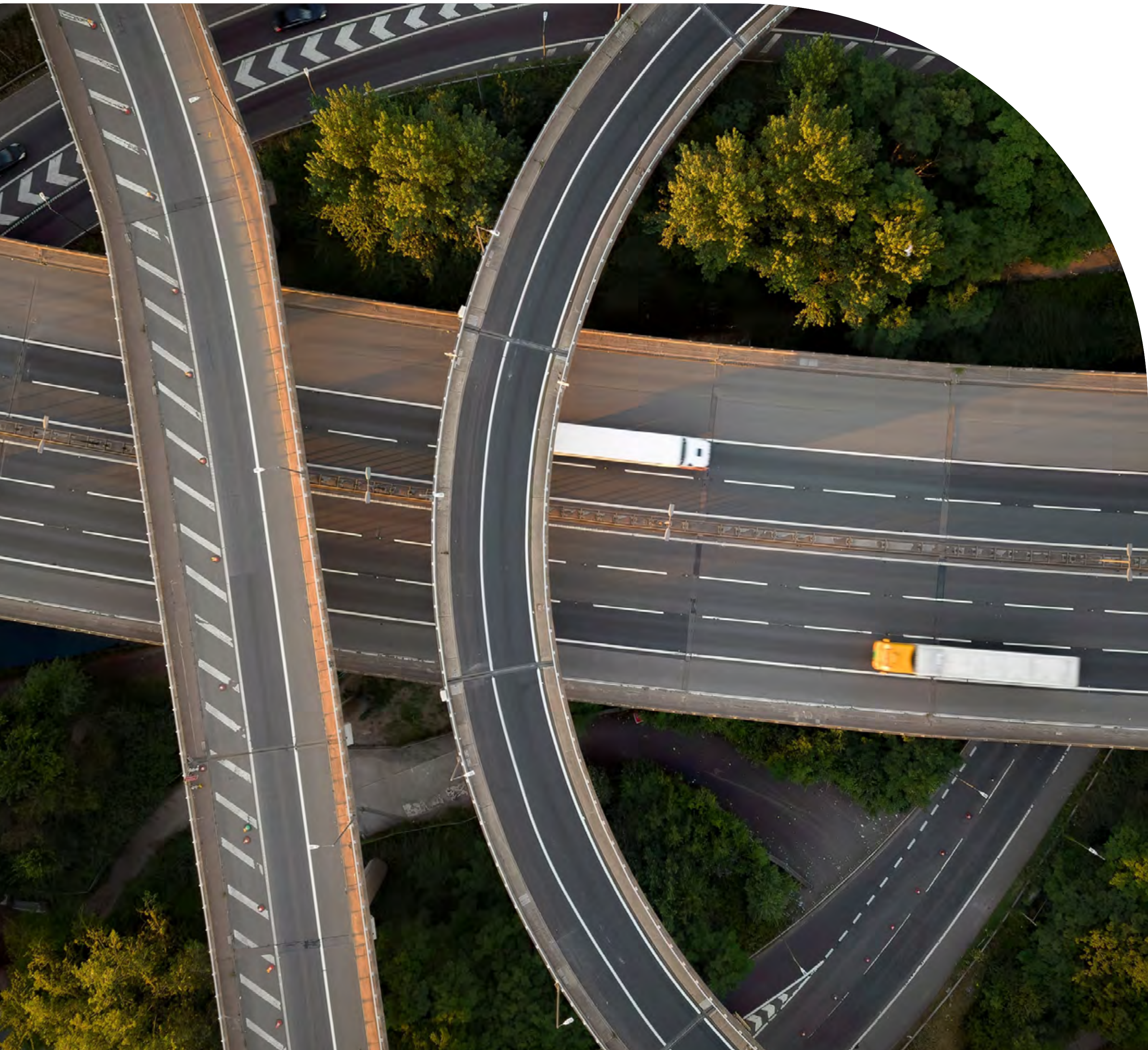
Overview of IFRS S1 and IFRS S2

May 2024



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On 26 June 2023 the International Sustainability Standards Board (ISSB) released its first two International Sustainability Disclosure Standards (IFRS SDS or the Standards) that become effective for periods beginning on or after 1 January 2024. Together they mark the start of a new era of requiring companies to make sustainability-related disclosures.

Background

The ISSB was launched by the IFRS Foundation at COP26 with the aim of improving the consistency and quality of sustainability reporting across the globe, by matching the importance of sustainability reporting with the current regulations around financial reporting. To reinforce this message, the ISSB sits alongside the International Accounting Standards Board (IASB) and is overseen by the trustees of the IFRS Foundation and the Monitoring board.

IFRS Foundation

ISSB | **IASB**

The ISSB brings together the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF), the name behind the Integrated Reporting Framework and the Sustainability Accounting Standards Board (SASB) Standards.

> "The global economy needs common reporting standards to reduce fragmentation and drive comparability in climate-related financial data. Built upon the foundation of the TCFD framework, the ISSB Standards provide a global baseline for companies to disclose decision-useful, climate-related financial information— information that is critical for creating more transparent markets, helping achieve a smooth low-carbon transition, and building a more resilient and sustainable global economy."
>
> **Mary Schapiro, Head of the Task Force on Climate-related Financial Disclosures (TCFD) Secretariat and Vice Chair for Global Public Policy at Bloomberg L.P.**

International support for global standards

Sustainability reporting is becoming increasingly important for stakeholders, with many larger companies already adopting some form of sustainability reporting to accommodate the demands of their key stakeholders. One of the key challenges faced by many investors and other stakeholders is they have not had access to good quality and globally comparable sustainability information, a stark difference to financial data. The developments being made by the ISSB are therefore game changing for sustainability reporting globally.

This is recognised by the international community. The ISSB has international support and is backed by the G7, G20, the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board, amongst others.

The Standards issued by the ISSB will help combat the challenges of companies "greenwashing", meaning stakeholders will be able to make better-informed decisions with confidence.

Key things to know about IFRS Sustainability Disclosure Standards

Headline	Description
Same reporting date	Reporting will be required at the same time and for the same period as the financial statements.
Materiality – investor focused	Materiality is the same as the IFRS definition, commonly referred to as "Financial Materiality". Information is deemed material if omitting, misstating or obscuring it could reasonably be expected to influence the users decision.
Report location	The sustainability report will be included as part of a company's general purpose financial reports. Report location in a company's general purpose financial report will be subject to regulatory or other requirements that apply to the company.
Forward-looking information	Disclosures need to provide information on the impact of sustainability-related risks and opportunities on the company's strategy, business model and financial statements over the short, medium and long-term.
TCFD-Aligned	The four pillars of governance, strategy, risk management and metrics & targets from the Taskforce on Climate-Related Financial Disclosures (TCFD) have been used to develop the Standards. See page 6 for more details on the four pillars.
Statement of compliance	A company is required to make an explicit and unreserved statement of compliance when the sustainability-related financial disclosures comply with all the requirements of IFRS SDS.
Consolidation of existing bodies	The Standards draw content from other current sustainability standard setters such as the TCFD, SASB, CDSB, and the VRF.

Overview of the Standards released

The two new sustainability Standards issued are as follows:

1. IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information'

The main objective of this Standard is to disclose all information about sustainability-related risks and opportunities that could reasonably be expected to affect a company's prospects.

2. IFRS S2 'Climate-related Disclosures'

This Standard focuses on specific climate-related information to be disclosed.

Introducing IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Information

IFRS S1 provides the basic requirements for sustainability disclosures, which should be used with IFRS S2 a well as the future Standards the ISSB releases. The Standard:

- requires disclosure of material information about sustainability-related risks and opportunities with the financial statements, to meet investor information needs
- requires industry specific disclosures and refers to the industry-based SASB standards for guidance when identifying disclosures about sustainability-related risks or opportunities
- refers to sources to help companies identify sustainability-related risks and opportunities and information (for everything other than in the scope of IFRS S2)
- requires disclosures that enable investors to understand the connections between the sustainability-related risks and opportunities and the sustainability-related financial disclosures and financial statements.
- is GAAP agnostic.

The four pillars of TCFD

1. Governance
Companies will need to report the processes, controls, and procedures that are used to manage sustainability-related risks and opportunities. The report will need to identify those individuals responsible and describe management's role in identifying, assessing and managing sustainability-related risks and opportunities.

2. Strategy
Disclose what management assesses to be the company's sustainability risks and opportunities and how management is addressing these by:

1. Identifying the company's sustainability related risks and opportunities
2. Disclosing the impact on the company including its business model, decision making and financial planning
3. Explaining the resilience of the company to these risks.

The Standard provides details on how a company should report on sustainability risks and opportunities:

- Identify the risks and opportunities – describe the risk/ opportunity, including the time horizon over which each could be reasonably expected to have a financial effect
- Define the time horizon – how does the company identify short, medium, and long-term.

Companies are required to disclose the current and anticipated effects of such issues on its value chain and how these issues will impact the financial statements over time.

3. Risk Management
Explaining how the company identifies sustainability-related risks and opportunities. This includes an explanation of the extent to which these risk management activities are integrated into the overall management risk process.

Concerning risks, disclosing information on:

1. How the company assesses the likelihood and impact of such risks
2. How the company prioritises such risks
3. The input parameters considered during the risk assessment process eg: data sources
4. Whether the process is consistent with prior years.

Concerning opportunities, how the company:

1. Assesses and prioritises
2. Monitors, manages, and mitigates.

4. Metrics and Targets
Disclose how the company measures, monitors, and manages its sustainability-related risks and opportunities. Companies will need to disclose targets set relating to sustainability risks and opportunities identified and the metrics used to assess progress being made.

Assurance over these disclosures is not a mandatory requirement under these standards (this would be dictated by local jurisdictions), however companies will still need to is close whether the measurement is validated or assured by an external party.

Introducing IFRS S2 – Climate-related Disclosures

The two Standards are designed to be applied together. However, IFRS S2 has been developed to capture climate-specific requirements which includes:

- Strategy disclosures that distinguish between physical and transitional risks
- Disclosure of their plans to respond to climate-related risks and opportunities, including how climate-related targets are set and any targets it is required to meet by law or regulation
- Companies should perform scenario analysis to explain how various climate-related events may impact the business in the future
- Climate-related metrics and target disclosures should include:
  - Cross-industry metrics that are relevant to all companies e.g. greenhouse gas emissions, refer to our publication on 'What are sustainability scope 1, 2 and 3 emissions?' for more information on greenhouse gas emissions.
  - Industry-based metrics relevant to companies within the related industries and
  - Company specific metrics considered by the board or management when measuring progress towards set targets.

Summary of timing and relief

Timeline

26 June 2023	Periods beginning on or after 1 January 2024
Release of IFRS S1 and IFRS S2 and SASB with climate-related metrics aligned to IFRS S2.	The Standards are effective for annual reporting periods beginning on or after 1 January 2024, but companies can adopt them early if they wish. Now the Standards are issued, regulators around the world will work to integrate the ISSB into their own mandatory reporting programs. Local jurisdictions will be responsible for determining local mandatory reporting timelines.

Reliefs

The ISSB has agreed that companies can adopt a climate-first approach, giving them the relief to only report on climate-related risks and opportunities in their first reporting period. This will give companies an additional year to report on the full range of sustainability-related risks and opportunities. Note this does not override any local jurisdiction requirements that are in place on sustainability reporting.

Other reliefs for the first-year application include exempting a company from:

- Reporting on comparative information
- Disclosing scope 3 emissions
- Using the Green House Gas Protocol (GHG Protocol) (so long as another methodology is used)
- Reporting at the same time as the related financial statements. This means companies will be permitted to report their sustainability-related financial disclosures after their financial statements, allowing for more time to collate and report on sustainability.

Timeline of Sustainability Reporting in Malaysia

Efforts to advance sustainability in the capital market

2015

In 2015, Bursa Malaysia Securities Berhad ("the Exchange") launched a sustainability reporting framework for listed issuers/corporations ("Sustainability Framework") which was embedded within the Main Market Listing Requirements ("Main LR") and the ACE Market Listing Requirements ("ACE LR"). Such requirements mandate a listed issuer/corporation to provide a narrative statement on the management of material economic, environmental and social ("EES") risks and opportunities in their annual reports ("Sustainability Statement"). A guide and toolkits was made available to provide information and guidance to listed issuers/corporations.

2022

In September 2022, pursuant to Section 9 of the Capital Markets and Services Act 2007 ("CMSA"), the Exchange amended the Main LR and the ACE LR to enhance the sustainability reporting framework with the aim to elevate the sustainability practices and disclosures of listed issuers/corporations ("Enhanced Sustainability Disclosures"). In tandem with the issuance of the Enhanced Sustainability Disclosures, the Exchange also issued an updated guide and toolkits containing guidance to listed issuers/corporations on compliance with the Enhanced Sustainability Disclosures. The key objectives of the Enhanced Sustainability Disclosures are to enhance the comparability of sustainability information by requiring disclosure of a common set of prescribed sustainability matters and indicators which are deemed material for all listed issuers/corporations ("Common Sustainability Matters") as well as the management of such matters. Additionally, it aims to improve climate change management by requiring climate-related disclosures in line with the TCFD Recommendations ("TCFD-aligned Disclosures"). It also facilitates stakeholders' assessment of progress and performance as well as promotes accountability of listed issuers/corporations by requiring disclosure of the Enhanced Quantitative Information for the following:

1. At least three financial years' data, on a rolling basis for each reported indicator
2. Performance target(s) in respect of each reporting indicator
3. A summary of such data and corresponding performance target(s) in a prescribed format.

Furthermore, the requirements strengthen the credibility of the Sustainability Statement by requiring a statement on whether the Sustainability Statement has been subjected to either an internal review by internal auditors or independent assurance has been performed in accordance with recognised assurance standards ("Statement of Assurance").

Incremental approach for TCFD-aligned disclosures

Listed issuers under Main LR are required to disclose the 4 thematic areas and 11 supporting recommended disclosures under the TCFD Recommendations, in their Sustainability Statements issued for financial year ending or after 31 December 2025. The elements of TCFD Recommendations include the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning, the resilience of the organisation's strategy and how processes for identifying, assessing and managing climate related risks are integrated into organisation's overall risk management.

The Enhanced Sustainability Disclosures requirements of the Main LR implementation dates

Requirements	Main LR	ACE LR
Disclosure of the Prescribed General Disclosures	Existing requirement	Period ending or after 31 December 2024
1. Disclosures of Common Sustainability Matters including: • anti-corruption • community/ society • diversity • energy management • health and safety • labour practices and standards • supply chain management • data privacy and security • water 2. Disclosures of quantitative information for every material sustainability matter 3. Disclosure of Statement of Assurance	Period ended or after 31 December 2023	Period ending or after 31 December 2025
Disclosure of the remaining Common Sustainability Matters and management of waste management and emissions	Period ending or after 31 December 2024	Period ending or after 31 December 2026
Disclosure of the TCFD-aligned disclosures	Period ending or after 31 December 2025	Not applicable
Disclosure of Basic Transition Plan Disclosures	Not applicable	Period ending or after 31 December 2026

2023

In June 2023, the Exchange further amended the Main LR and the ACE LR regarding sustainability training for directors, emphasising the importance of effective integration and implementation of sustainability practices starting from the top. Directors are expected to possess up-to-date and essential knowledge of sustainability to effectively fulfil their roles, especially in defining the listed issuer's sustainability strategies, priorities, and targets. Therefore, it is crucial that directors are provided with deeper insights into sustainability matters to ensure compliance with the enhanced sustainability reporting requirements. The Exchange additionally mandates directors of listed issuers/corporations and applicants seeking listing on the Main Market and the ACE Market ("listing applicants") to participate in a tailored sustainability programme aimed at enhancing their capabilities and competencies in these amendments.

Formation of ACSR

In May 2023, to support the use and application of IFRS S1 and IFRS S2 in Malaysia, the Securities Malaysia ("SC"), with endorsement from the Ministry of Finance, has set up a national level Advisory Committee on Sustainability Reporting ("ACSR"). The responsibilities of ACSR are to identify other supporting elements that need to be in place including a framework for assurance and capacity building, collectively constitute the National Sustainability Reporting Framework for Malaysia ("NSRF").

2024

Issuance of Consultation Paper by ACSR

On 15 February 2024, ACSR sought views from public by issuing a consultation paper, which outlined the potential implementation approach and considerations in relation to the ISSB Standards as well as assurance of sustainability information. In addition, the consultation paper aimed to seek feedback on the use and application of IFRS S1 and IFRS S2, including the potential transition relief, the approach in relation to a sustainability assurance framework, and the enablers or supports needed.

Practical next steps for preparing to report

Get Ready
Be prepared for the possibility of reporting on 2024 information – remember the sustainability report will have to be reported on at the same time as your financial statements which will cause increased pressure on year-end reporting (the ISSB exemption noted above may be allowed for the first reporting period and the Malaysian regulators have yet to set an implementation deadline).

Understand your current position
Evaluate your current governance structure and sustainability strategy to ensure it is fit for purpose going forwards and perform gap analysis to identify areas where work is needed to enable compliance with the Standards.

Create a sustainability roadmap
After understanding your current position, establish how you can address the gaps identified, adopting a timeline of key milestones for your sustainability journey, identifying individuals within your organisation responsible and any potential constraints.

Ensure good quality data
Ensure adequate controls and processes are in place now to help collate and analyse good quality sustainability data that will compliment your disclosures.

Familiarise yourself with the Standards
Companies who are already reporting on sustainability information will likely have an advantage but it's important to note there will be some differences in the Standards which you will need to identify. Not having a good understanding of all the applicable standards could result in lengthy reports containing duplication or omitted information resulting in non-compliance.

Educate your organisation
Ensure all levels of your business have a sound understanding on the importance of sustainability to help drive, grow and implement you sustainability strategy, ensuring there is buy-in at the top of your organisation to encourage the correct mindset to filter down.

How we can help
We hope you find the information in this article helpful in giving you some insight into IFRS Sustainability Disclosure Standards IFRS S1 and S2. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact.

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The Malaysian Institute of Certified Public Accountants (MICPA) has been developing the accounting profession in Malaysia for over six decades by providing accounting graduates with an avenue to become a Certified Public Accountant (CPA). Since its establishment in 1958, MICPA has played a key role in the setting of accounting standards and technical advisory for the Malaysian regulatory bodies responsible for carving out the business and financial landscape of this nation.

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