

**IFRS Sustainability Disclosure Standard IFRS S1**

# General Requirements for Disclosure of Sustainability-related Financial Information

**June 2023**

**ACCOMPANYING GUIDANCE**

**Illustrative Guidance**

**Illustrative Examples**

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This Accompanying Guidance accompanies IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (published June 2023; see separate booklet) and is issued by the International Sustainability Standards Board (ISSB).

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## **IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information***

### **Illustrative Guidance**

*This guidance accompanies, but is not part of, IFRS S1. It illustrates aspects of IFRS S1 but is not intended to provide interpretative guidance.*

#### **Primary users**

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IG1 The objective of IFRS S1 is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.<sup>1</sup>

#### **Meeting primary users' information needs**

IG2 Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial reports requires that entity to consider the characteristics of those users while also considering the entity's own circumstances. General purpose financial reports include—but are not restricted to—an entity's general purpose financial statements and sustainability-related financial disclosures.

IG3 Existing and potential investors, lenders and other creditors are the primary users to whom general purpose financial reports are directed. General purpose financial reports are prepared for users with a reasonable knowledge of business and economic activities and who review and analyse the information diligently. However, even well-informed and diligent users may need to seek the aid of an adviser to understand sustainability-related financial information.

IG4 General purpose financial reports do not, and cannot, provide all the information that primary users need. Therefore, the entity aims to meet the common information needs of its primary users. It does not aim to address specialised information needs—information needs that are unique to particular users.

IG5 To meet the common information needs of its primary users, an entity first separately identifies the information needs of one of the three types of primary users—for example, investors (existing and potential). The entity then repeats the assessment for the two remaining types—lenders (existing and potential) and other creditors (existing and potential). The combined information needs identified by these assessments form the set of common information needs that the entity aims to meet.

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<sup>1</sup> Throughout IFRS S1, the terms 'primary users' and 'users' are used interchangeably, with the same meaning and refer to existing and potential investors, lenders and other creditors.

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IG6 In other words, the assessment of common information needs does not require an entity to identify the information needs that are shared by all users. Some identified information needs will be common to all types of users, but others may be specific to only one or two types. If an entity were to focus only on information needs that are common to all types of primary users, it might exclude information that meets the needs of only one type.

### **Use of publicly available information**

IG7 Primary users do not source information exclusively from general purpose financial reports. For example, such users might also consider information about the industry an entity operates in; information about the entity's competitors and the state of the economy; and information in the entity's press releases as well as other documents the entity has published. However, the fact that information is publicly available does not relieve an entity of its responsibility to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. These risks and opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

### **Applying sources of guidance**

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IG8 This guidance suggests possible ways to apply some of the requirements in IFRS S1. It does not specify additional requirements.

IG9 IFRS S1 requires an entity to refer to and consider the applicability of specified sources of guidance. It also specifies sources of guidance an entity is permitted, but not required, to refer to in preparing its sustainability-related financial disclosures (see paragraphs 54–59 and Appendix C of IFRS S1). These sources can inform the identification of:

- (a) sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects; and
- (b) information about those sustainability-related risks and opportunities that is relevant to the decision-making of users of general purpose financial reports and faithfully represents those sustainability-related risks and opportunities.

IG10 Paragraphs IG11–IG27 illustrate how entities can apply sources of guidance in meeting the requirements in IFRS S1. Paragraphs IG11–IG24 focus on the SASB Standards and paragraphs IG25–IG27 focus on the CDSB Framework Application Guidance for Water-related Disclosures and the CDSB Framework Application Guidance for Biodiversity-related Disclosures (collectively referred to as 'CDSB Framework Application Guidance').

## **SASB Standards**

- IG11 As set out in IFRS S1, an entity is required to refer to and consider the applicability of the disclosure topics in the SASB Standards in identifying sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.
- IG12 The SASB Standards are organised by industry. Each SASB Standard contains:
- (a) industry descriptions—which are intended to help entities identify applicable industry guidance by describing the business models, activities and other common features that characterise participation in the industry;
  - (b) disclosure topics—which describe specific sustainability-related risks or opportunities associated with the activities conducted by entities within a particular industry;
  - (c) metrics—which accompany disclosure topics and are designed to, either individually or as part of a set, provide useful information regarding an entity's performance for a specific disclosure topic;
  - (d) technical protocols—which provide guidance on definitions, scope, implementation and presentation of associated metrics; and
  - (e) activity metrics—which quantify the scale of specific activities or operations by an entity and are intended for use in conjunction with metrics referred to in paragraph IG12(c) to normalise data and facilitate comparison.
- IG13 The disclosure topics and associated metrics in the SASB Standards are not exhaustive. IFRS S1 requires an entity to present fairly all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

## **Identifying applicable SASB Standards**

- IG14 Each SASB Standard includes an industry name and description. The industry names and descriptions are intended to enable an entity to identify the SASB Standard(s) that is likely to be applicable to its business model and associated activities. Industry names may not precisely align with the industry an entity considers itself to be a part of because industries can be classified and defined according to varying conventions. Moreover, there may be activities that are not specifically addressed by a SASB Standard for a particular industry, although it is likely that those activities, or at least similar activities, are addressed in other SASB Standards.
- IG15 In order to consider applicable SASB Standards, it is important for an entity to understand the activities that a particular SASB Standard covers. Each SASB Standard summarises the business it covers in an 'Industry Description' section.

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IG16 Some entities might find that their business models and activities are closely aligned with the industry description of a single SASB Standard. If so, an entity might need only to refer to the single applicable SASB Standard (see paragraphs IE3–IE8). Other entities might need to refer to and consider the applicability of more than one SASB Standard to help them identify sustainability-related risks and opportunities associated with their activities (see paragraphs IE9–IE15). Such entities might include those with hybrid or complex business models whose activities span a wider array of activities than reflected in any one SASB Standard.

### Disclosure topics

IG17 After identifying the SASB Standard(s) most closely aligned with the entity's activities, an entity next considers the applicability of the disclosure topics contained in the identified SASB Standard(s) to the entity's activities. The disclosure topics describe specific sustainability-related risks and opportunities associated with the activities conducted by entities within a particular industry. These disclosure topics are intended to enable entities to consistently identify sustainability-related risks and opportunities based on their business model and activities.

IG18 For example, an entity that conducts meat, poultry and dairy operations would refer to and consider the applicability of the disclosure topics in the *Meat, Poultry & Dairy* SASB Standard. In considering the applicability of the SASB Standard for this industry, an entity might conclude that the disclosure topics in that SASB Standard are applicable in the entity's circumstances, including disclosure topics such as:

- (a) food safety; and
- (b) workforce health & safety.

IG19 Therefore, the entity could use the disclosure topics in this SASB Standard—including, but not limited to the disclosure topics listed in paragraph IG18—to inform its identification of sustainability-related risks and opportunities, in accordance with paragraph 55 of IFRS S1. Specifically, applying those disclosure topics, the entity could explain that a failure to maintain the quality and safety of its product might result in costly recalls, harm the reputation of its brand, lead to fines, reduce its revenues and increase regulatory scrutiny, including the imposition of trade restrictions. The entity could also use the disclosure topics to disclose information required by paragraph 33 of IFRS S1 about how it manages the identified risks, for example, information about the robust workforce safety practices to avoid reputational impairment, costly turnover, low worker morale and productivity, risks associated with potential liability for injuries, associated healthcare and workers' compensation costs.

IG20 An entity could repeat this approach for each of the applicable disclosure topics. The SASB Standards inform the identification of sustainability-related risks and opportunities of a *typical* entity within a given industry. Consequently, in some cases the SASB Standards might:

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- (a) include disclosure topics that would not result in useful information for users of general purpose financial reports for *every* entity within a given industry; and
- (b) not include every disclosure topic that would result in useful information.

In some cases, an entity might conclude that a disclosure topic would not result in useful information because of the entity's business model. That might be the case, for example, if the entity does not engage in activities that are covered by that disclosure topic. Conversely, an entity might also need to consider additional sources of guidance specified in paragraph 55(b) of IFRS S1 to identify sustainability-related risks or opportunities that could reasonably be expected to affect the entity's prospects.

**Metrics**

IG21 In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity, IFRS S1 requires an entity to refer to and consider the applicability of the metrics associated with the disclosure topics included in the SASB Standards. An entity might conclude that metrics specified in the SASB Standards are not applicable in the entity's circumstances.

IG22 Hypothetically, a meat, poultry and dairy entity might refer to and consider the applicability of the following metrics included in the *Meat, Poultry & Dairy* SASB Standard:

- (a) food safety:
  - (i) FB-MP-250a.1—Global Food Safety Initiative (GFSI) audit (1) non-conformance rate and (2) associated corrective action rate for (a) major and (b) minor non-conformances;
  - (ii) FB-MP-250a.2—Percentage of supplier facilities certified to a Global Food Safety Initiative (GFSI) food safety certification program;
  - (iii) FB-MP-250a.3—(1) Number of recalls issued and (2) total weight of products recalled; and
  - (iv) FB-MP-250a.4—Discussion of markets that ban imports of the entity's products; and
- (b) workforce health & safety:
  - (i) FB-MP-320a.1—(1) Total recordable incident rate (TRIR) and (2) fatality rate; and
  - (ii) FB-MP-320a.2—Description of efforts to assess, monitor, and mitigate acute and chronic respiratory health conditions.



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- IG23 Each of these metrics is supported by technical protocols that provide detailed guidance on definitions, scope, implementation and presentation. For example, in applying the accompanying technical protocols, the hypothetical meat, poultry and dairy entity would disclose information related to workforce health and safety for all of its workers, regardless of their location and type of employment, such as full-time, part-time, direct, contract, executive, labour, salary, hourly or seasonal. The entity might disclose this information to comply with the requirement in paragraph 32(a) of IFRS S1 to describe the effects of workforce health and safety-related risks on its business model and its value chain. Furthermore, the entity might disaggregate this information—for example, by location of operations—to disclose information in accordance with the requirement in paragraph 32(b) of IFRS S1 to describe where in the entity's business model and value chain workforce health and safety-related risks are concentrated. The technical protocols may also serve as criteria against which the disclosed information can be verified.
- IG24 The accompanying technical protocols would also guide the hypothetical entity in supplementing the metrics with appropriate context—for example, a discussion of notable recalls, including information related to the cause, amount, remediation cost, nature (voluntary or involuntary), associated corrective actions and other significant outcomes related to the recall, such as legal proceedings or consumer illness. The entity might disclose this information to comply with the requirements in paragraph 35 of IFRS S1 to disclose quantitative and qualitative information about the current and anticipated financial effects of food safety-related risks on its financial position, performance and cash flows.

### **CDSB Framework Application Guidance**

- IG25 As set out in IFRS S1, an entity may refer to and consider the applicability of the CDSB Framework Application Guidance in identifying sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects (see paragraph 55 of IFRS S1). In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity, an entity may refer to and consider the applicability of the CDSB Framework Application Guidance in identifying information that is relevant to the decision-making of users of general purpose financial reports and faithfully represents the sustainability-related risk or opportunity (see paragraphs 57–58 of IFRS S1).
- IG26 The CDSB Framework Application Guidance can support entities in identifying water- and biodiversity-related risks and opportunities. For example, the CDSB Framework Application Guidance on Biodiversity-related Disclosures identifies potential physical biodiversity-related risks such as reduction in soil fertility, reduction in pollination for crop production and reduced availability of fish stocks. Similarly, the CDSB Framework Application Guidance on Water-related Disclosures identifies potential water-related opportunities such as improved water efficiency, development of new products and services, and conservation and restoration of ecosystems through engagement and collaboration with stakeholders. In applying the requirement in paragraph 21 of IFRS S1 on

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connected information, the CDSB Framework Application Guidance explains how water- and biodiversity-related risks might be connected to other sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects; for example, water-related risks, such as more frequent flooding, are often inherently linked to climate-related risks.

IG27 An entity might have identified water- or biodiversity-related risks and opportunities in accordance with the SASB Standards, the CDSB Framework Application Guidance or other sources of guidance in accordance with paragraph 55 of IFRS S1. In the absence of a specifically applicable IFRS Sustainability Disclosure Standard, the entity may consider the applicability of the CDSB Framework Application Guidance in identifying information to be provided, including metrics, about the water- or biodiversity-related risks or opportunities that could reasonably be expected to affect an entity's prospects. An entity might consider the CDSB Framework Application Guidance in applying the core content requirements in paragraphs 25–53 of IFRS S1, for example:

- (a) Governance—in providing disclosures on governance relating to water-related risks and opportunities, the CDSB Framework Application Guidance on Water-related Disclosures suggests an entity might provide information about how water policies, strategy and information are delegated to management. In relation to collaboration with stakeholders to achieve effective water management, the guidance also suggests an entity might provide information about whether there are specific bodies, individuals or mechanisms located in areas that are affected by significant water loss whose function is to ensure compliance with water-related regulation and engagement with stakeholders.
- (b) Strategy—in providing disclosures on strategy relating to biodiversity-related risks and opportunities, the CDSB Framework Application Guidance on Biodiversity-related Disclosures suggests an entity might provide, for example, information about the geographic-specificity of biodiversity-related risks and opportunities and how those risks and opportunities may vary over the short, medium and long term. The guidance also suggests the type of quantitative and qualitative information an entity might consider providing in accordance with paragraphs 34–40 of IFRS S1, for example, the operational expenses, cost savings and revenue associated with biodiversity management, such as information about remediation costs or provisions in the case of accidents such as polluting spills, costs of staff training and revenue from biodiversity-efficient products and services.
- (c) Metrics and targets—the CDSB Framework Application Guidance on Biodiversity-related Disclosures provides examples of common biodiversity metrics such as concentrations of key pollutants in wastewater, the volume of timber and non-timber forest products harvested and areas of forest, grassland or wetland converted due to urbanisation. Due to changes in biodiversity over time, the guidance suggests an entity provides information about the time frames it has

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set for targets. The guidance also discusses targets tailored to specific locations due to geographical variation in biodiversity priorities, as well as differing legal and regulatory requirements.

## Illustrative Examples

*These examples accompany, but are not part of, IFRS S1. They illustrate aspects of IFRS S1 but are not intended to provide interpretative guidance.*

IE1 These examples portray hypothetical situations illustrating how an entity might apply some of the requirements in IFRS S1 on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific industries illustrated. Although some aspects of the examples may be present in actual fact patterns, an entity should evaluate all of the relevant facts and circumstances of a particular fact pattern when applying IFRS S1.

## SASB Standards

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IE2 Examples 1 and 2 illustrate how an entity might apply the requirements related to sources of guidance. Those requirements include:

- (a) to refer to and consider the applicability of the disclosure topics in the SASB Standards (see paragraph 55(a) of IFRS S1);
- (b) to refer to and consider the applicability of the metrics associated with the disclosure topics included in the SASB Standards (see paragraph 58(a) of IFRS S1);
- (c) to identify the specific standards, pronouncements, industry practice and other sources of guidance that the entity has applied in preparing its sustainability-related financial disclosures, including, if applicable, identifying the disclosure topics in the SASB Standards (see paragraph 59(a) of IFRS S1);
- (d) to identify the industry(s) specified in the IFRS Sustainability Disclosure Standards, the SASB Standards or other sources of guidance relating to a particular industry(s) that the entity has applied in preparing its sustainability-related financial disclosures, including in identifying applicable metrics (see paragraph 59(b) of IFRS S1); and
- (e) to identify the source and metric taken if an entity discloses a metric from a source other than IFRS Sustainability Disclosure Standards (see paragraph 49 of IFRS S1).

### Example 1—An entity with a single line of business

IE3 Entity Y is a regional passenger airline company. In identifying sustainability-related risks and opportunities that could reasonably be expected to affect its prospects, Entity Y is required to apply IFRS Sustainability Disclosure Standards in accordance with paragraph 54 of IFRS S1. In addition to applying IFRS Sustainability Disclosure Standards, Entity Y is required to refer to and consider the applicability of the disclosure topics in the SASB Standards. Entity Y concludes that its business model and activities most closely align with the *Airlines* SASB Standard.

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- IE4 Entity Y applies IFRS S2 *Climate-related Disclosures* and identifies climate-related risks or opportunities that could reasonably be expected to affect its prospects. In addition, Entity Y refers to and considers the applicability of the disclosure topics in the *Airlines SASB Standard* in accordance with paragraph 55(a) of IFRS S1. Entity Y concludes that all four disclosure topics in the *Airlines SASB Standard* are applicable to its activities and uses those disclosure topics to inform its identification of sustainability-related risks and opportunities that could reasonably be expected to affect its prospects.
- IE5 In disclosing information about its sustainability-related risks and opportunities, Entity Y applies IFRS Sustainability Disclosure Standards that specifically apply to its identified sustainability-related risks and opportunities. For example, Entity Y applies IFRS S2 to disclose information about its greenhouse gas emissions. In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to the sustainability-related risks and opportunities which Entity Y has identified, Entity Y refers to and considers the applicability of the metrics associated with the applicable disclosure topics in the *Airlines SASB Standard*. Entity Y concludes that applying these metrics will provide information that is relevant to the decision-making of users of general purpose financial reports and faithfully represents the sustainability-related risks and opportunities that it has identified. For example, the metrics associated with the 'Accident & Safety Management' disclosure topic include:
- (a) TR-AL-540a.1—Description of implementation and outcomes of a Safety Management System;
  - (b) TR-AL-540a.2—Number of aviation accidents; and
  - (c) TR-AL-540a.3—Number of governmental enforcement actions of aviation safety regulations.
- IE6 In identifying information to provide, Entity Y considers the applicability of the technical protocols accompanying the metrics. For example, while disclosing a description of the implementation and outcomes of a Safety Management System, Entity Y might describe any actions or measures it has implemented to mitigate any safety risks and hazardous situations that it has identified. These actions or measures include, for example, particular changes in controls, operations, management, processes, products, business partners, training or technology.
- IE7 Entity Y is required to apply the requirements relating to 'core content' in IFRS S1. Entity Y considers the disclosure topics, metrics and associated technical protocols in the *Airlines SASB Standard* when providing information required by IFRS S1, including information relating to strategy and metrics and targets.
- IE8 Entity Y discloses that it applied the disclosure topics and metrics in the *Airlines SASB Standard* in preparing its sustainability-related financial disclosures, in accordance with paragraphs 49 and 59 of IFRS S1.

### **Example 2—A large conglomerate with diverse activities**

- IE9 Entity A is a large conglomerate with diverse activities. Entity A produces electrical and industrial equipment for use in a range of industries. In addition to IFRS Sustainability Disclosure Standards, Entity A is required to refer to and consider the applicability of the disclosure topics in the SASB Standards in identifying its sustainability-related risks and opportunities. Because of the wide-ranging nature of its activities, Entity A begins its consideration of the applicability of the SASB Standards by considering the various sectors into which the SASB Standards are grouped. Entity A conducts activities in industries in the Health Care, Resource Transformation and Infrastructure sectors, and in some cases owns particular parts of its production process rather than relying on suppliers. It also has some activities in the Transportation and Consumer Goods sectors.
- IE10 Entity A refers to and considers the applicability of the disclosure topics in the SASB Standards. Entity A concludes that eight SASB Standards are applicable to its business model and activities. Entity A considers the disclosure topics in the eight standards. Although Entity A observes that it engages in activities related to all of those disclosure topics, Entity A concludes that some of those disclosure topics are not applicable in the entity's circumstances. For example, Entity A concludes that the sustainability-related risk or opportunity characterised by a particular disclosure topic could not reasonably be expected to affect its prospects over the short, medium or long term because the disclosure topic relates to activities that are insignificant for the entity.
- IE11 Entity A concludes that most of the disclosure topics in the SASB Standards it has considered are applicable to its significant activities. In some cases where it has less significant activities, it finds that only particular disclosure topics in those related industries are applicable. For example, Entity A concludes that most of the disclosure topics that it considered for its transportation and retail businesses are not applicable, due to the relatively small size of these businesses. However, Entity A concludes that incidents related to safety and labour practices in these businesses, although unlikely to have a large effect on its cash flows in the short term, could have a major effect on its reputation over the medium and long term. This reputational risk could affect the performance of its larger businesses, including its ability to attract and retain talent, over a medium- and long-term time horizon, which could be reasonably expected to affect its medium- and long-term cash flows, access to finance and cost of capital. Thus, Entity A considers these topics in identifying sustainability-related risks and opportunities that could reasonably be expected to affect its prospects.

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- IE12 In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to the sustainability-related risks and opportunities that Entity A has identified, Entity A refers to and considers the applicability of the metrics associated with applicable disclosure topics. In identifying applicable metrics, Entity A considers whether the metric will provide information that is relevant to the decision-making of users of general purpose financial reports and that faithfully represents the sustainability-related risks and opportunities that it has identified.
- IE13 In preparing its sustainability-related financial disclosures, Entity A concludes that some information should be aggregated to avoid obscuring material information with immaterial information. For example, it concludes that information about its strategy for sourcing critical materials for devices produced by its various activities should be aggregated because the entity manages the supplier relationships for those critical materials centrally.
- IE14 In contrast, for other types of information, Entity A concludes aggregation would result in obscuring material information. For example, it concludes that information about the number of recalls related to its equipment in the Health Care sector should not be aggregated with information about the number of recalls related to its equipment in the Consumer Goods sector because the technologies, production processes and markets for each sector differ. Therefore, there are also varied reasons for the occurrence of product recalls in these sectors.
- IE15 Entity A discloses information about the SASB Standards it has applied in preparing its sustainability-related financial disclosures, in accordance with paragraphs 49 and 59 of IFRS S1, including identifying the specific SASB Standards, disclosure topics and metrics it applied. Entity A also provides information to enable users of general purpose financial reports to understand the judgements that it has made in the process of preparing its sustainability-related financial disclosures and that have the most significant effect on the information included in those disclosures in accordance with paragraph 74 of IFRS S1.