

The jurisdictional journey towards implementing IFRS S1 and IFRS S2 — Adoption Guide overview

Background

- 1 This document outlines the mechanisms that the IFRS Foundation and the International Sustainability Standards Board (ISSB) are planning to use to support jurisdictional regulatory implementation of the ISSB's first Standards, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, issued in June 2023.
- 2 The objective of the IFRS Foundation as set out in its *Constitution* is to develop, in the public interest, high-quality, globally accepted standards—IFRS Standards—for general purpose financial reporting and to promote and facilitate the global adoption, use and rigorous application of IFRS Standards.
- 3 In its June 2021 [Report on Sustainability-related Issuer Disclosures](#), the International Organization of Securities Commissions (IOSCO) articulated its vision and expectations of the IFRS Foundation's work towards a global baseline of investor-focused sustainability reporting standards to improve the global consistency, comparability and reliability of sustainability reporting. IOSCO's Sustainable Finance Taskforce (STF) reiterated the urgent need to improve the consistency, comparability and reliability of sustainability reporting for investors, and described its work to support investors' informational needs and the ability of markets to price sustainability-related risks and opportunities and support capital allocation. IOSCO noted the need for enhanced transparency and comparability to inform investment decision-making and protect investors from 'greenwashing.'
- 4 In this report, IOSCO also emphasised that jurisdictions could consider incorporating or building upon this global baseline as part of their mandatory reporting requirements as appropriate and consistent with their domestic legal frameworks, that this could promote international consistency and comparability in sustainability-related information, and also form the basis for the development of an audit and assurance framework.
- 5 After the establishment of the ISSB was announced at COP26 in November 2021, the ISSB published two exposure drafts, one on general sustainability-related disclosures and a second on climate-related disclosures. The requirements proposed in these exposure drafts were intended to result in companies providing information that would support the world's capital markets in making decisions on providing resources to those companies based on an understanding of sustainability-related risks and opportunities.
- 6 The ISSB engaged extensively with a wide variety of stakeholders across the world to obtain feedback on these proposals and also received more than 1,400 comment letters. The ISSB also established a number of consultative and advisory groups to ensure input from key stakeholder groups. One of these groups is the Jurisdictional Working Group (JWG), comprising members from jurisdictional and regional authorities, including IOSCO as an observer. The JWG aims to establish a dialogue for enhanced comparability and advise the ISSB on matters relevant to adoption and interoperability.

The journey to implementation

- 7 Stakeholders, including IOSCO, encouraged the ISSB to consider matters of proportionality and scalability in IFRS S1 and IFRS S2, to take into consideration the range of capabilities and preparedness of entities around the world to apply these Standards.



- 8 Application of IFRS S1 and IFRS S2 will facilitate a transition from the current landscape of voluntary sustainability-related disclosures provided in accordance with a wide variety of sustainability reporting frameworks, to a regime where issuers will be required to disclose sustainability-related information in accordance with Standards that will form a common global baseline of sustainability-related information.
- 9 The ISSB acknowledges that this transition will entail a notable change management exercise and that preparers may face implementation challenges that will vary depending on their state of preparedness and their starting point.
- 10 With the objective of supporting efficient capital markets, the ISSB has sought to balance preparers' needs and their state of readiness with investors' need for enhanced transparency and comparability with respect to the information on which they base their investment decisions.
- 11 The ISSB concluded that the benefits of implementing IFRS S1 and IFRS S2 will outweigh the costs by reducing the complexity and fragmentation of the existing reporting landscape, providing investors with more consistent and comparable information and providing capital markets with information on entities' sustainability-related risks and opportunities.
- 12 The ISSB acknowledges that the regulatory implementation of IFRS S1 and IFRS S2 might pose an initial regulatory challenge for some jurisdictions and stands ready to actively engage with and support regulators in their journeys towards implementing IFRS S1 and IFRS S2.

Strategy to support the implementation of IFRS S1 and IFRS S2

- 13 In response to the feedback on its exposure drafts, the ISSB considered the needs of preparers of various sizes and types that operate across different jurisdictional, regulatory and economic settings. IFRS S1 and IFRS S2 include requirements that support the 'phasing-in and scaling' of requirements and include provisions to support application by companies with limited capabilities or experience, or those in developing and emerging economies.
- 14 To support preparers and regulators with implementation while balancing the considerations outlined in paragraphs 10–12, the IFRS Foundation and the ISSB have adopted a four-fold strategy that comprises:
- (a) introducing proportionality and scalability mechanisms in IFRS S1 and IFRS S2.
 - (b) introducing in IFRS S1 and IFRS S2 transitional reliefs from some disclosure requirements when those Standards are first applied.
 - (c) establishing a capacity-building programme to provide technical support to regulators and to increase the capacity among preparers and other stakeholders to apply IFRS S1 and IFRS S2.
 - (d) developing an Adoption Guide aimed to support regulators in their implementation considerations and to enable the introduction of scalability and phasing-in of the application of the requirements in IFRS S1 and IFRS S2 at a jurisdictional level. By establishing parameters for jurisdictional scaling and phasing-in, the Adoption Guide is also intended to mitigate variation in the manner in which ISSB Standards are implemented across jurisdictions and, therefore, support consistency and comparability.



Proportionality in IFRS S1 and IFRS S2 and forthcoming adoption guidance

- 15 The ISSB has sought to address proportionality and provide assistance to all preparers applying IFRS S1 and IFRS S2, particularly when the Standards are first applied. Guidance on key requirements and illustrative examples are provided in the Standards to aid implementation.
- 16 The mechanisms in IFRS S1 and IFRS S2 to address proportionality will be particularly helpful for the subset of preparers that might be less able to comply with the disclosure requirements in those Standards. Those preparers may face implementation challenges or lack resources because of their size, the cost related to implementing the necessary systems, the quality of external data available in their markets or the difficulty in obtaining the necessary expertise.
- 17 The ISSB has introduced the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ to provide guidance on the information required in applying the Standards. The concept of ‘reasonable and supportable information’ is intended to help preparers in areas with high levels of measurement or outcome uncertainty by guiding them to consider information that is reasonably available and by clarifying that they need not carry out an exhaustive search for information.
- 18 The concept of ‘undue cost or effort’ was used to ensure that what is required of entities is proportionate to their circumstances. This concept will assist all entities and should be particularly helpful for preparers that are less able to comply with the requirements in IFRS S1 and IFRS S2.
- 19 Although the concept of reasonable and supportable information that is available without undue cost or effort has previously been used by the International Accounting Standards Board (IASB), the ISSB is aware that it might be necessary to provide additional guidance, applicable in the context of ISSB Standards, to support the application of the concept. The objectives of providing such guidance would be to ensure the concept is well understood, to support consistent application and to reduce diversity in practice. For example, additional guidance on this concept could clarify the parameters of the information an entity should consider and the associated effort required to obtain that information.
- 20 The ISSB has also introduced the concept of ‘the skills, capabilities and resources available to the entity’ to address proportionality. This concept allows preparers to apply qualitative approaches in several instances in IFRS S1 and IFRS S2, instead of quantitative approaches. 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.



21 Table 1 outlines the mechanisms developed to promote proportionality.

Table 1—Mechanisms related to proportionality

	Information limited to what is reasonable, supportable and available without undue cost or effort	Qualitative approaches allowed if entity lacks skills, capabilities or resources
Determination of anticipated financial effects	Yes	Yes
Climate-related scenario analysis	Yes	Yes
Measurement of Scope 3 GHG emissions	Yes	–
Identification of risks and opportunities	Yes	–
Determination of the scope of the value chain	Yes	–
Calculation of metrics in some cross-industry categories	Yes	–


22 IFRS S1 relies on the definition of materiality in the IASB’s IAS 1 *Presentation of Financial Statements*. This definition is well known in financial reporting and relies on the preparer determining materiality. IFRS S1 provides guidance to help preparers make materiality assessments. The ISSB has also included application guidance in IFRS S2 on Scope 3 greenhouse gas (GHG) measurement, which will guide preparers as to the information used to measure GHG emissions and confirm the role of estimation in this process. This guidance should prove helpful for all entities applying IFRS S2 and provides important support for entities with more restricted resources, by using the concept of undue cost or effort.

Transition reliefs in IFRS S1 and IFRS S2

23 To facilitate the initial application of IFRS S1 and IFRS S2, the ISSB has provided temporary transition reliefs for the application of specified requirements. These transition reliefs are available to all entities.

24 The transition reliefs in IFRS S1 and IFRS S2 relate to:

- (a) *‘climate-first’ reporting*—IFRS S1 permits an entity to disclose information on only climate-related risks and opportunities (in accordance with IFRS S2) in the first annual reporting period in which that entity applies IFRS S1. The entity will only be required to disclose information related to other sustainability-related risks and opportunities from the second year it applies IFRS S1.
- (b) *Scope 3 GHG emissions*—IFRS S2 provides a transition relief in the first annual reporting period from disclosing Scope 3 GHG emissions.
- (c) *timing of reporting*—IFRS S1 requires entities to report their sustainability-related financial disclosures at the same time as their related financial statements, covering the same reporting period. However, in the first annual reporting period, IFRS S1 provides temporary transition relief and permits entities to report their annual sustainability-related financial disclosures *after* they publish their related financial statements, along with their half-year financial reports.

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- (d) *comparative reporting*—comparative information is not required to be disclosed in the first annual reporting period in which an entity applies IFRS S1 and IFRS S2. In the second year of disclosure, a preparer must provide comparative information on sustainability-related risks and opportunities, including climate. However, if an entity decides to apply the relief to disclose information on only climate-related risks and opportunities in the first annual reporting period, then it does not need to provide comparative information about its sustainability-related risks and opportunities apart from climate in its second year
 - (e) *the GHG Protocol*—IFRS S2 requires entities to use the GHG Protocol: A Corporate Accounting and Reporting Standard (2004), to measure GHG emissions (unless the entity is required by regulation to use a different measurement method). However, IFRS S2 allows an entity already using a different measurement method to continue to use that method in the first year it applies IFRS S2.

The Adoption Guide—Supporting jurisdictional considerations on scalability and phasing-in of IFRS S1 and IFRS S2

- 25 The feedback from bilateral regulatory outreach indicates that jurisdictions are likely to progress in implementing the ISSB Standards at different paces.
- 26 The IFRS Foundation acknowledges that jurisdictions may consider the scaling and phasing-in of requirements in ISSB Standards based on different parameters, including the size and relative preparedness of companies, and the industries and market segments in which companies operate. The Adoption Guide will outline the scaling and phasing-in approaches the IFRS Foundation envisages that jurisdictions will use.
- 27 The Adoption Guide’s ultimate objective is for IFRS S1 and IFRS S2 to be widely applied, while taking into account jurisdictional considerations on the application of the ISSB Standards. However, the ISSB also notes the need to achieve maximum consistency and comparability at the global level for the benefit of investors. The Adoption Guide will balance jurisdictional considerations about the phasing-in of requirements with the need to deliver the comparability, consistency and reliability required by capital markets.
- 28 The Adoption Guide is intended to set expectations regarding the scope of application of ISSB requirements, the targeted entities within the scope of the regulatory adoption assessment and the pace for the introduction of ISSB requirements for different types of entities.
- 29 The Adoption Guide for the implementation of ISSB Standards will be informed by and draw, to the extent possible, from the approach followed for IFRS Accounting Standards issued by the IASB, adjusted as necessary to reflect the particularities of sustainability-related financial disclosures and the different stages of maturity in corporate reporting.
- 30 In particular, the Adoption Guide will consider:
 - (a) the focus on publicly accountable entities (PAEs);
 - (b) the focus on consolidated information;
 - (c) the consideration of requirements to remove optional treatments and alternatives that are otherwise made available in IFRS Standards; and
 - (d) the ability of entities to assert compliance with ISSB Standards as issued by the ISSB.



- 31 The Adoption Guide will provide a framework to support regulators in their considerations on the implementation of ISSB Standards and facilitate monitoring of the implementation and use of ISSB Standards across jurisdictions.
- 32 The Adoption Guide will also promote transparency in the reporting of sustainability-related risks and opportunities relevant to investors and encourage less variation in the manner in which ISSB Standards are implemented by jurisdictions, thus supporting comparability.
- 33 The Adoption Guide will also aim to:
- (a) assist the IFRS Foundation and the ISSB with identifying jurisdictions' capacity-building needs, including the needs of regulators, and inform the development of capacity-building programmes to address these needs;
 - (b) develop principles for assessing the jurisdictional regulatory implementation of ISSB Standards as a way to support jurisdictions that are in the process of implementing, or taking steps towards implementing, ISSB Standards; and
 - (c) facilitate consistent approaches to implementation across jurisdictions while supporting jurisdictions and companies in transitioning to full application of IFRS S1 and IFRS S2.

Legal or regulatory requirements to apply ISSB Standards

- 34 Jurisdictional implementation of ISSB Standards can be achieved through several mechanisms. The Adoption Guide will take into consideration the legal standing of the jurisdictional requirements to use ISSB Standards; particularly, whether the jurisdiction has:
- (a) introduced a legislative or regulatory requirement to require domestic entities to apply ISSB Standards as issued by the ISSB; or
 - (b) issued jurisdictional standards that are substantially based upon ISSB Standards, and has required domestic entities, either by law or regulation, to apply these Standards.

Requirements for domestic publicly accountable entities (PAEs)

- 35 Jurisdictions should consider at least requiring all or most domestic PAEs to apply ISSB Standards. This approach would be consistent with jurisdictional approaches to financial reporting requirements for listed entities.
- 36 PAEs are entities whose securities are traded in public markets or entities in the process of issuing securities for trading in public markets.
- 37 PAEs would not include:
- (a) entities whose securities are traded in private markets;
 - (b) entities whose securities are traded in relatively small public securities markets;
 - (c) entities that are generally characterised by small shareholder bases, low liquidity or that are not subject to extensive corporate governance disclosure requirements; or
 - (d) other entities, such as private entities, without public accountability (for example, small and medium-sized entities).



Market segments or market tiers

- 38 Many jurisdictions classify PAEs according to stock market segments that reflect parameters including the size of the issuer, the issuer's cross-border and global orientation based on its shareholder base, the issuer's volume of traded securities, or financial, liquidity and corporate governance thresholds.
- 39 Depending on the parameter used, issuers would be classified into different market tiers. Frequently, these market tiers are characterised as:
- (a) prime, premium or senior;
 - (b) standard; or
 - (c) growth, entry or venture.
- 40 Typically, issuers within the prime or standard tiers would be subject to the highest standards of transparency and would be required to meet extended disclosure requirements. Issuers in the growth or entry tiers would be subject to less stringent transparency requirements. Some listed issuers (that is, growth/entry/venture) could be excluded from classification as PAEs depending on parameters such as those mentioned in paragraph 38.
- 41 The Adoption Guide will anticipate:
- (a) that the consideration of 'all or most' domestic PAEs would encompass all or most listed entities within the prime or standard tiers;
 - (b) an accelerated introduction of the requirements in ISSB Standards for prime PAEs as compared to standard PAEs; and
 - (c) that requirements for entities in the growth, entry or venture tiers could potentially fall outside the scope of the assessment.

Extension of effective date and transition reliefs

- 42 Jurisdictions may consider providing brief extensions of transition reliefs beyond the provisions included in ISSB Standards to facilitate the first-time implementation of ISSB Standards. With a view to balancing investors' needs and helping preparers overcome the initial challenges with implementing ISSB Standards, extensions may be limited to the transition reliefs on:
- (a) *the reporting on non-climate-related sustainability risks and opportunities*—jurisdictions may consider brief extensions of the relief from requiring the disclosure of information on all sustainability-related risks and opportunities (i.e., in addition to climate) beyond the first annual reporting period;
 - (b) *the timing of reporting*—jurisdictions may consider brief extensions of the relief from requiring sustainability-related financial disclosures at the same time as the related financial statements beyond the first annual reporting period; and
 - (c) *the GHG Protocol*—jurisdictions may consider extending the relief in IFRS S2 to allow entities already using a different measurement method to continue using that method beyond the first year that IFRS S2 is applied.



Sources of guidance for identifying sustainability-related risks and opportunities

- 43 IFRS S1 states that in addition to ISSB Standards, entities shall refer to and consider the applicability of SASB Standards in identifying sustainability-related risks and opportunities and in determining appropriate disclosures. IFRS S1 states that having considered the applicability of SASB Standards, an entity may conclude that SASB Standards are not applicable in its specific circumstances.
- 44 ISSB Standards do not specifically prescribe a burden of proof for establishing that an entity has considered SASB Standards and concluded that these are not applicable in its circumstances. However, as with the process followed by management in the application of other key assumptions and judgements in financial reporting, an entity is expected to reflect a reasoned process in the consideration of the SASB Standards and to document the governance process followed by management and those charged with governance in these considerations.
- 45 IFRS S1 allows entities to consider the applicability of Global Reporting Initiative (GRI) Standards or European Sustainability Reporting Standards (ESRS) as sources of guidance for the identification of disclosures about sustainability-related risks and opportunities. Because considering these standards is optional, jurisdictions may remove or exclude the option to consider these sources of guidance without affecting their regulatory adoption status.

Consolidated sustainability-related financial information

- 46 An assessment of a jurisdiction's implementation of ISSB Standards will take into consideration only the requirement for domestic PAEs to use ISSB Standards for *consolidated* sustainability-related financial information as part of their general-purpose financial reports, and will not take into account that jurisdiction's requirements for any separate sustainability-related financial information.

Scope 3 GHG emissions

- 47 Temporary transition relief is provided in IFRS S2 for the disclosure of Scope 3 GHG emissions, allowing entities to delay such disclosure by one year.
- 48 Jurisdictions may consider providing a brief extension of the exemption to disclose Scope 3 GHG emissions. It should be noted however, that information on Scope 3 GHG emissions is critically important to investors as they assess the transition risks and opportunities in the move towards a lower-carbon economy.
- 49 The measurement framework included in IFRS S2 emphasises the relevance of estimation in measuring Scope 3 GHG emissions. IFRS S2 also relies on the use of the concept of 'reasonable and supportable information without undue cost or effort,' which is a well-established concept in IFRS Accounting Standards. This concept will enable an entity applying the ISSB Standards to establish parameters to define the type of information the entity is required to consider, and the associated effort required to obtain such information, to support disclosures.
- 50 The concept of 'undue cost or effort' will be helpful to all entities, but should be particularly helpful to preparers that are less able to comply with the requirements in IFRS S1 and IFRS S2.
- 51 Jurisdictions could specify what constitutes undue cost or effort in a manner that enables a greater use of estimation when IFRS S2 is first applied. This would enable entities to gain knowledge and confidence in measuring and disclosing Scope 3 GHG emissions. Also, as noted in paragraph 19, the ISSB will consider whether to provide additional guidance on applying this concept.



Further support for the implementation and use of ISSB Standards

Capacity building

- 52 The IFRS Foundation and the ISSB are keen to work closely with IOSCO in the design and delivery of a capacity-building programme to deepen regulators' understanding and capabilities in the areas of climate and sustainability disclosure. The ISSB intends to tailor capacity-building programmes and technical assistance to be commensurate with jurisdictional implementation approaches, the comprehensiveness of their implementation choices and their state of preparedness and capacity to apply IFRS S1 and IFRS S2.
- 53 The ISSB is already partnering with IOSCO to deliver capacity-building programmes tailored to a regulatory audience and has already delivered two programmes, the most recent in April 2023.
- 54 The IFRS Foundation aims to have its capacity-building programmes in place in time for COP28.¹

Monitoring implementation and addressing implementation questions

- 55 The ISSB is in the process of establishing a Transition Implementation Group (TIG) to support the implementation of IFRS S1 and IFRS S2, similar to the transition resource groups (TRGs) that have been so useful in supporting the implementation of new IFRS Accounting Standards.
- 56 The TIG will provide a public forum for stakeholders to follow the discussion of questions that arise on implementation. The TIG will also inform the ISSB about what, if any, action might be needed to address implementation questions. Possible actions might include providing supporting materials, webinars or case studies, and/or referral to the ISSB of implementation matters for potential standard setting.
- 57 The TIG will not issue authoritative guidance.
- 58 The type of implementation questions that will be discussed by the TIG should:
- (a) be related to, or arise from IFRS S1 and/or IFRS S2;
 - (b) possibly result in diversity in practice; and
 - (c) be pervasive, that is, relevant to a wide group of stakeholders, or be expected to be pervasive.
- 59 The TIG will comprise nominated members with expertise relating to the preparation of sustainability-related information and the implementation of IFRS S1 and IFRS S2.
- 60 In addition to any implementation matters that arise as part of the TIG's process, the ISSB will continue to engage with a wide range of stakeholders to monitor implementation issues for IFRS S1 and IFRS S2. The ongoing monitoring of implementation issues will help identify areas where the ISSB could consider enhancements to existing guidance or the need for additional educational materials.
- 61 The ISSB is also keen to continue its constructive and fruitful dialogue with IOSCO. Similar to the arrangements in place for the exchange of information between the IASB and IOSCO, the ISSB plans to ensure that mechanisms are in place to facilitate the exchange of perspectives with IOSCO on the possible effect of, and matters arising in different markets in relation to, the implementation of IFRS S1 and IFRS S2

¹ COP28 will take place between 30 November and 12 December 2023 in Dubai, organised by the United Arab Emirates.

Next steps

62 IFRS S1 and IFRS S2 were issued on 26 June 2023.

Development of the 2024–2025 ISSB work plan

63 On 4 May 2023 the ISSB published a request for information on its Consultation on Agenda Priorities to seek feedback on its priorities for its next two-year work plan, commencing in 2024. The consultation will run for a 120-day period and is open for comments until 1 September 2023.

64 Based on research into the information needs of investors, the ISSB has identified four potential projects—three sustainability-related research projects on (a) biodiversity, ecosystems and ecosystem services, (b) human capital and (c) human rights, and a fourth project on integration in reporting.

65 The feedback from these projects will inform both the ISSB’s work plan and its approach to future projects.

Development of a methodology for enhancing the international applicability of SASB Standards

66 On 11 May 2023 the ISSB published a consultation on the methodology for enhancing the international applicability of the SASB Standards and SASB Standards Taxonomy updates. This consultation will run for a 90-day period and is open for comments until 9 August 2023.

67 The purpose of this consultation is to enable the ISSB to make targeted amendments to the SASB Standards to ensure that references within them are internationally applicable. The objective is to revise the metrics in the SASB Standards based on the outcome of the consultation, before IFRS S1 and IFRS S2 come into effect in January 2024.

Establishment of the TIG

68 The ISSB will establish the TIG in the third or last quarter of 2023.

Continued engagement with IOSCO and monitoring implementation

69 The IFRS Foundation and the ISSB will seek to engage with IOSCO and its relevant committees, including the STF and the Growth and Emerging Markets Committee, as work progresses towards the finalisation of the Adoption Guide. Work on the Adoption Guide is expected to be completed towards the end of the third quarter or early in the last quarter of 2023.

70 The ISSB will continue to monitor and assess the need for additional supporting materials.