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## ISSB meeting

Date	<b>November 2024</b>
Project	<b>Supporting Implementation of IFRS S1 and IFRS S2</b>
Topic	<b>Criteria for evaluating potential amendments to IFRS S1 or IFRS S2</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. This paper sets out the staff's analysis and recommendations on the criteria for the International Sustainability Standards Board (ISSB) to use for evaluating potential amendments to IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* or IFRS S2 *Climate-related Disclosures* to address stakeholders' feedback about implementation challenges or concerns about the application of the requirements in IFRS S1 and IFRS S2, including matters that highlight a risk of diversity in practice.
2. The ISSB will be asked to vote on these criteria at this meeting.

## Structure of the paper

3. This paper is structured as follows:
  - (a) Background (paragraphs 4–8);
  - (b) How the criteria is proposed to be used (paragraphs 9–13);
  - (c) Summary of the staff recommendation (paragraphs 14–16);

- (d) Staff analysis (paragraphs 17–35);
- (e) Staff recommendation (paragraph 36);
- (f) Questions for the ISSB members (paragraph 37); and
- (g) Appendix A—Relevant excerpt of the IASB’s criteria for evaluating amendments to IFRS 17.

## Background

4. The ISSB agreed 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>1</sup> A primary focus on this activity is essential to creating a global baseline of sustainability-related financial disclosures. As part of its focus on supporting the implementation of IFRS S1 and IFRS S2, the ISSB established the Transition Implementation Group on IFRS S1 and IFRS S2 (TIG) to publicly discuss stakeholder questions relating to implementing IFRS S1 and IFRS S2.
5. After each TIG meeting, the staff provides a summary of the TIG discussion to the ISSB and discusses the summary 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 concern 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. In Agenda Paper 9D *Implementation challenges and concerns related to IFRS S2*, the staff refers feedback to the ISSB related to three questions discussed at the TIG meeting held in September 2024.

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<sup>1</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>

6. 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.
7. The staff considers information obtained from the TIG and other channels and, when necessary, refers specific feedback to the ISSB about an implementation challenge or concern that might warrant further action. The ISSB considers such feedback to determine what, if any, action would be needed to address the matter. For example, the ISSB might decide to address the matter by amending an ISSB Standard. It is important to note that—should the ISSB decide to amend an ISSB Standard—the amendments would be subject to the ISSB’s due process for amendments to the ISSB Standards, including developing an exposure draft for public consultation.
8. The staff thinks that developing a set of criteria to use for evaluating potential amendments to IFRS S1 or IFRS S2 will be helpful for the ISSB in approaching a decision to make any such amendments. These criteria can assist the ISSB to:
  - (a) establish a threshold for when the ISSB would consider any amendments are justified;
  - (b) take a consistent approach in considering whether to proceed with amendments; and
  - (c) help stakeholders to understand the ISSB’s considerations related to potential amendments.

### **How the criteria is proposed to be used**

9. The purpose of the criteria is to provide a consistent basis for evaluating potential amendments to IFRS S1 or IFRS S2, specifically in relation to potential amendments that respond to implementation challenges or concerns about the application of the

- requirements in IFRS S1 and IFRS S2, including matters that highlight a risk of diversity in practice. The staff believes the criteria will help the ISSB in deciding whether amendments to IFRS S1 or IFRS S2 are justified.
10. The criteria would provide a framework of factors for the ISSB to consider when evaluating potential amendments to IFRS S1 or IFRS S2. The ISSB will need to apply judgment in using the criteria to evaluate potential amendments to IFRS S1 or IFRS S2 and that judgement will require consideration of the individual circumstances of the specific amendments being considered.
  11. Even if the ISSB agrees that potential amendments to IFRS S1 or IFRS S2 meet the criteria set out in paragraph 36, it does not mean those potential amendments would be pursued. That is, the staff proposes that the criteria are used as a necessary hurdle, but are not in themselves determinative.
  12. For example, other considerations are likely to be relevant in proposing amendments to the ISSB Standards in addition to the criteria set out in paragraph 36. For example considerations related to *when* the ISSB decides to pursue such amendments. This is an important consideration given the risk identified in Agenda Paper 9B *Implications of amending IFRS S1 or IFRS S2 – Risks and benefits* related to amplifying potential disruption to implementation or adoption that could be caused if IFRS S1 or IFRS S2 were amended more times than necessary. Implementation questions could arise at different times during the initial period post-issuance of the Standards and as a result the ISSB will need to balance the urgency of proposing amendments against the risk of disruption that could be caused by acting quickly and on several occasions.
  13. The staff has applied the proposed criteria set out in paragraph 36 to evaluate potential amendments that staff are proposing the ISSB considers in responding to implementation challenges and concerns that have been highlighted from the TIG September 2024 meeting. This analysis is presented in Agenda Paper 9D. The staff expects to refine the staff analysis depending on the ISSB's feedback on the proposed criteria.

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## Summary of the staff recommendation

14. The staff recommends that the ISSB uses a consistent set of criteria to evaluate potential amendments to IFRS S1 or IFRS S2 that respond to implementation challenges and concerns about the application of the requirements in IFRS S1 and IFRS S2, including matters that highlight a risk of diversity in practice.
15. In summary, the staff recommends that the ISSB uses the following criteria to evaluate such potential amendments:
  - (a) there is a demonstrated need to amend IFRS S1 or IFRS S2 to address implementation challenges or concerns about the application of the requirements in IFRS S1 and IFRS S2, including matters that highlight a risk of diversity in practice.
  - (b) the amendments would not result in significant loss of useful information provided to users of general purpose financial reports relative to that which would be provided by entities applying IFRS S1 and IFRS S2, without the potential amendment.
  - (c) the amendments would not unduly disrupt ongoing implementation processes by entities or jurisdictional adoption processes to adopt or otherwise use IFRS S1 and IFRS S2.
16. The staff recommendation is set out in full in [paragraph 36](#).

## Staff analysis

### ***Developing the criteria for evaluating potential amendments to IFRS S1 or IFRS S2***

17. In developing the criteria for evaluating potential amendments to IFRS S1 or IFRS S2, the staff considered:
  - (a) **the risks and benefits associated with amending an ISSB Standard.** As set out in Agenda Paper 9A, the staff has considered the implications of making

amendments and specifically the implications for those affected by such amendments. That is, the staff considered how specific stakeholders might be affected by the amendments and the criteria recommended by the staff are informed by these considerations.

- (b) **other criteria used by the ISSB and the IASB.** The staff considered criteria used by the ISSB in other contexts and the IASB in similar situations (ie during the period of implementation of a new Standard). This assessment ensures the criteria for evaluating potential amendments to IFRS S1 or IFRS S2 includes relevant considerations for the ISSB related to its objective to deliver a global baseline of sustainability-related financial disclosures that meet the information needs of users of general purpose financial reports. Specifically, the staff considered criteria used by the ISSB and the IASB including:
- i. **the criteria used by the ISSB in its [Consultation on Agenda Priorities](#):** the ISSB used a set of criteria to decide whether to add a project to its work plan, and used a similar set of criteria for the ISSB's prioritisation of the SASB Standards enhancements workstreams.<sup>2</sup> While these criteria serve a different purpose than the criteria set out in this paper, the staff thinks aspects of these criteria are also relevant in the context of evaluating potential amendments to IFRS S1 or IFRS S2; and
  - ii. **the IASB's criteria used in [Amendments to IFRS 17 Insurance Contracts](#):** The IASB developed criteria to assess potential amendments to IFRS 17 including those arising from the Transition Resource Group for IFRS 17 (which was the IASB's equivalent to the TIG). The IASB considered whether it was necessary to amend IFRS 17 before its

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<sup>2</sup> Agenda Paper 2 of the February 2024 ISSB meeting sets out the criteria used by the ISSB to decide whether to add a project to its work plan as part of its *Consultation on Agenda Priorities*. The agenda paper can be found at <https://www.ifrs.org/content/dam/ifrs/meetings/2024/february/issb/ap-2-issb-agenda-consultation-criteria-for-assessing-the-priority-of-new-research-and-standard-setting-projects-to-be-added-to-the-work-plan.pdf>

Agenda Paper 6 of the June 2024 ISSB meeting sets out the criteria used by the ISSB for the SASB Standards enhancement workstream. The agenda paper can be found at <https://www.ifrs.org/content/dam/ifrs/meetings/2024/june/issb/ap6-sasb-enhancements.pdf>

mandatory effective date to address the implementation challenges identified. These considerations included an assessment of the potential loss of information and disruption to implementation processes that amendments could result in (refer to Appendix A for relevant excerpts). The staff believes that aspects of these criteria could be used by the ISSB, and therefore this was considered in developing the proposed criteria.

***Main factors informing the proposed criteria***

18. The staff developed the criteria that it recommends the ISSB uses for evaluating potential amendments to IFRS S1 or IFRS S2, based on the following factors:
- (a) the need to amend IFRS S1 or IFRS S2 (paragraphs 19–21);
  - (b) potential loss of useful information provided to users of general purpose financial reports (paragraphs 22–24); and
  - (c) potential disruption to ongoing implementation or adoption or other use of IFRS S1 and IFRS S2 (paragraphs 25–35).

***Considerations related to criterion 1: The need to amend IFRS S1 or IFRS S2***

19. IFRS S1 and IFRS S2 were developed based on feedback received through a thorough consultation process. However, amending IFRS S1 or IFRS S2 could provide meaningful support to stakeholders when specific implementation challenges or concerns cannot be effectively addressed through other means. In this regard, amending IFRS S1 or IFRS S2 could support the implementation and consistent application of IFRS S1 and IFRS S2. However, given the risks associated with amending IFRS S1 or IFRS S2, the staff suggests that the ISSB considers potential amendments only when stakeholders' feedback indicate pervasive implementation challenges or concerns about the application of the requirements in IFRS S1 and IFRS S2, including matters that highlight a risk of diversity in practice.

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20. The staff notes that the criteria for the questions discussed with the TIG includes that the question is expected to be pervasive, ie the question is expected to be relevant to a wide group of stakeholders.
21. In considering the need for amendments, the staff suggests that the ISSB focuses on new information that has been identified through the implementation of IFRS S1 and IFRS S2 by entities around the world. That is, the ISSB should not re-open matters related to challenges or concerns that it has previously considered during its redeliberations in developing IFRS S1 and IFRS S2. The ISSB's redeliberations of the proposed requirements in the exposure drafts of IFRS S1 and IFRS S2 was informed by extensive stakeholders' feedback (more than 400 outreach events and more than 1,400 comment letters and survey responses). This feedback and the redeliberations formed the basis for the issuance of IFRS S1 and IFRS S2 and the staff is of the view that such matters should not be redeliberated by the ISSB at this time.

*Considerations related to criterion 2: Potential loss of useful information provided to users of general purpose financial reports*

22. IFRS S1 and IFRS S2 will provide more useful sustainability-related financial information for users of general purpose financial reports than what primary users had previously. The ISSB developed IFRS S1 and IFRS S2 in response to the demand from users of general purpose financial reports and other market participants for rigorous, reliable and comparable information from entities about sustainability-related risks and opportunities. The development of IFRS S1 and IFRS S2 responded to the fragmented landscape of voluntary sustainability-related standards and frameworks that add cost, complexity and risk to preparers and primary users. It is in this context that the ISSB's objective is to develop a global baseline of sustainability-related financial disclosures that meet the needs of primary users and enable entities to provide decision-useful sustainability-related financial information to global capital markets.
23. Therefore, the staff thinks that any amendments to IFRS S1 or IFRS S2 should avoid significantly reducing the usefulness of sustainability-related financial information



that would be provided by entities applying IFRS S1 and IFRS S2. The usefulness of such information would be reduced if an amendment were to detract from the qualitative characteristics of useful information, in particular if the amendments were to:

- (a) reduce the relevance and faithful representation of sustainability-related financial information provided by entities;
- (b) reduce the comparability of sustainability-related financial information provided by entities; or
- (c) increase the complexity of sustainability-related financial information provided by entities and, therefore reduce its understandability for users of general purpose financial reports.

24. Additionally, the staff suggests that the ISSB carefully assesses the implications of any amendments to IFRS S1 or IFRS S2 to avoid introducing any possible internal inconsistency in ISSB Standards (for example, between IFRS S1 and IFRS S2) or between ISSB Standards and SASB Standards. Such internal inconsistency might result in reducing the comparability of sustainability-related financial information provided by entities or introduce new complexities in the application of the ISSB Standards.

*Considerations related to criterion 3: Potential disruption to ongoing implementation or adoption or other use of IFRS S1 and IFRS S2*

25. The staff thinks that another consideration is the risk of disrupting implementation processes (by preparers) and adoption processes (by jurisdictions) that are already underway. Entities in jurisdictions around the world have started implementing IFRS S1 and IFRS S2. More than 25 jurisdictions have already decided to use or are taking steps to introduce ISSB Standards in their legal or regulatory frameworks.<sup>3</sup>

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<sup>3</sup> The list of ongoing and completed jurisdictional sustainability consultations can be found at <https://www.ifrs.org/ifrs-sustainability-disclosure-standards-around-the-world/jurisdiction-consultations-on-sustainability-related-disclosures/>

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26. The staff acknowledges that any amendment to IFRS S1 or IFRS S2 at this time risks creating some degree of disruption to entities that have started to implement IFRS S1 and IFRS S2 and to jurisdictional adoption processes to adopt or otherwise use ISSB Standards. Therefore, the staff thinks that the ISSB should carefully balance the need for any amendments against the disruption that the amendment could cause.
27. Amendments to IFRS S1 or IFRS S2 could be disruptive to:
- (a) *preparers' implementation processes that are already underway*: some preparers are in the process of implementing IFRS S1 and IFRS S2 including setting up systems and processes to both collect and report the information required by IFRS S1 and IFRS S2. If the ISSB were to propose amendments to IFRS S1 or IFRS S2, there would be a period of uncertainty while those proposals are developed, consulted on and redeliberated. If the proposed amendments were to be confirmed, some preparers might need to revisit the work they have already undertaken to implement IFRS S1 and IFRS S2.
  - (b) *jurisdictional adoption or other use of IFRS S1 and IFRS S2*: many jurisdictions are in the process of adopting the Standards including issuing consultations or setting out plans to adopt or otherwise use the ISSB Standards. This includes efforts by national standard-setters to facilitate the adoption and implementation of IFRS S1 and IFRS S2. If the ISSB were to propose amendments to IFRS S1 or IFRS S2, this could create uncertainty to these ongoing adoption processes.
28. The ISSB will need to apply judgement in balancing the benefits of making amendments to address implementation challenges or concerns raised by stakeholders, against the potential disruption. For example, this might include consideration of whether:
- (a) the benefits of the amendments would justify the 'disruption' experienced by entities when compared to no action in the face of a known application issue.

- (b) the benefits of the amendments to entities would justify the disruption experienced by jurisdictions because those amendments would support the entities in those jurisdictions in implementing the Standards.
  - (c) the nature of the amendments mitigates the level of the potential disruption. For example, if an amendment provides additional optional relief, an entity or jurisdiction need not utilise the relief and thus the risk of disruption is reduced.
29. As part of considering the potential disruption, the staff thinks that the ISSB should consider other aspects relating to the ISSB's objectives in supporting the implementation of IFRS S1 and IFRS S2 including:
- (a) interoperability considerations (paragraphs 30–31);
  - (b) connectivity considerations (paragraphs 32–33); and
  - (c) proportionality considerations (paragraphs 34–35).

***Interoperability considerations***

30. An objective of the ISSB is to develop standards that provide a global baseline of sustainability-related financial information to meet the needs of capital markets. Adoption or other use of the ISSB Standards enables delivery of high-quality comparable information about sustainability-related risks and opportunities to users of general purpose financial reports globally. The use of the ISSB Standards also facilitates efficient reporting for preparers by reducing fragmentation in sustainability-reporting requirements.
31. To facilitate efficient reporting, interoperability between the ISSB Standards and other relevant, sustainability-reporting requirements is an important consideration for the ISSB. In this regard, the staff suggests that the ISSB carefully assesses the implications of any amendments on the interoperability between ISSB Standards and European Sustainability Reporting Standards (ESRS) or the Global Reporting

Initiative (GRI) Standards.<sup>4</sup> Specifically, the staff thinks consideration should be given to whether an amendment would reduce interoperability relative to that achieved with IFRS S1 and IFRS S2 without the potential amendment.

**Connectivity considerations**

32. The ISSB is committed to facilitating the delivery of coherent and comprehensive general purpose financial reports that include sustainability-related financial information and financial statements.<sup>5</sup> To that end, as part of its *Consultation on Agenda Priorities*, the ISSB considered connectivity between ISSB Standards and IFRS Accounting Standards as one of the core activities that are essential to all of its work.<sup>6</sup>
33. In this regard, the staff suggests that the ISSB carefully assesses the implications of any amendments to IFRS S1 or IFRS S2 on the connectivity between the ISSB Standards and IFRS Accounting Standards. Specifically, the staff thinks consideration should be given to whether a potential amendment would reduce connectivity relative to that achieved with IFRS S1 and IFRS S2 without the potential amendment.

**Proportionality considerations**

34. The ISSB is committed to ensuring that ISSB Standards are proportionate for entities—that is, that the requirements are ‘proportionate’ to the range of capabilities and preparedness of entities around the world.<sup>7</sup> To this end, the ISSB have included several proportionality mechanisms in IFRS S1 and IFRS S2.

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<sup>4</sup> Agenda Paper 2A of the July 2024 ISSB meeting sets out how the ISSB intends to embed interoperability into its ongoing activities. The agenda paper can be found at <https://www.ifrs.org/content/dam/ifrs/meetings/2024/july/issb/ap2a-interoperability.pdf>

<sup>5</sup> An article published by IASB Chair Andreas Barckow and ISSB Chair Emmanuel Faber explaining the meaning of connectivity, why it matters and what benefits it can deliver can be found at <https://www.ifrs.org/news-and-events/news/2023/03/connectivity-what-is-it-and-what-does-it-deliver/>

<sup>6</sup> The staff notes that the ISSB Standards are designed to be applied regardless of the generally accounting principles or practices (GAAP) an entity uses in preparing its related financial statements.

<sup>7</sup> Paragraphs BC8–BC17 of the Basis for Conclusions on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and paragraphs BC14–BC15 of the Basis for Conclusions on IFRS S2 *Climate-related Disclosures* explain the proportionality mechanisms in IFRS S1 and IFRS S2.

35. The staff suggests that the ISSB carefully assesses the implications of any amendments on the proportionality of IFRS S1 and IFRS S2. In particular, the staff thinks that the ISSB should consider whether the potential amendment increases the complexity of applying IFRS S1 and IFRS S2, and therefore reduces the proportionality of the Standards relative to that achieved with IFRS S1 and IFRS S2 without the potential amendment.

### **Staff recommendation—Criteria for evaluating potential amendments to IFRS S1 or IFRS S2**

36. The staff recommends that the ISSB uses the following criteria in evaluating potential amendments to IFRS S1 or IFRS S2 to address stakeholders' feedback about implementation challenges or concerns about the application of the requirements in IFRS S1 and IFRS S2:
- (a) there is a demonstrated need to amend to IFRS S1 or IFRS S2 to address implementation challenges or concerns about the application of the requirements in IFRS S1 and IFRS S2, including matters that highlight a risk of diversity in practice. That is, after considering other possible ways to address implementation challenges or concerns about the application of the requirements in IFRS S1 and IFRS S2, the need for an amendment is clearly demonstrated.
  - (b) the amendments would not result in a significant loss of useful information provided to users of general purpose financial reports relative to that which would be provided by entities applying IFRS S1 and IFRS S2, without the potential amendment. That is, any amendments would avoid significantly reducing the qualitative characteristics of useful sustainability-related financial information.
  - (c) the amendments would not unduly disrupt ongoing implementation processes by entities or jurisdictional adoption processes to adopt or otherwise use IFRS S1 and IFRS S2. That is, the need for the amendments would be balanced

against the potential disruptions that the amendments would cause. This includes considerations related to seeking to avoid:

- (i) amendments that would reduce alignment, and therefore interoperability between the ISSB Standards and the ESRS or between the ISSB Standards and the GRI Standards relative to that achieved with IFRS S1 and IFRS S2 without the potential amendment;
- (ii) amendments that would reduce connectivity between the ISSB Standards and IFRS Accounting Standards relative to that achieved with IFRS S1 and IFRS S2 without the potential amendment; or
- (iii) amendments that would increase the complexity of applying the requirements in IFRS S1 or IFRS S2, and therefore reduce the proportionality of the Standards relative to that achieved with IFRS S1 and IFRS S2 without the potential amendment.

## Questions for the ISSB members

37. The staff presents the following questions for the ISSB.

### Questions for ISSB

1. Does the ISSB have any comments or questions on the considerations set out in this paper?
2. Does the ISSB agree with the staff analysis and recommendation on the criteria for evaluating potential amendments to IFRS S1 or IFRS S2—that is, does the ISSB agree that any amendments to IFRS S1 or IFRS S2 should meet the criteria set out in paragraph 36 of this paper?

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## Appendix A—Relevant excerpt of the IASB’s criteria for evaluating amendments to IFRS 17

A1. This appendix presents an excerpt from [IASB Update October 2018](#) which summarises preliminary decisions of the International Accounting Standards Board (IASB) on the criteria for evaluating the amendments to IFRS 17 *Insurance Contracts*.<sup>8</sup>

... [The IASB decided] that when proposing any amendment to IFRS 17, in addition to demonstrating a need for the amendment, the staff must show that any proposal meets the following criteria:

- (a) the amendments would not result in significant loss of useful information relative to that which would otherwise be provided by IFRS 17 for users of financial statements—any amendments would avoid:
  - (i) reducing the relevance and faithful representation of information in the financial statements of entities applying IFRS 17;
  - (ii) causing reduced comparability or introducing internal inconsistency in IFRS Standards, including within IFRS 17; or
  - (iii) increasing complexity for users of financial statements, thus reducing understandability.
- (b) the amendments would not unduly disrupt implementation already under way or risk undue delays in the effective date of this Standard, which is needed to address many inadequacies in the existing wide range of insurance accounting practices.

A2. The IASB subsequently used the criteria referred to in paragraph A1 in evaluating the amendments to IFRS 17.

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<sup>8</sup> Agenda Paper 2C of the October 2018 IASB meeting sets out the staff recommendations on the criteria to be used by the IASB for evaluating amendments to IFRS 17 *Insurance Contracts*. The agenda paper can be found at <https://www.ifrs.org/content/dam/ifrs/meetings/2018/october/iasb/ap02c-ifrs17.pdf>