (IOSCO) approved the final Standards. This alone marks a breakthrough for the ISSB Standards, transforming their very nature from Voluntary to Mandatory.

What's Next for the ISSB?

Additional Standards Forthcoming

As of 2024, the ISSB has moved forward with research projects on two key areas: biodiversity, ecosystems (including ecosystem services), and human capital. These projects were initiated based on the ISSB's consultation on future priorities and aim to assess how risks and opportunities in these areas impact companies and investors. The ISSB is looking to build on existing frameworks, such as those from the SASB and TNFD (Taskforce on Nature-related Financial Disclosures), to develop more specific disclosure standards within these areas.

For the next two years, the ISSB's focus will be on developing these research projects, enhancing the SASB Standards, and (most importantly) supporting the implementation of the IFRS S1 and IFRS S2.

Challenges to Adoption & Implementation

While the shift towards Scope 3 reporting and greater climate change disclosure can improve transparency and offer investors more data to make informed decisions, companies will face infrastructural challenges to meet the Standards' requirements. For instance, companies/financial institutions will have to conduct a substantial amount of first-time data collection in order to comply with ISSB's data requirements. To do this successfully, they will need to radically shift & revolutionize the way their sustainability data is collected and reported on.

The good news is that the ISSB has introduced training programmes to support those applying its Standards and has provided "transitional reliefs" to facilitate initial reporting. For specific details on reliefs & adoption timeline, refer "Reliefs for First-Year Reporting" in Table 1 above. While such concessions will ease the reporting burden on many companies, smoothen the transition period, and encourage compliance, companies will still struggle with data gathering, verification, and technical compliance requirements. For companies looking to start their ISSB reporting today, it is essential for them to deploy mitigation strategies that will gear them up for the January 2024 reporting period. To learn more about how this can be done, [read our Thought Leadership](#) or book a free consultation with our team.

While the adoption of IFRS S1 and S2 may have seemed like a long-shot when they were first introduced, it is clear that they are here and ready to be reported on. In fact, we are currently in the first reporting cycle for the IFRS S1, but there's a lot of legwork involved in setting up internal reporting capacity. So, early adoption and early assessments are really crucial for setting up that internal capacity in the face of upcoming regulations.

An ISSB Automation & Reporting Solution for Investment Firms

As you get started on your ESG journey, investing in a technology platform can help you simplify your ISSB reporting processes. At ESGTree, we get a lot of requests from financial institutions and investment firms on how we automate ESG standards and frameworks, particularly the ISSB disclosures. In short, we have a simple, end-to-end process for ISSB reporting where:

- ◆ Firms can add their portfolio entities/subsidiaries to the ESGTree Platform.
- ◆ Firms and each of their portfolio entities are taken through their materiality assessments within the Platform, with support on calculating their carbon emissions (Scope 1, 2 & 3).

- ◆ The platform then auto-generates a prefilled survey and starts providing insights. Our users can then choose which insights they want included in their ISSB report, which can be created directly within the system and downloaded.

Essentially, our Platform acts as a data hub for everything and anything related to the ISSB and is designed to address the unique needs of the private markets and help you easily collect, report, and analyze ESG data.

Our goal is to help the market transition from perceiving ESG data collection as a "tick-the-box exercise" to truly integrating these metrics and factors into measurable and meaningful business drivers. However a firm decides to begin its ESG journey, we're here to support them with simplified but powerful sustainability solutions. Our in-house experts who make up the ESGTree Advisory Services team and all of our wonderful colleagues who focus on customer success are committed to making ESG simple and user friendly so that you can build sustainable intelligence across your organization. To learn more about ESGTree and how you can get started, visit this page or book a demo with us using the button below:

About ESGTree

ESGTree helps companies gather, analyze, and report on sustainability information, greatly reducing the time and effort required to comply with investor demand and regulation. Our platform automates all major industry-leading frameworks, along with Greenhouse Gas Protocol-aligned carbon calculations, to provide a holistic ESG solution for financial institutions.

Purpose-built for private capital investors, ESGTree's data automation solutions allow private equity and venture capital firms to gain insights into their portfolio companies' ESG performance over time, attribute ESG data correctly, and benchmark their data to assess a portfolio company's progress in relation to other comparable companies in the region. These insights enable investors to identify potential risks and opportunities and make informed investment decisions based on a portfolio company's ESG performance. Our cloud-based platform and advisory services meet the needs of both seasoned ESG managers as well as those entering the world of ESG for the first time.