IFRS Sustainability

Sustainability-related risks and opportunities and the disclosure of material information

Session 2: The definition of material information and its application in ISSB Standards

Materiality guide: webcast series
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The focus of this webcast

The definition of material information

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.

Connectivity considerations

ISSB Standards and IFRS Accounting Standards use aligned definitions of ‘material information’. This facilitates:

- connectivity in an entity’s general purpose financial reports; and
- a closer connection than if the entity’s sustainability-related information were provided using another definition of material information.

The ISSB Standards refer to ‘materiality of information’

Materiality is an entity-specific characteristic of *information*, consistent with IASB’s use of the term.

- ISSB Standards set out requirements that an entity applies in preparing sustainability-related financial disclosures.
- Materiality is used to assess whether *information* required by ISSB Standards would need to be disclosed by a particular entity.
- In other words, the definition of ‘material information’ is used as a **filter to assess whether** *information* **about a sustainability-related risk or opportunity would need to be provided by an entity** to **meet the requirements set out in ISSB Standards**.

Interoperability considerations

- ISSB Standards refer to ‘material information’ about sustainability-related risks and opportunities, whereas other standards use the term material/materiality differently:
    - ESRS refer to ‘material matters’, GRI Standards refer to ‘material topics’.
    - Commonly used in the context of a ‘materiality assessment’.
- Despite these differences, the definition of ‘material information’ in ISSB Standards is aligned with the corresponding definition used in ESRS related to ‘financial materiality’.

Primary users of general purpose financial reports

- ISSB Standards are designed to result in the provision of information that is useful to primary users.
- **Primary users are existing and potential investors, lenders and other creditors – this is the same audience that IFRS Accounting Standards focus on.**
- Primary users and their information needs:
    - Assumed to have a reasonable knowledge of business and economic activities.
    - Common information needs.
    - Consideration of both ‘existing’ and ‘potential’.

Could reasonably be expected to….

- An entity assesses whether information is material based on **whether that information** could reasonably be expected to **influence decisions of primary users**.
- Although **the entity itself makes this assessment**, it is **based on the perspective of primary users** and their information needs.

Interoperability considerations
This focus on the information needs of primary users distinguishes sustainability-related financial information under ISSB Standards from broader, multi-stakeholder sustainability reporting.

ISSB context for material information

- Sustainability-related financial disclosures serve a **specified objective**:

  Provide information about an entity's sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions about providing resources to the entity.

In applying ISSB Standards, and the definition of material information, an entity considers whether information is material in the context of this objective.

Connectivity considerations

- Although the definition of 'material information' is aligned with the definition of the same term in IFRS Accounting Standards, the information required to meet the objective of the respective general purpose financial reports is distinct.
- Sustainability-related financial disclosures:
  - complement information in an entity's financial statements;
  - likely include more qualitative and forward-looking information than financial statements;
  - provide information about sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects, whereas financial statements provide information about an entity's assets, liabilities, equity, income and expenses; and
  - will more often require consideration of longer time periods and information throughout the value chain.

Omitting, misstating or obscuring information

In assessing whether information is material, an entity considers the effect of **omitting, misstating or obscuring that information** on primary users' decisions.

An entity is required to identify its **sustainability-related financial disclosures clearly and distinguish** them from other information the entity provides. This is important in the context of sustainability-related financial disclosures because:

The location of sustainability-related financial disclosures within general purpose financial reports might vary between entities. There are various possible locations in general purpose financial reports in which to disclose sustainability-related financial information, for example management commentary or a similar report. These reports might also provide information to meet other requirements.

Information might be provided alongside information to meet the needs of other stakeholders in addition to primary users. An entity's sustainability reporting might include information intended for a broader range of stakeholders beyond primary users or to meet particular needs of primary users that are not common information needs.

In both cases, sustainability-related financial disclosures are required to be clearly identifiable and not obscured by additional information.

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