IFRS Sustainability

Staff paper

Agenda reference: 1

Transition Implementation Group on IFRS S1 and IFRS S2

Date	**June 2024**
Topic	**Revision of preceding period estimated amounts when estimating information from an entity in the value chain**
Contacts	Anoosha Lalani (anoosha.lalani@ifrs.org) Dianora Aria De Marco (dianora.demarco@ifrs.org)

Introduction

1. We have received a submission on how a reporting entity is to apply the requirement in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* to revise preceding period estimated amounts when estimating the current period information using prior period information from an entity in its value chain.[1]

2. The objective of this paper is to provide background and analysis to support discussion by the Transition Implementation Group on IFRS S1 and IFRS S2 (TIG).

3. This paper:

   (a) sets out the relevant requirements in IFRS S1 and IFRS S2;

   (b) summarises the implementation question raised by the submitter;

   (c) outlines the staff's analysis related to the implementation question; and

   (d) asks the members of the TIG for their views on the question raised.

[1] During the March 2024 TIG meeting AP2 *Revision of preceding period estimated amounts* (March 2024) was discussed. This paper also addressed a question related to the requirement in IFRS S1 to revise preceding period estimated amounts, in relevant circumstances.

Relevant requirements

4. The following paragraphs set out the key requirements in IFRS S1 and IFRS S2 related to the implementation question.

5. Paragraph 70 of IFRS S1 outlines requirements for reporting comparative information:

> **70 Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise, an entity shall disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period. If such information would be useful for an understanding of the sustainability-related financial disclosures for the reporting period, the entity shall also disclose comparative information for narrative and descriptive sustainability-related financial information (see paragraphs B49–B59).**

6. Paragraph B50 of IFRS S1 requires an entity to disclose a revised comparative amount, when an estimated amount was disclosed in the preceding period, if new information is identified and that new information provides evidence of circumstances that existed in the preceding period. In such circumstances, paragraph B50 requires disclosure to explain the revisions:

> B50 In some cases, the amount disclosed for a metric is an estimate. Except as specified in paragraph B51, if an entity identifies new information in relation to the estimated amount disclosed in the preceding period and the new information provides evidence of circumstances that existed in that period, the entity shall:
>
> (a) disclose a revised comparative amount that reflects that new information;

(b) disclose the difference between the amount disclosed in the preceding period and the revised comparative amount; and

(c) explain the reasons for revising the comparative amount.

7. Paragraph B51 of IFRS S1 explains when an entity need not disclose a revised comparative amount when applying paragraph B50:

> B51 In applying the requirement in paragraph B50, an entity need not disclose a revised comparative amount:
>
> (a) if it is impracticable to do so (see paragraph B54).
>
> (b) if the metric is forward-looking. Forward-looking metrics relate to possible future transactions, events and other conditions. The entity is permitted to revise a comparative amount for a forward-looking metric if doing so does not involve the use of hindsight.

8. Appendix A of IFRS S1 defines the term 'impracticable'. This term is also used in IFRS Accounting Standards, and has the same definition in IFRS Accounting Standards:

> Applying a requirement is impracticable when an entity cannot apply it after making every reasonable effort to do so.

9. The Basis for Conclusions accompany but are not part of IFRS Sustainability Disclosure Standards. The Basis for Conclusions summarise the considerations of the ISSB in developing Standards and thus provide useful context to understand the requirements in Standards, but do not in themselves establish requirements.

10. Paragraph BC152 of the Basis for Conclusions on IFRS S1 explains the requirement to revise preceding period estimated amounts when presenting comparatives, and explains the threshold for how impracticability should be considered:

BC152 An entity is required to revise the estimated amount disclosed for a metric, but is not required to revise narrative or descriptive disclosures. This requirement applies only if information about a change is material and if updating the estimate is not impracticable. To clarify the meaning of ‘impracticable’, the ISSB decided to base the definition of ‘impracticable’ in IFRS S1 on the definition in IAS 1, confirming that the term is used in a manner consistent with IFRS Accounting Standards. Accordingly, IFRS S1 sets a high threshold for how an entity determines whether it is ‘impracticable’ to meet the requirements. Applying the requirement is ‘impracticable’ if the entity cannot do so after making every reasonable effort to do so. For the avoidance of doubt, this threshold is higher than a cost-benefit threshold.

11. Paragraph 17 of IFRS S1 requires that material information be disclosed, and paragraph 18 of IFRS S1 states what material information is:

17 An entity shall disclose *material information* about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects.

18 In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific *reporting entity*.

12. Paragraph B26 of IFRS S1 states:

An entity shall disclose additional information when compliance with the specifically applicable requirements in an IFRS Sustainability Disclosure Standard is insufficient to enable users of general purpose financial reports to understand the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term.

13. Paragraph 27 of IFRS S2 states the objective of climate-related financial disclosures on metrics and targets:

27 The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reports to understand an entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.

Implementation question received

14. The implementation question in the submission describes a scenario in which a reporting entity estimates current period GHG emissions, using information disclosed by an entity in its value chain from the prior period. The submission asks how these estimates might be affected by the requirement in IFRS S1 to revise preceding period estimates when presenting comparative information new information becomes available. The implementation question includes a fact pattern to explain the question, which involves the measurement of Scope 3 GHG emissions included in Category 15 Investments, as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) (Scope 3 Category 15 GHG emissions).

15. The fact pattern is:

(a) the reporting entity has the same reporting period as the entity in its value chain—herein referred to as the underlying issuer—from 1 January to 31 December and measures its Scope 3 Category 15 GHG emissions associated with its loan portfolio.[2]

(b) GHG emissions information for the underlying issuer is not available in time for the reporting entity's year end reporting. The reporting entity therefore uses prior period information from the underlying issuer's annual reporting to estimate its Scope 3 Category 15 GHG emissions for the current reporting period.

Staff note

The ISSB acknowledge that the measurement of GHG emissions may require estimation. The staff note the following requirements related to the estimation of GHG emissions:

- IFRS S1 includes requirements related to estimates and faithful representation that must be applied and considered when preparing disclosures that involve estimation. These requirements include, for example, the requirement that assertions and inputs used in developing estimates are reasonable and based on information of sufficient quality and quantity (see paragraph D15(e) of IFRS S1).
- IFRS S2 requires entities to apply the Scope 3 measurement framework set out in that Standard when measuring Scope 3 GHG emissions.

(c) for simplicity, the fact pattern does not include any adjustments to the underlying entity's prior period information used to estimate the reporting entity's current period information. So applying the measurement framework in IFRS S2, the reporting entity's estimate for the current period is based on

[2] A different scenario might involve a reporting entity that estimates current period information using information from an entity in its value chain from the prior period, where the reporting entity and the entity in its value chain *have different reporting periods*. In such a scenario, the relief provided in paragraph B19 of IFRS S2 could be utilised. This scenario is not discussed in this paper.

the information disclosed directly by the entity in its value chain for the prior period.

(d) the reporting entity's share of GHG emissions of the underlying issuer remains constant over the time period of the fact pattern.

16. In this fact pattern, the reporting entity reports two years of information, the current reporting period and comparative period. The reporting entity estimates and discloses GHG emissions information:

(a) **FY21 (when the loan is issued):** the reporting entity uses GHG emissions data from the underlying issuer as at 31 December 2020 as an estimate for the FY21 period; and

(b) **FY22:**

(i) <u>*current period disclosures*</u> *(FY22)* - the reporting entity uses the GHG emissions data from the underlying issuer as at 31 December 2021 as an estimate for the FY22 period.

(ii) <u>*comparative period disclosures*</u> *(FY21 information in FY22 report)* - the reporting entity now has the actual FY21 data, and in accordance with paragraph B50(a) of IFRS S1, is required to update preceding period estimated amounts based on this new information.

(iii) <u>*resulting disclosures*</u> - the reporting entity's Scope 3 Category 15 emissions for both FY22 (using the 2021 published GHG emissions data as an estimate) and the FY21 (based on the actual 2021 GHG emissions data) using the same 2021 GHG emissions data set.

17. Table A illustrates this fact pattern using a hypothetical metric related to one loan. It is noted that this example highlights a very granular case. In reality, it is most likely that the metric will include the relevant Scope 3 GHG emissions at an aggregated level and thus reflect information from multiple issuers. Furthermore, it would only be in a scenario in which the information about the GHG emissions for the single issuer and the single loan were material that this standalone information would be provided applying the disaggregation requirements in IFRS S1.

Table A—Revising a preceding period estimated amounts for comparatives, when a reporting entity estimates current period information using prior period information from an entity in its value chain, and the resulting comparability of information reported.

Summary of activity	Reporting Entity's Reporting Period	
	FY22	FY21
	In thousands, metric tonnes CO_2e	
Emissions for the underlying issuer were 100 tonnes of CO_2 equivalent (CO_2e) in FY20. The reporting entity attributes 20% the GHG emissions data to its Scope 3 Category 15 GHG emissions. It reports 20 tonnes of CO2e for its Scope 3 Category 15 GHG emissions as an estimate for FY21.		20
Emissions for the underlying issuer were 180 tonnes of CO_2e in FY21. The reporting entity attributes 20% of the GHG emissions data to its Scope 3 Category 15 GHG emissions as an estimate for FY22. The reporting entity determines this amount represents a material change from its preceding period estimated amount. Therefore, the reporting entity revises its FY21 data in accordance with paragraph B50(a) of IFRS S1.	36	36

18. The submission questions the comparability of information reported when applying paragraph B50(a) of IFRS S1 in such circumstances. For example, the submission notes that the resulting information about the current and comparative emissions as shown above, would not reflect changes as a result of decarbonisation, in the underlying issuer's GHG emissions over time. Therefore, the submission questions whether an entity is required to apply paragraph B50 of IFRS S1 in such circumstances.

Staff analysis

19. In considering the implementation question received, the staff reiterate the following requirements that are important to the analysis:

(a) **requirements in paragraph B50 of IFRS S1:** an entity is required to revise an estimated amount disclosed in the preceding period if new information is identified and the new information provides evidence of circumstances that existed in the preceding period. In such circumstances, the entity:

(i) discloses a revised comparative amount that reflects that new information;

(ii) discloses the difference between the amount disclosed in the preceding period and the revised comparative amount; and

(iii) explains the reasons for revising the comparative amount.

(b) **materiality:** IFRS S1 requires the disclosure of material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Information is material if omitting, misstating or obscuring that information could reasonably be expected to influence investor decisions.[3]

(c) **impracticability:** IFRS S1 does not require an entity to revise an estimated amount disclosed in the preceding period if new information is identified and the new information provides evidence of circumstances that existed in the preceding period if it is impracticable to do so.

Requirements in paragraph B50 of IFRS S1

20. The staff note that paragraph B50(a) of IFRS S1 requires an entity to revise an estimated amount disclosed in the preceding period if new information is identified and the new information provides evidence of circumstances that existed in the preceding period. The question and fact pattern provided in the submission describe a scenario in which an entity made an estimate in the preceding period and has since identified new information that provides evidence of circumstances that existed in the preceding period. Therefore, the entity would be required to apply paragraph B50(a)

[3] Throughout this paper, the terms 'primary users', 'users' and 'investors' are used interchangeably, with the same meaning (that is, existing and potential investors, lenders and other creditors).

of IFRS S1 and revise the preceding period estimate, subject to materiality and impracticability as noted above.

21. The staff also note that an entity that applies paragraph B50(a) of IFRS S1 must also comply with the requirements in paragraph 50(b)–(c) of IFRS S1, which require that the entity disclose the difference between the amount disclosed in the preceding period and the revised comparative amount; and explain the reasons for revising the comparative amount. These requirements provide investors with additional information about the context of the revised amounts disclosed in accordance with paragraph B50(a) of IFRS S1.

22. Table B expands on Table A in paragraph 17 of this paper, to illustrate how the requirements in paragraph B50(b)–(c) of IFRS S1 may be applied in such circumstances. In Table B, the reporting entity presents the originally stated amounts alongside the revised amounts to provide investors with contextual information.

23. Furthermore, the staff note the requirement to apply IFRS S1 and IFRS S2 together means that an entity would apply the requirements in IFRS S1 in the context of the overall disclosure objective and specific disclosure objectives in IFRS S2.[4] That is, the entity is applying the requirement in IFRS S1 to revise preceding period estimated amounts (in particular circumstances) is doing so *in the context of the requirement in IFRS S2* to measure and disclose GHG emissions. The specific disclosure objective for the disclosure of metrics and targets includes, as outlined in paragraph 27 of IFRS S2, that the disclosures on metrics and targets enable users of general purpose financial reports to understand an entity's performance in relation to its climate-related risks and opportunities. An entity is therefore required to disclose information that enables users to understand its performance in relation to climate-related risks and opportunities. The information ultimately disclosed by the entity might be incremental to what is required by ISSB Standards, and such incremental disclosure

[4] Paragraph 5 of IFRS S1 states: 'an entity shall apply this Standard in preparing and reporting sustainability-related financial disclosures in accordance with IFRS Sustainability Disclosure Standards'.

might be required in accordance with paragraph B26 of IFRS S1 to meet the specific disclosure objective.

Table B—Applying paragraph B50 (a)–(c) of IFRS S1 to disclose a revision of preceding period estimated amounts when presenting comparative information, when an entity estimates current period information using prior period information from an entity in its value chain.

<u>FY22 reporting entity's reported amounts</u>

<table>
<tr><th>FY22</th><th>FY21 Revised</th><th>FY21 Originally Stated</th><th rowspan="2">Notes</th></tr>
<tr><td colspan="3">In thousands, metric tonnes CO_2e</td></tr>
<tr><td>36</td><td>36</td><td>20</td><td>In relation to the revision to prior period amounts:
the reporting entity estimates GHG emissions related to the underlying issuer's loan using prior period information;
the reporting entity estimates FY22 information using the GHG emissions from the underlying issuer's FY21 information;
comparative information for FY21 has been updated to reflect actual GHG emissions data from the underlying issuers FY21 reporting period. This information was originally based on the FY20 prior period information for the underlying issuer; and
the revision of 16 metric tonnes relates to the updated information received from the underlying issuer subsequent to the issuance of the sustainability related financial disclosures in the preceding period.</td></tr>
</table>

Materiality

24. The application of materiality will guide an entity's decisions on the information to disclose in accordance with ISSB Standards. Thus in preparing disclosures to meet the requirements in paragraph B50 of IFRS S1 (which in this case relate to GHG emissions disclosures in accordance with IFRS S2), a reporting entity is required to apply materiality. Whether information is material is a matter of judgement and depends on the facts involved and the circumstances of a specific entity. In relation to

revision of preceding period amounts, the reporting entity must consider whether the revision of preceding period estimated amounts when providing comparative information, would result in a difference that could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports. In the application of materiality, if the entity determines that the revision of the comparative amount is not material, the reporting entity need not apply the requirements in paragraph B50 of IFRS S1.

Impracticability

25. Paragraph B51(a) of IFRS S1 states that an entity need not disclose a revised comparative amount if it is impracticable to do so. A requirement is impracticable when an entity cannot apply it after making every reasonable effort to do so. Whilst impracticability represents a high threshold for how an entity determines whether it is 'impracticable' to meet the requirements, the ISSB determined that it was appropriate to provide this relief for the requirements in paragraph B50 of IFRS S1.

Staff view

26. In the staff view, when an entity estimates current period information using prior period information from an entity in its value chain, the entity must still apply the requirements in paragraph B50 of IFRS S1 when providing comparative information. As outlined in paragraphs 19–25 of this paper, it is necessary to apply the requirements in paragraph B50 of IFRS S1 in the context of the other related requirements in IFRS S1, which means:

    (a) paragraph B50(b)–(c) of IFRS S1 would provide primary users with information about what was changed, how much it changed by and why it was changed. Furthermore, the entity would apply these requirements in the context of the overall disclosure objective and specific disclosure objective in IFRS S2;

    (b) consistent with all disclosures required by the ISSB Standards, paragraph B50 of IFRS S1 is subject to materiality and therefore revisions of previously reported amounts would only need to be made if material; and

(c) the entity need not revise preceding period estimated amounts when presenting comparative information if impracticable to do so.

Question for the TIG members

27. The staff present the following question for the TIG members.

Question for TIG members
1. What are your views on the question and analysis presented above?