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

Session 3: Understanding and identifying sustainability-related risks and opportunities

Materiality guide: webcast series
March 2025

The focus of this webcast

- 1 Introduction and overview
- 2 The definition of material information and its application in ISSB Standards
- 3 Sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects and its application in ISSB Standards**
- 4 Identifying and disclosing material information
- 5 Closing remarks

The concepts underlying ‘sustainability risks and opportunities’

The value chain

Resources and relationships

Dependencies and impacts

Sustainability-related risks and opportunities that could reasonably be expected to affect prospects

- Arise out of the interactions between an entity and its stakeholders, society, the economy and the natural environment throughout the entity’s **value chain**.
- An entity both depends on and affects **resources and relationships** throughout its value chain, which can contribute to their preservation, regeneration and development, or to their degradation and depletion.
- These **dependencies and impacts** might give rise to **sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects**.

The ‘value chain’ and interactions throughout the value chain

The full range of interactions, resources and relationships related to a reporting entity’s **business model** and the **external environment** in which it operates.

Interactions with stakeholders, society, the economy and the natural environment throughout an entity’s **value chain**.

Example—The entity, its business model, the external environment and distribution channels

In assessing its value chain, and specifically its distribution channels, an electronic device manufacturer considers:

- **business model:** third-party vendors that the entity depends on to sell its products to customers.
- **external environment:** a regulation that affects the devices permitted to be manufactured, in an effort to reduce electronic waste.

Example—Interactions with stakeholders, society, the economy and the natural environment

An entity considers its dependency on suppliers in three jurisdictions for raw materials:







- Jurisdiction A’s **local communities** are protesting against the entity’s deforestation practices.
- Jurisdiction B’s **government** introduces a tax incentive for sustainable operations.
- Jurisdiction C is experiencing a **drought**.



In identifying the scope of an entity’s value chain, an entity is required to use ‘all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort’.

The resources and relationships an entity depends on and affects exist throughout its value chain

Forms and examples of resources and relationships

 Human	 Intellectual	 Financial	 Natural	 Manufactured	 Social
<ul style="list-style-type: none"> Entity's workforce Workers in supply chains 	<ul style="list-style-type: none"> Patents Copyrights Trademarks 	<ul style="list-style-type: none"> Cash Investments Access to financial resources 	<ul style="list-style-type: none"> Land Water Minerals Raw materials 	<ul style="list-style-type: none"> Machinery Equipment Buildings Infrastructure 	<ul style="list-style-type: none"> Stakeholder relationships Customers Indigenous communities

Resources and relationships can:

- be **internal**, such as the entity's workforce, its know-how or its organisational processes;
- be **external**, such as the materials and services the entity needs to access or the relationships it has with suppliers, distributors and customers; and
- include (but are not limited to) the resources and relationships recognised as assets in the entity's financial statements.

Dependencies and impacts

An entity considers how it—directly and indirectly—depends on and affects resources and relationships. IFRS S1 explains that an entity:

- **depends** on resources and relationships to **generate cash flows**; and
- **affects** resources and relationships through its **activities and outputs**.

These dependencies and impacts contribute to the preservation, regeneration and development of resources and relationships, or to their degradation and depletion.

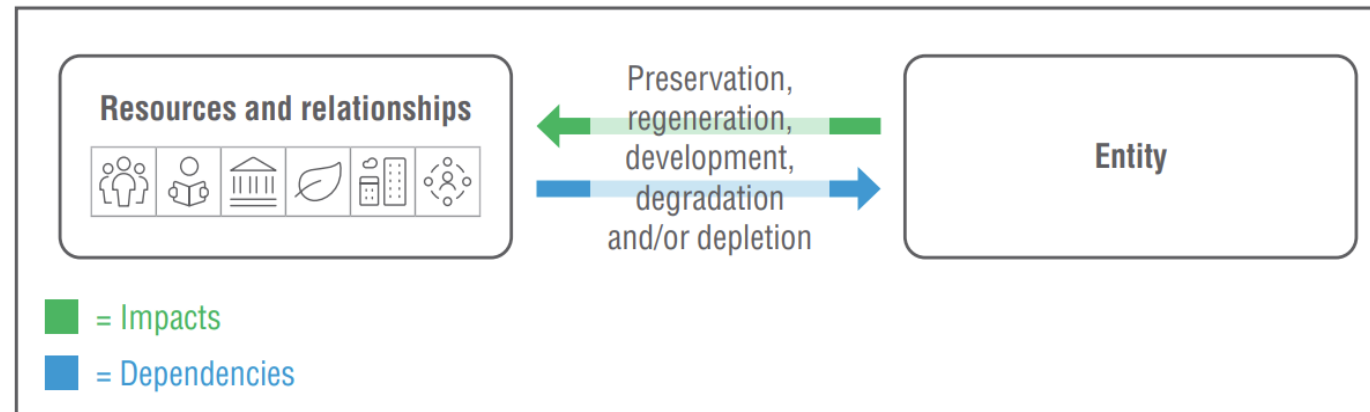
An entity’s dependencies and impacts on resources and relationships as a result of the entity’s activities and outputs

Entity’s activities and outputs	Entity’s dependency on a resource and relationship to generate cash flows	Entity’s impact on a resource and relationship through its activities and outputs
The entity extracts groundwater for irrigation.	The entity depends on water to operate its business model.	The entity’s activities might deplete the water source because of its dependency on water and its activities impacting the water.
The entity invests in employee training.	The entity operates in a highly competitive market and depends on a highly specialised workforce to operate its business model.	The entity’s investment in training can help to develop its workforce because of its dependency on a highly specialised workforce and its activities which impact the workforce.

The ‘interdependent system’

- An entity’s **activities and outputs** can affect **resources and relationships** on which it **depends**.
- In such circumstances, the entity is **affected by its own impact** on the resource or relationship.

This **interdependent system**, in which the entity both depends on and affects its resources and relationships, is depicted below:



An entity’s dependencies and impacts might not always be closely related. An entity can:

- depend on something it does not impact; and
- impact something it does not depend on.

Yet, in both cases—the dependency and impact—might give rise to sustainability-related risks and opportunities that could reasonably be expected to affect an entity’s prospects.

Sustainability-related risks and opportunities that *could reasonably be expected* to affect an entity's prospects

- An entity identifies sustainability-related risks or opportunities considering an external perspective. This means a sustainability-related risk or opportunity could be identified even if the entity itself does not have an expectation that the sustainability-related risk or opportunity could reasonably be expected to affect its prospects.
- In such circumstances, an entity discloses associated material information.

Example—Entity determines it could reasonably be expected to be affected by a sustainability-related risk to which it does not believe itself to be exposed

- Clothing manufacturer sources supplies from a jurisdiction known for effective human rights protections.
- Peers have disclosed risks of human rights violations throughout supply chains—but these peers source supplies from jurisdictions in which the entity does not.
- In assessing its sustainability-related risks, the entity determines that:
 - it does not expect the risk of human rights violations throughout its supply chain to affect its prospects (entity-specific factor); and
 - that the industry in which the entity operates is known to be exposed to such risks (external factor).
- After considering both factors, the entity determines that *it could reasonably be expected* that it is exposed to the risk of human rights violations in its supply chain, because primary users expect this to be a risk for an entity in this industry.

Sustainability-related risks and opportunities that could reasonably be expected to affect *an entity's prospects*

An entity's prospects refers to the entity's **cash flows**, its **access to finance** or **cost of capital** over the **short, medium or long term**.

The effects of sustainability-related risks and opportunities on an entity's cash flows, its access to finance or cost of capital include:

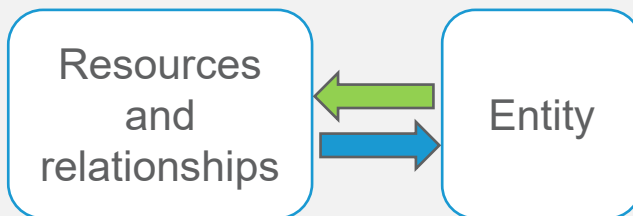
- the amount, timing and uncertainty of the entity's incoming and outgoing cash flows;
 - the entity's ability to obtain funding; and
 - the cost incurred by the entity to secure funding for its operations and investments.
- The effect of a sustainability-related risk or opportunity on an entity's **access to finance** and **cost of capital** brings in an **assessment of how other market participants might interact with the entity**.
 - The effects are assessed over the short-, medium- and long-term time horizons and the time horizons can vary among entities and depend on many factors.

Examples

An entity considers the **resources and relationships** throughout its **value chain** on which it **depends** and which it **affects**, and whether they give rise to **sustainability-related risks and opportunities** that **could reasonably be expected** to affect the **entity's prospects**.

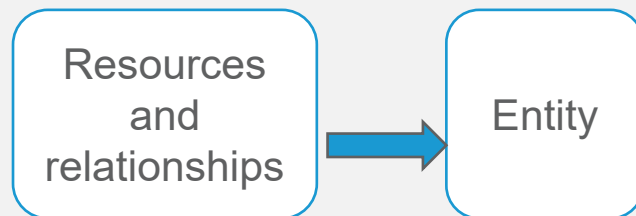
Example 1: highly specialised workforce

Relationship that the entity is *dependent on that it also affects*.



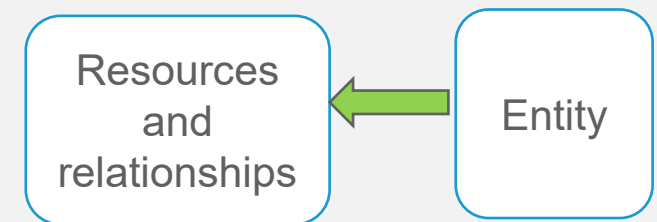
Example 2: access to finance

Resource that the entity is *dependent on that it does not affect*.



Example 3: local marine species

Resource that the entity *affects that it does not depend on*.

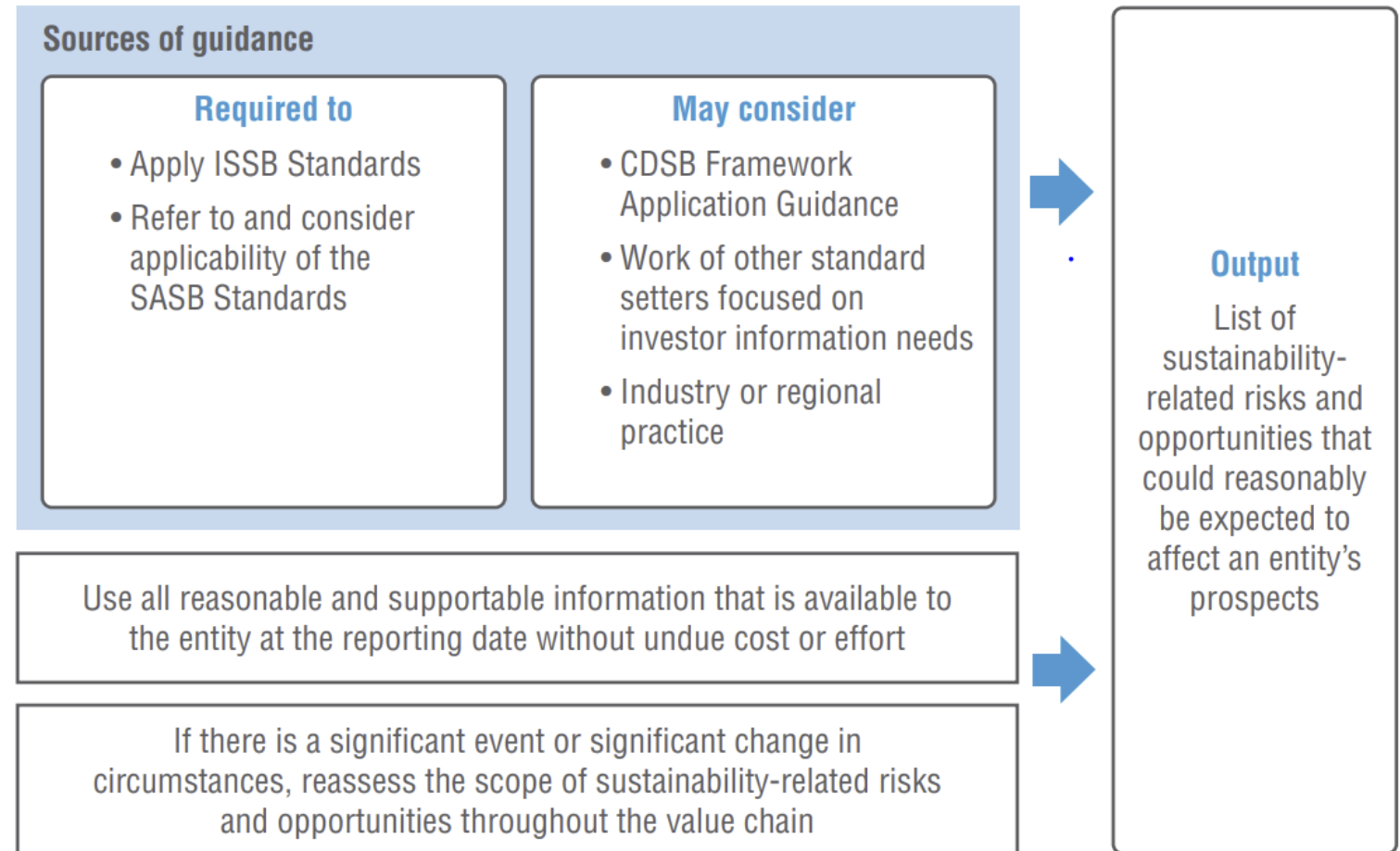


Key



How to identify sustainability-related risks and opportunities

- Entities often have well-established processes for identifying sustainability-related risks and opportunities.
- ISSB Standards **do not require that an entity use a specific approach or method to identify** sustainability-related risks and opportunities; however, the Standards **do require entities to consider specific sources of guidance.**



Follow us online

 [ifrs.org](https://www.ifrs.org)

 [@IFRSFoundation](https://twitter.com/IFRSFoundation)

 [IFRS Foundation](https://www.youtube.com/IFRSFoundation)

 [IFRS Sustainability Alliance](https://www.linkedin.com/company/ifrs-sustainability-alliance)