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## ISSB meeting

Date	<b>November 2024</b>
Project	<b>Supporting Implementation of IFRS S1 and IFRS S2</b>
Topic	<b>Implications of amending IFRS S1 or IFRS S2—Risks and benefits</b>
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This paper has been prepared for discussion at a public meeting of the International Sustainability Standards Board ('ISSB' or 'Board'). It does not purport to represent the views of any individual member of the International Sustainability Standards Board or staff. Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards.

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## Purpose

1. The purpose of this paper is to analyse the implications of amending IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* or IFRS S2 *Climate-related Disclosures* in response to specific implementation challenges or concerns identified by stakeholders related to the implementation of IFRS S1 and IFRS S2. Specifically, this paper sets out considerations for the International Sustainability Standards Board (ISSB) related to the risks and benefits of such amendments.
2. This is not a decision-making paper, however the staff welcomes input from the ISSB on the considerations set out in this paper.

## Structure of the paper

3. This paper is structured as follows:
  - (a) Background (paragraphs 4–11);

- (b) Ways of addressing questions arising from the implementation of IFRS S1 and IFRS S2 (paragraphs 12–13);
- (c) Implications of amending IFRS S1 or IFRS S2—Risks and benefits (paragraphs 14–22); and
- (d) Question for the ISSB members (paragraph 23).

## Background

4. The ISSB issued IFRS S1 and IFRS S2 in June 2023. Like all Standards issued by the IFRS Foundation, IFRS S1 and IFRS S2 have undergone rigorous and transparent due process designed to enable the ISSB to capture, understand and consider feedback from a wide range of stakeholders around the world.<sup>1</sup> This is essential for developing Standards that establish a comprehensive global baseline of sustainability-related financial disclosures.
5. The IFRS Foundation Trustees have a due process oversight committee (DPOC) which is responsible for overseeing the standard-setting due process and maintaining the *Due Process Handbook*. The *Due Process Handbook* includes the due process requirements of the ISSB related to its standard-setting activities and the requirements for developing materials to support the consistent application of ISSB Standards. This includes the due process requirements related to: standard-setting projects (such as those to amend a Standard), conducting post-implementation reviews (PIR), and developing educational material.<sup>2,3</sup> This standard-setting process supports the ISSB’s objective to deliver a comprehensive global baseline of sustainability-related financial disclosures that meet the information needs of users of general purpose financial reports.

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<sup>1</sup> The *Feedback Statement on IFRS Sustainability Disclosure Standards* can be found at <https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/feedback-statement.pdf>

<sup>2</sup> The *Due Process Handbook* states that a post-implementation review is a due process requirement for each new IFRS Sustainability Disclosure Standard or major amendment. A post-implementation review provides an opportunity to assess the effect of new ISSB Standards on users of general purpose financial reports, preparers, auditors and other stakeholders.

<sup>3</sup> The educational materials published to support the implementation of IFRS S1 and IFRS S2 can be found at <https://www.ifrs.org/supporting-implementation/supporting-materials-for-ifrs-sustainability-disclosure-standards/>

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6. Following the issuance of IFRS S1 and IFRS S2, the ISSB decided that supporting the implementation of IFRS S1 and IFRS S2 by entities in jurisdictions around the world is its highest priority in the work plan that was published following its *Consultation on Agenda Priorities*.<sup>4</sup> The ISSB has undertaken various activities to support the implementation of IFRS S1 and IFRS S2, including developing educational materials that explain concepts in IFRS S1 and IFRS S2. The ISSB has also established the Transition Implementation Group on IFRS S1 and IFRS S2 (TIG) to publicly discuss stakeholder questions related to implementing IFRS S1 and IFRS S2.
  7. The TIG provides a public forum to discuss implementation questions that arise when entities implement IFRS S1 and IFRS S2 and provides information for the ISSB to determine what, if any, action is needed to address those questions.<sup>5</sup> The questions that meet the criteria for discussion at TIG meetings are those which:
    - (a) are related to, or arise from, the implementation of IFRS S1 and/or IFRS S2;
    - (b) might result in diversity in practice; and
    - (c) are expected to be pervasive, that is, relevant to a wide group of stakeholders.<sup>6</sup>
  8. The TIG plays a similar role to the Transition Resource Groups (TRGs) that the International Accounting Standards Board (IASB) has used on occasions to support the implementation of new IFRS Accounting Standards.
  9. After each TIG meeting, the staff provides a summary of the TIG discussion to the ISSB for discussion at an ISSB meeting. This gives the ISSB the opportunity to ask questions and discuss *any* of the matters addressed at TIG meetings. When necessary, the staff refers specific feedback raised in TIG meetings to the ISSB for further consideration. In particular, if a matter indicates that there is an implementation challenge or a specific concern about the application of the requirements in IFRS S1

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<sup>4</sup> The *Feedback Statement on the Consultation on Agenda Priorities* can be found at <https://www.ifrs.org/content/dam/ifrs/project/issb-consultation-on-agenda-priorities/agenda-consultation-feedback-statement-june-2024.pdf>

<sup>5</sup> The TIG meetings are publicly webcast. All meeting recordings, agenda papers and meeting summaries can be found at <https://www.ifrs.org/groups/tig-ifrs-s1-and-ifrs-s2/#meetings>

<sup>6</sup> The criteria for assessing the questions discussed at the TIG meeting are specified in the TIG Terms of Reference, which can be found at <https://www.ifrs.org/groups/tig-ifrs-s1-and-ifrs-s2/submission-guidelines/>

and IFRS S2 that might warrant further action, including matters that highlight a risk of diversity in practice, the staff refers this feedback to the ISSB for further consideration. The ISSB considers such feedback to determine what, if any, action would be needed to address the matter.

10. At this ISSB meeting, the staff have referred feedback to the ISSB related to three questions that were discussed at the September 2024 TIG meeting (see Agenda Paper 9D *Concerns and implementation challenges related to IFRS S2* of the November 2024 ISSB meeting).
11. The TIG does not serve as the only mechanism by which the ISSB might be made aware of implementation questions or challenges. For example, the ISSB might receive questions directly from stakeholders in meetings or other forums, which could highlight an implementation challenge or concern about the application of the requirements in IFRS S1 and IFRS S2. This might prompt the ISSB to consider whether such implementation challenge or concern might warrant further action.

## Ways of addressing questions arising from the implementation of IFRS S1 and IFRS S2

12. The ISSB could take different approaches to address questions arising from the implementation of IFRS S1 and IFRS S2. For example, the ISSB might decide to:
  - (a) **take no action:** the ISSB might conclude that IFRS S1 and IFRS S2 and its accompanying materials taken together are generally sufficient to enable entities to apply the requirements in IFRS S1 and IFRS S2. In such cases, no action is necessary.<sup>7</sup> The staff note that a decision to take no action could include consideration of whether the TIG summary, which provides an analysis of specific questions and relevant ISSB requirements, is sufficient to support the implementation of IFRS S1 and IFRS S2. The TIG summary is published after every TIG meeting.

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<sup>7</sup> The accompanying materials to IFRS S1 and IFRS S2 includes the Accompanying Guidance on IFRS S1 and IFRS S2, the Basis for Conclusions on IFRS S1 and IFRS S2 and the Industry-based Guidance on Implementing IFRS S2.

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- (b) **monitor reporting practice:** the ISSB might decide to monitor how entities are applying particular requirements in IFRS S1 or IFRS S2 and assess whether any perceived issues related to a question arising from the implementation of IFRS S1 and IFRS S2 resolve over time as practice develops. The ISSB could decide to address these implementation questions in future, for example as part of a post-implementation review process.
- (c) **develop educational material:** the development of educational material can be helpful as they could help explain or illustrate how the requirements in IFRS S1 and IFRS S2 might be applied. Educational materials do not add to or change the requirements in ISSB Standards.
- (d) **amend IFRS S1 or IFRS S2:** if the ISSB decided to amend the Standards, any such amendment would be subject to the relevant due process requirements as specified in the [Due Process Handbook](#), including the requirement to publish an exposure draft for public consultation. An exposure draft is the ISSB’s main vehicle for consulting the public and includes an invitation to comment, setting out the issues that the ISSB has identified as being of particular interest. **The risks and benefits of amending IFRS S1 or IFRS S2 is the focus of this paper, as outlined in paragraphs 14–22.**
13. Some of the actions in paragraph 12 might be considered separately or in combination with another action. For example, the ISSB could decide that no amendments to IFRS S1 or IFRS S2 are necessary, while also developing educational material related to an implementation question.

## Implications of amending IFRS S1 or IFRS S2—Risks and benefits

### *Amending IFRS S1 or IFRS S2*

14. There are risks and benefits associated with amending IFRS S1 or IFRS S2, particularly so given the early stage of implementation of IFRS S1 and IFRS S2.

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15. Amending IFRS S1 or IFRS S2 to address specific concerns or challenges could provide an effective way to provide meaningful support to stakeholders, when necessary, to help ensure successful implementation and consistent application of IFRS S1 and IFRS S2. The main benefits of amending the Standards include providing support to:
- (a) users of general purpose financial reports, by helping to ensure the usefulness of sustainability-related financial information provided by entities applying IFRS S1 and IFRS S2;
  - (b) preparers and assurance providers, by responding to possible challenges that an entity might face when applying or assuring information prepared in accordance with IFRS S1 or IFRS S2; and
  - (c) regulators, national standard-setters and other jurisdictional bodies, by responding to possible challenges or concerns associated with the implementation of IFRS S1 and IFRS S2 that entities in the respective jurisdictions of these bodies might face as they apply IFRS S1 and IFRS S2.
16. The risks of amending IFRS S1 or IFRS S2 primarily relate to the potential disruption to ongoing implementation or adoption of IFRS S1 and IFRS S2. Such risks include:
- (a) creating uncertainty for users of general purpose financial reports about the effects of the amendments on sustainability-related financial information that would be provided by entities;
  - (b) creating disruption, uncertainty and potential costs for preparers or assurance providers that have started to put together implementation processes, including the possibility of entities needing to revisit the work that they have already completed to comply with requirements in IFRS S1 or IFRS S2. This is also the case for entities assuring information prepared in accordance with these Standards; and
  - (c) causing disruption to jurisdictional consultations or plans set out by regulators to adopt or otherwise use ISSB Standards, including efforts by national

standard-setters to facilitate the adoption and implementation of IFRS S1 and IFRS S2.

17. In this regard, the staff recommends that the ISSB carefully assess the potential implications of any amendments to IFRS S1 or IFRS S2 and weigh the expected benefits of any amendments against the expected risks.
18. Additionally, the staff suggests that to the extent amendments are determined as necessary, the ISSB considers the timing of any amendment to IFRS S1 or IFRS S2. It is possible that the ISSB identifies implementation challenges or concerns throughout the implementation of IFRS S1 and IFRS S2—for example, from future TIG meetings. Such challenges or concerns will likely not all be identified at the same time. If future implementation challenges or concerns are identified, the staff will provide feedback to the ISSB at that time. Therefore, the ISSB will need to balance the urgency of making amendments against the possibility of amplifying potential disruption to implementation and adoption that could be caused if IFRS S1 or IFRS S2 were amended multiple times.

### ***Not amending IFRS S1 or IFRS S2***

19. The ISSB could decide to take no action in response to specific implementation challenges or concerns raised at this time. The extensive consultation process and the robust response and broad overall support from stakeholders on the exposure drafts IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* and the subsequent issuance of IFRS S1 and IFRS S2 provide support for the ISSB setting a high bar for amending IFRS S1 or IFRS S2.
20. When a new Standard is issued by the IASB, there is typically a period of time when many questions about the requirements arise because entities are applying the Standard for the first time. Many of these questions are resolved over time as entities work through implementation and gain a fulsome understanding of the new requirements. Based on this, a main benefit of not amending IFRS S1 or IFRS S2

soon after issuance is to avoid any unintended consequences to a situation that would have resolved on its own. This includes:

- (a) avoiding any possible delays or unintended negative effects to sustainability-related financial information provided by entities to users of general purpose financial reports;
- (b) allowing preparers and assurance providers to work through and develop best practices over time; and
- (c) avoiding any potential additional efforts for regulators, national standard-setters and other jurisdictional bodies in adopting IFRS S1 and IFRS S2 in their jurisdictions.

21. Risks of not amending IFRS S1 or IFRS S2 to address specific challenges or concerns relates primarily to the potential threat to successful implementation and consistent application of IFRS S1 and IFRS S2. Such risks include:

- (a) causing concerns for users of general purpose financial reports about the usefulness of sustainability-related financial information resulting from suboptimal or incorrect application of particular requirements in IFRS S1 or IFRS S2 by preparers;
- (b) creating a burden for preparers in applying particular requirements in IFRS S1 or IFRS S2 or assurance providers assuring information prepared in accordance with these requirements; and
- (c) causing concerns for regulators, national standard-setters and other jurisdictional bodies about the successful implementation of IFRS S1 and IFRS S2 that might result in fragmented actions being taken by different jurisdictional bodies.

22. Further, taking no action could be perceived as the ISSB failing to provide timely support to those implementing IFRS S1 and IFRS S2, which is contrary to the ISSB's stated priority for this activity in the new work plan.



## **Question for the ISSB members**

23. The staff present the following question for the ISSB.

### Question for ISSB

1. Does the ISSB have any comments or questions on the considerations set out in this paper?