IFRS Sustainability

Staff paper

Agenda reference: 2

Transition Implementation Group on IFRS S1 and IFRS S2

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Topic	**Application of the requirements on comparative information when acquiring or disposing of a subsidiary**
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Introduction

1. We have received a submission on how to apply the requirements in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* to disclose comparative information when there is an acquisition or disposal of a subsidiary and the information provided is from the perspective of the reporting entity on a consolidated basis. The submission also asked whether IFRS S2 *Climate-related Disclosures* would require a different approach than that required by IFRS S1 in the same circumstances.

2. The objective of this paper is to provide background and analysis to support the 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 questions raised in the submission;

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

   (d) asks the members of the TIG for their views on the question in paragraph 38.

Relevant requirements

4. The following paragraphs set out the main requirements in IFRS S1 and IFRS S2 related to the implementation question. **Appendix A** of this paper includes the excerpts from other requirements in IFRS S1 and paragraphs from the Basis for Conclusions on IFRS S1 that have been referenced in this paper.

IFRS S1

5. Paragraphs 70–71 of IFRS S1 outline the requirements for reporting on 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).**
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> 71 Amounts reported in sustainability-related financial disclosures might relate, for example, to metrics and targets or to current and anticipated financial effects of sustainability-related risks and opportunities.

6. Appendix A of IFRS S1 defines a reporting entity as:

> An entity that is required, or chooses, to prepare general purpose financial statements.

7. Paragraph 20 of IFRS S1 states:

> An entity's sustainability-related financial disclosures shall be for the same reporting entity as the related financial statements (see paragraph B38).

8. The definition of sustainability-related financial disclosures provided in Appendix A of IFRS S1:

> A particular form of general purpose financial reports that provide information about the *reporting entity's* sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term, including information about the entity's governance, strategy and risk management in relation to those risks and opportunities, and related metrics and targets. *[emphasis added]*

9. 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.

IFRS S2

10. IFRS S2 requires an entity to measure its Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions in accordance with the GHG Protocol Corporate Standard and disclose its gross GHG emissions generated during the reporting period:[1]

> 29 An entity shall disclose information relevant to the cross-industry metric categories of:
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> (a) *greenhouse gases* – the entity shall:
>
> (i) disclose its absolute gross GHG emissions generated during the reporting period, expressed as metric tonnes of CO2 equivalent (see paragraphs B19–B22), classified as:
>
> (1) Scope 1 greenhouse gas emissions;
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> (2) Scope 2 greenhouse gas emissions; and
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> (3) Scope 3 greenhouse gas emissions;
>
> (ii) measure its greenhouse gas emissions in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) unless required by a jurisdictional authority or an exchange on which the entity is listed to use a different method for measuring its greenhouse gas emissions (see paragraphs B23–B25);…

11. IFRS S2 requires the use of the GHG Protocol Corporate Standard to measure GHG emissions only to the extent it does not conflict with the requirements of the Standard.

> B23 Paragraph 29(a)(ii) requires an entity to disclose its greenhouse gas emissions measured in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004). For

[1] Throughout this paper, the reference 'the GHG Protocol Corporate Standard' is used to refer to the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004).

the avoidance of doubt, an entity shall apply the requirements in the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) only to the extent that they do not conflict with the requirements in this Standard. For example, the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) does not require an entity to disclose its Scope 3 greenhouse gas emissions, however, the entity is required to disclose Scope 3 greenhouse gas emissions in accordance with paragraph 29(a).

Implementation questions received

12. The submission raised a question about how to apply the requirements in IFRS S1 to disclose comparative information if there has been a change in the composition of the reporting entity, such as the acquisition or disposal of a subsidiary, and specifically what information about the reporting entity should be included in the comparative information as a result.

13. Using an example of an acquisition and a disposal of a subsidiary, the submitter asked whether:

    (a) if an entity acquires a subsidiary during the reporting period in which it previously did not hold an interest[2], and as a result amounts are disclosed in the (current) reporting period for that subsidiary, should the comparative amounts include amounts related to the acquired subsidiary. Said differently, the submitter questions the application of paragraph 70 of IFRS S1, and whether 'an entity shall disclose comparative information that includes information <u>about the newly acquired subsidiary</u> in respect of the preceding period for all amounts disclosed in the reporting period'.

[2] For ease of illustration, the most extreme cases of going from having no interest in an entity to it becoming a subsidiary and from owning a subsidiary to having no ownership interest in the entity are used.

(b) if an entity disposes of its entire interest in a subsidiary at the start of the reporting period, and, as a result, amounts are not disclosed in the reporting period for that subsidiary, should the comparative amounts exclude information related to the disposed subsidiary. While information was disclosed about the subsidiary in the preceding period, the submitter asks if the comparative information should exclude information about the disposed subsidiary.

14. The submission also raised a question about the application of the comparative reporting requirements related to information provided applying IFRS S2, including as a result of the requirement to measure GHG emissions in accordance with the GHG Protocol Corporate Standard, and specifically whether IFRS S2 would require a different approach for presenting comparative information than that required by IFRS S1.

Staff analysis

15. In this section, the staff provide the analysis of the two implementation questions raised in the submission.

(a) *Question 1*: How to apply the requirements in IFRS S1 to disclose comparative information if there has been a change in the composition of the reporting entity (assuming information is being provided on a consolidated basis), such as the acquisition or disposal of a subsidiary, and specifically what information about the reporting entity should be included in the comparative information as a result (paragraphs 16–27).

(b) *Question 2*: How to apply the requirements in IFRS S1 to disclose comparative information when applying IFRS S2, if there has been a change in the composition of the reporting entity (assuming information is being provided on a consolidated basis), such as the acquisition or disposal of a subsidiary (paragraphs 28–32).

Question 1 - How to apply the requirement in IFRS S1 to disclose comparative information if there has been a change in the composition of the reporting entity

16. In considering the submission's first question, the staff note that comparative information requirements must be read together with other requirements in IFRS S1. That is, paragraph 70 is read and applied together with other requirements in IFRS S1, including those related to the conceptual foundational requirements related to the reporting entity.

17. Sustainability-related financial disclosures, as defined in Appendix A of IFRS 1, provide information about the *reporting entity's* sustainability-related risks and opportunities. This definition is important as it highlights 'what' the disclosure requirements apply to, and what information is required to be provided.

18. The reporting entity—an entity that is required, or chooses, to prepare general purpose financial statements— is a foundational concept in IFRS S1. Paragraph 20 of IFRS S1 requires that the sustainability-related financial disclosures be for the same reporting entity as the related financial statements.

19. Sustainability-related financial disclosures provide information about a reporting entity's sustainability-related risks and opportunities, and this is for the same reporting entity as the related financial statements. The requirements related to comparative information are therefore bound by the information about the reporting entity based on the composition of the reporting entity in the related financial statements in the comparative period.

20. Therefore, when applying the requirements in IFRS S1 on comparative information when there has been a change to the composition of the reporting entity, the information provided is information about the reporting entity on the basis of the composition of the reporting entity in the related financial statements in the comparative period. So, in the case of information that accompanies the consolidated

financial statements, depending on the composition of the group at that time in accordance with applicable GAAP.

Other contextual considerations

21. The staff also considered other points that might provide useful context in relation to the requirements about the disclosure of comparative information.

Comparative information reporting requirements and IFRS Accounting Standards

22. Given the focus on connectivity between the work of the International Accounting Standards Board and the International Sustainability Standards Board (ISSB), the requirements for an entity to disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period were adapted from and follow the requirements in IFRS Accounting Standards.[3]

23. Under IFRS Accounting Standards, the requirements associated with the presentation of comparative information are found in IAS 1 *Presentation of Financial Statements*.[4] These requirements only specify that an entity is *required to present* comparative information and that it must include comparative information for all amounts reported in the current period financial statements[5] but does not prescribe the content beyond this. The information provided is that which relates to the 'reporting entity' as determined applying IFRS Accounting Standards – thus the comparative information is for the reporting entity given its 'composition' in the comparative period. Similarly, the application of paragraph 70 of IFRS S1 requires comparative information to be disclosed, but does not prescribe what is included in or excluded from the amounts presented beyond requiring that comparative information is provided for all amounts disclosed in the current period.

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[3] Paragraph BC147 of the Basis of Conclusions on IFRS S1

[4] The IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024. The IFRS 18 carried forward the requirements related to presentation of comparative information from IAS 1.

[5] Paragraph 38 of IAS 1

Connected information reporting requirements

24. Paragraph BC85 of the Basis for Conclusions on IFRS S1 explains the requirement that the reporting entity be the same for both financial statements and sustainability-related financial disclosures was designed to enable information disclosed in the financial statements to be connected with sustainability-related financial information.

25. Paragraph BC87 of the Basis for Conclusions on IFRS S1 explains that the requirements on connected information are intended to provide users of general purpose financial reports with a better understanding of the connections between various disclosures in the entity's general purpose financial reports.

26. The requirements related to connected information are outlined in paragraphs 21–24 of IFRS S1. These paragraphs include requirements to provide information in a manner that enables users to understand the connections with financial statements, and specific requirements related to consistency with the related financial statements. In particular, entities must:

    (a) provide information in a manner that enables users of general purpose financial reports to understand the connections between both items to which the information relates and disclosures provided by the entity across its sustainability-related financial disclosures and other general purpose financial reports published by the entity, such as its related financial statements;[6] and

    (b) use data and assumptions in preparation of the sustainability-related financial disclosures that is consistent—to the extent possible—with the corresponding data and assumptions used in preparing the related financial statements.[7]

27. These requirements facilitate the provision of connected information with the related financial statements. The requirements for the reporting entity to be the same as the reporting entity for the financial statements, and for data and assumptions to be

[6] Paragraph 21 of IFRS S1

[7] Paragraph 23 of IFRS S1

consistent to the extent possible enables connected information to be provided. To the extent information is provided about the effects of an acquisition or disposal in the sustainability-related financial disclosures, the entity should also consider the information provided about that acquisition or disposal in the related financial statements. That consideration would help the entity ensure that information provided in the sustainability-related financial disclosures and the related financial statements is connected and enables users both to understand the connections between the disclosures as well gain insight into the connections between the items to which the information relates. For example, if an acquisition of a subsidiary resulted in a new sustainability risk for the reporting entity as well as the recognition of a liability in the related financial statements in relation to that sustainability risk, connected information would depict the relationship.

Question 2 - How to apply the requirements in IFRS S1 to disclose comparative information when applying IFRS S2 if there has been a change in the composition of the reporting entity

28. IFRS S1 sets out the requirements related to the disclosure of comparative information as outlined in paragraph 5 of this paper. These requirements apply to all information disclosed using IFRS Sustainability Disclosure Standards, that is IFRS S1 is applied in the application of IFRS S2. IFRS S1 sets out the requirements for comparative information subject to another IFRS Sustainability Disclosure Standard permitting or requiring otherwise. IFRS S2 does not include any additional specific requirements related to the disclosure of comparative information.

29. This means that, consistent with what is outlined in paragraph 20 of this paper, when there has been a change to the composition of the reporting entity, comparative climate-related information is disclosed on the basis of the composition of the reporting entity in the related financial statements in the comparative period.

30. Paragraph B23 of IFRS S2 states that paragraph 29(a)(ii) requires an entity to disclose its GHG emissions measured in accordance with the GHG Protocol Corporate Standard. Paragraph B23 also states that an entity shall apply the requirements in the GHG Protocol Corporate Standard only to the extent that they do not conflict with the requirements in IFRS S2.

31. In addition to requirements associated with the measurement of GHG emissions, the GHG Protocol Corporate Standard includes requirements associated with other aspects of GHG emissions reporting. Because of these other requirements in the GHG Protocol Corporate Standard, the submission questioned whether these requirements affect the comparative information that would otherwise be required in the application of IFRS S1.

32. The staff note that paragraph B23 of IFRS S2 states that an entity is only required to use the GHG Protocol Corporate Standard to *measure* GHG emissions. Paragraph B23 of IFRS S2 also requires that the GHG Protocol Corporate Standard is only used to the extent it does not override the requirements in IFRS S2. In other words, the GHG Protocol Corporate is used to measure *what is required to be disclosed* by IFRS Sustainability Standards (IFRS S1 and IFRS S2).

Staff view

Question 1

33. Paragraph 70 of IFRS S1 requires an entity to disclose comparative information, but does not further prescribe what the entity should include or exclude from the amounts presented beyond requiring that comparative information is provided for all amounts disclosed in the current period. To determine the amounts required to be presented as comparative information, paragraph 70 of IFRS S1 is applied together with the other requirements of IFRS S1.

34. In considering paragraphs 16–20 of this paper, in the staff view, what is included in the comparative information is that which relates to the reporting entity ie the reporting entity reflecting its composition in the related financial statements in the comparative period.

35. On this basis, applying paragraph 70 of IFRS S1 to the situations provided in the submission, unless another IFRS Sustainability Disclosure Standard permits or requires otherwise, an entity discloses comparative information in respect of the preceding period for all amounts disclosed in the reporting period by the reporting entity as follows. If the entity:

    (a) acquires a subsidiary during the (current) reporting period in which it previously did not hold an interest, and the subsidiary is only part of the group for the purposes of the consolidated financial statements in the (current) reporting period from the date of acquisition based on applicable GAAP, for amounts disclosed in the (current) reporting period the comparative information will not include amounts related to the newly acquired subsidiary as part of the reporting entity[8]; or

    (b) disposes of its entire interest in a subsidiary during the (current) reporting period and the subsidiary is only part of the group for the purposes of consolidated financial statements up until the date of disposal based on applicable GAAP, for amounts disclosed in the reporting period, the comparative information will include amounts related to the subsidiary as part of the reporting entity. However, in the extreme, if the entity does not disclose an amount in the reporting period that was disclosed in the preceding reporting period, and that amount related to a subsidiary that was disposed of and thus is no longer part of the group in the current reporting period, —for example,

[8] So the comparative information will not reflect the amounts for the subsidiary *as part of the group*. However, if for example the subsidiary had a business relationship with the reporting entity as part of the value chain, relevant information reflecting resulting sustainability-related risks and opportunities arising from that business relationship would be included in the comparative information.

because that amount related solely to the subsidiary disposed of —the entity is not required to disclose comparative information for that amount in the reporting period because the requirement in IFRS S1 is to present comparative information for all amounts *disclosed in the reporting period*.

36. The staff note that, whilst for the examples provided the comparative information requirements result in the provision of information as outlined in paragraph 35 of this paper, an entity might need to provide additional information about the effect of an acquired or disposed subsidiary 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 prospects, in accordance with paragraph B26 of IFRS S1, and that additional information is material.

Question 2

37. The staff view is that there are no additional requirements in IFRS S2, including as it relates to the use of the GHG Protocol Corporate Standard to measure GHG emissions, that would change the requirements in IFRS S1 about the provision of comparative information as a result of a change in the composition of the reporting entity such as an acquisition or disposal of a subsidiary. Therefore, when applying IFRS S2, comparative information is disclosed as required by paragraph 70 of IFRS S1 and as outlined in paragraphs 33–36 of this paper.

Question for the TIG members

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

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

Appendix A – Relevant extracts from the Standard

A1. This paragraph includes excerpts from IFRS S1 that have been referenced in this paper.

15 Fair presentation also requires an entity:

(a) to disclose information that is comparable, verifiable, timely and understandable; and

(b) to disclose additional information if compliance with the specifically applicable requirements in IFRS Sustainability Disclosure Standards 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.

Reporting entity

B38 Paragraph 20 requires that sustainability-related financial disclosures shall be for the same reporting entity as the related financial statements. For example, consolidated financial statements prepared in accordance with IFRS Accounting Standards provide information about the parent and its subsidiaries as a single reporting entity. Consequently, that entity's sustainability-related financial disclosures shall enable users of general purpose financial reports to understand the effects of the sustainability-related risks and opportunities on the cash flows, access to finance and cost of capital over the short, medium, and long term for the parent and its subsidiaries.

Connected information

21 An entity shall provide information in a manner that enables users of general-purpose financial reports to understand the following types of connections:

(a) the connections between the items to which the information relates —such as connections between various sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects; and

(b) the connections between disclosures provided by the entity:

(i) within its sustainability-related financial disclosures—such as connections between disclosures on governance, strategy, risk management and metrics and targets; and

(ii) across its sustainability-related financial disclosures and other general purpose financial reports published by the entity —such as its related financial statements (see paragraphs B39–B44).

23. Data and assumptions used in preparing the sustainability-related financial disclosures shall be consistent—to the extent possible considering the requirements of IFRS Accounting Standards or other applicable GAAP— with the corresponding data and assumptions used in preparing the related financial statements (see paragraph B42).

Identifying material information

B26 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.

Comparative information

B49. Paragraph 70 requires an entity to disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period.

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.

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.

B52. If an entity redefines or replaces a metric in the reporting period, the entity shall:

(a) disclose a revised comparative amount, unless it is impracticable to do so;

(b) explain the changes; and

(c) explain the reasons for those changes, including why the redefined or replacement metric provides more useful information.

A2. This paragraph includes excerpts from the Basis for Conclusions on IFRS S1 that have been considered in this paper. The Basis for Conclusions on IFRS S1 accompanies IFRS S1 but is not part of IFRS S1. It provides useful context but does not establish requirements. The Basis for Conclusions on IFRS S1 summarises the considerations of the ISSB in developing IFRS S1.

Reporting entity

BC85 An entity is required to disclose sustainability-related financial information for the same reporting entity as the related financial statements. For example, if a parent prepares consolidated financial statements, the reporting entity is the parent and its subsidiaries. The reporting entity's sustainability-related financial disclosures focus on the sustainability-related risks and opportunities that enable users of general purpose financial reports to assess the effects of those risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium, and long term— that is, in information presented with consolidated financial statements, the effects on the parent and its subsidiaries. Requiring the same reporting entity for both financial statements and sustainability-related financial disclosures is designed to enable information disclosed in the financial statements to be connected with sustainability-related financial information.

Connected information

BC87 The requirements in IFRS S1 on connected information are intended to provide users of general purpose financial reports with a better understanding of the connections between various disclosures in an entity's general purpose financial reports, as well insight into the connections between the items to which the information relates (such as connections between various sustainability-related risks and opportunities, or connections between those risks and opportunities and the entity's performance). Entities are also required to explain the relationships and trade-offs that arise between various sustainability-related risks and opportunities. For example, an entity could explain how environmental risks affect its reputation or ability to operate, and how developing new products to respond to those risks affects the workforce composition or financial performance reported in the entity's financial statements.

Comparative information

BC147 IFRS S1 requires an entity to disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period. The wording used was adapted from and follows requirements in paragraph 38 of IAS 1. The Exposure Draft proposed that an entity disclose comparative information for all metrics. However, the ISSB noted that it would be more useful to users of general purpose financial reports for IFRS S1 to require the disclosure for 'all amounts' rather than limiting the disclosure to metrics. The ISSB clarified that amounts reported in sustainability-related financial disclosures might relate, for example, to the current and anticipated financial effects of sustainability-related risks and opportunities or to metrics and targets.

BC148 If the information would be useful for an understanding of the reporting period's disclosures, an entity is also required to disclose comparative information for narrative and descriptive sustainability-related financial disclosures. As a transition relief, comparative information is not required to be disclosed in the first annual reporting period in which an entity applies IFRS S1 (see paragraph E3 of IFRS S1).