IFRS Foundation

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Voluntarily applying ISSB Standards—A guide for preparers

This voluntary application guide is designed to help companies communicate their progress as they begin to apply IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* in advance of or in the absence of jurisdictional regulation, which may specify or restrict the reporting that entities in a jurisdiction can do voluntarily. These Standards are issued by the International Sustainability Standards Board (ISSB). This application guide is not part of IFRS Standards and does not add to or change the requirements in IFRS S1 or IFRS S2. Nor does this guide override jurisdictional rules and guidance.

IFRS S1 and IFRS S2 (ISSB Standards) enable preparers (referred to as 'companies' or 'entities' in this guide) to disclose comparable and reliable information to support investor decision-making. The Standards respond to the capital markets' critical need for a global baseline of disclosures on climate and other sustainability-related risks and opportunities. The IFRS Foundation encourages companies to apply IFRS S1 and IFRS S2 to communicate material sustainability-related financial information to investors, lenders and creditors. Companies may achieve full compliance right away, including by making use of the ISSB Standards' built-in transition reliefs and proportionality mechanisms.[1] Companies that cannot do so initially should communicate clearly about the extent to which they are applying the ISSB Standards.

This guide is intended to help companies to navigate a path to IFRS S1 and IFRS S2 compliance and also to help them to communicate about their progress in a way that enables investors and other stakeholders to understand the sustainability-related financial information that companies are able to provide at different stages of their journey.

Reporting in compliance with ISSB Standards

A company can only state that it has complied with the ISSB Standards if it meets all of the requirements in both IFRS S1 and IFRS S2. Given the differences between companies—especially in terms of their reporting maturity, the data available to them, their processes, industry risks and other elements of readiness—those that voluntarily apply some of the requirements in ISSB Standards might proceed in phases—subject to any jurisdictional rules and guidance—as they build or update their processes and controls, develop capabilities and gather data. At certain milestones, companies may opt to disclose some of the information required by IFRS S1 and IFRS S2 and to explain in those disclosures how and to what degree they have applied the ISSB Standards. Transparency about the extent of a voluntary reporter's application supports the capital markets' assessment of the information that the company provides.

The ISSB Standards are designed to allow companies of all sizes, stages of development and levels of sustainability maturity to apply them. IFRS S1 and IFRS S2 include transition reliefs that allow a phased introduction of requirements to support those companies that are only beginning to apply the ISSB Standards. These reliefs provide paths for companies to develop disclosure capabilities while enabling consistency and comparability with other companies. A company can, of course, apply these reliefs and still comply with the ISSB Standards. To the extent that voluntary reporters delay disclosures beyond the period of relief included in the ISSB Standards, or otherwise do not provide all the disclosures that are required by IFRS S1 and IFRS S2, these companies cannot assert compliance with ISSB Standards but should regularly update and communicate an assessment of their progress towards compliance.

IFRS S1 and IFRS S2 also include proportionality mechanisms. These mechanisms are designed to assist companies in applying the ISSB Standards by

1 'Compliance' is when a company meets all of the requirements in the ISSB Standards, whether applied voluntarily or applied to comply with regulation.

simplifying what is required of a company to facilitate easier application. The mechanisms are based on the concepts of using ‘reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort’ and taking into consideration ‘skills, capabilities and resources available to the entity’ for certain requirements. Although these concepts can assist all companies, they can be particularly helpful to those that are applying IFRS S1 and IFRS S2 for the first time and to those that find certain requirements in the ISSB Standards challenging to apply, at least in the short term. Like the transition reliefs, the proportionality mechanisms are an intrinsic part of the ISSB Standards, so a company making use of them is still able to assert that it has complied with the ISSB Standards.

Transition reliefs

The transition reliefs in IFRS S1 and IFRS S2 relate to:

- **‘climate-first’ reporting**—IFRS S1 enables a company to disclose information on only climate-related risks and opportunities (in accordance with IFRS S2) in the first annual reporting period in which the company applies IFRS S1. The company is only required to disclose information related to other (non-climate) sustainability-related risks and opportunities from the second year it applies IFRS S1.
- **the timing of reporting**—IFRS S1 requires a company to report its sustainability-related financial disclosures at the same time as it publishes its related financial statements, covering the same reporting period. However, in a company’s first annual reporting period, IFRS S1 enables it to report its annual sustainability-related financial disclosures after publishing the related financial statements, along with its half-year financial reports.
- **comparative disclosures**—comparative information is not required to be disclosed in the first annual reporting period in which a company applies IFRS S1 and IFRS S2. In the second year of disclosure, a company is required to provide comparative information on sustainability-related risks and opportunities, including climate-related ones. However, if a company discloses only information about climate-related risks and opportunities in the first year (which is a transition relief included in IFRS S1), it will be required to provide comparative information only about these risks and opportunities. It will not have to provide prior-year disclosures for other sustainability-related risks and opportunities.
- **Greenhouse Gas Protocol**—IFRS S2 requires a company to use the GHG Protocol: A Corporate Accounting and Reporting Standard (2004) to measure greenhouse gas (GHG) emissions unless the company is required by regulation to use a different measurement method. However, IFRS S2 allows a company already using a different measurement method to continue to use that method in the first year it applies IFRS S2.
- **Scope 3 GHG emissions**—a company is not required to disclose Scope 3 GHG emissions information in the first year that it applies IFRS S2.

A company using these transition reliefs in the first year that it applies IFRS S1 and IFRS S2 may state that it has complied with ISSB Standards provided it has otherwise met all of the requirements. However, a company that applied the ISSB Standards as if those reliefs extended beyond the first year would not be able to state compliance. Such a company would state that it partially applied the Standards and identify the requirements that were not met.

Proportionality mechanisms

IFRS S1 and IFRS S2 balance companies’ state of readiness with investors’ need for enhanced transparency and comparability. For example, the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’, which is also used by the International Accounting Standards Board in the IFRS Accounting Standards, helps companies to disclose information about which there is a high level of measurement uncertainty or outcome uncertainty.

As mentioned above, the ISSB also introduced the concept of ‘the skills, capabilities and resources available to the entity’ in IFRS S1 and IFRS S2 to address the need for proportionality by enabling companies to apply qualitative instead of quantitative approaches in several instances. This concept helps companies to apply the requirements in ways that are proportionate to their circumstances while still providing useful information for investors.

These proportionality mechanisms are always available, but they can be particularly helpful when the ISSB Standards are first applied and for companies that might be less able to comply with the disclosure requirements. Using any of these mechanisms—for example, by disclosing qualitative instead of quantitative information where appropriate—would not prevent the company from being able to assert that it has complied with the ISSB Standards.

Table—Proportionality mechanisms

	Information used limited to what is reasonable, supportable and available without undue cost or effort	Qualitative approaches allowed if a company lacks skills, capabilities or resources
Determination of anticipated financial effects	Yes	Yes
Climate-related scenario analysis	Yes	Yes
Measurement of Scope 3 greenhouse gas (GHG) emissions	Yes	–
Identification of risks and opportunities	Yes	–
Determination of the scope of the value chain	Yes	–
Calculation of metrics in some cross-industry categories	Yes	–

Starting from investor-oriented disclosure frameworks and standards—Task Force on Climate-Related Financial Disclosures (TCFD), SASB, CDSB and the Integrated Reporting Framework

Companies have been voluntarily disclosing sustainability-related information to their investors for many years, with thousands of companies around the world using the TCFD recommendations, SASB Standards, CDSB Framework Application Guidance and/or the Integrated Reporting Framework to do so, especially in recent years. These investor-oriented voluntary frameworks and standards are incorporated or referenced in the ISSB Standards. Companies that are applying one or more of these frameworks and standards are well advanced on the path to compliance with IFRS S1 and IFRS S2, but they will need to assess and identify differences between what was previously reported and what IFRS S1 and IFRS S2 require (see the Appendix).

Communicating partial application

Paragraph 72 of IFRS S1 requires companies preparing their sustainability-related financial disclosures in accordance with the ISSB Standards to make an explicit and unreserved statement of compliance. An assertion of compliance with ISSB Standards is only valid if the reporting entity complies with all the requirements in the Standards. The appropriate use of the reliefs and mechanisms mentioned in this guide would not prevent a company from making an unreserved statement of compliance.

A company that begins to voluntarily disclose sustainability-related information by partially applying the ISSB Standards should state that fact and describe how its disclosures only partially reflect the requirements of IFRS S1 and IFRS S2 using language appropriate to its circumstances, stage of progress and jurisdiction. The company could explain, if applicable, the reasons for phasing its disclosures over longer periods than are allowed for by the transition reliefs included in the ISSB Standards.

Assurance by a third party could be possible. In cases of partial application, assurance would give users of the information a better understanding of and confidence in the basis for the information presented, supporting their ability to compare disclosures between companies.

The following examples show how a company might explain its partial application of ISSB Standards. (The examples are for illustrative purposes only. They are not intended to reflect all the information that a company should disclose.)[1]

Example 1

This report partially applies the IFRS Sustainability Disclosure Standards IFRS S1 and IFRS S2 as issued by the International Sustainability Standards Board (ISSB). The Company plans to achieve full compliance with IFRS Sustainability Disclosure Standards when sufficient sustainability data becomes available, and after it has further refined its control systems and processes for sustainability disclosure.

Example 2

This report has been prepared, to the extent possible for this year, applying IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, and IFRS S2 *Climate-related Disclosures*. IFRS S1 and IFRS S2 disclosures that have been omitted are described in the report along with the reasons why they have not been reported at this time. The Company intends to include these disclosures by 20XX.

Conclusion

IFRS S1 and IFRS S2 are designed to be cost-effective and efficient for companies to apply while providing decision-useful information to investors. As jurisdictions around the world begin adopting or otherwise using the ISSB Standards in their regulatory reporting frameworks, many companies in those jurisdictions are getting ahead by starting to apply the ISSB Standards early. Companies in other jurisdictions are beginning to apply the ISSB Standards voluntarily to meet investors' information needs. In all cases, a measured and deliberate approach, accompanied by clear communication of progress, will help companies on their journeys to compliance with IFRS Sustainability Disclosure Standards while improving investors' abilities to interpret and compare disclosures.

1 These examples have not been issued by the ISSB. They are not part of IFRS Standards and are not illustrative examples accompanying IFRS Standards. They are provided as part of this guide to illustrate possible company explanations of partial application of the ISSB Standards.

Appendix—Voluntary frameworks and standards as a starting point for applying ISSB Standards

IFRS S1 requires companies to consider the SASB Standards as a source of guidance when identifying sustainability-related risks and opportunities other than climate-related ones and in identifying investor-relevant disclosures about those matters. IFRS S2 includes industry guidance built on the climate-related topics and metrics from the SASB Standards. As a result, SASB reporters are likely to be well prepared to meet the requirements of IFRS S1 and IFRS S2. They might build upon their SASB disclosures and include explanations of how they are progressing towards full compliance. Educational material is available on using the SASB Standards to meet the requirements in IFRS S1.

Similarly, IFRS S2 fully incorporates the Task Force on Climate-Related Financial Disclosures recommendations, and companies that already use them will be well on their way to meeting the requirements of IFRS S2. As such, a company might advance towards implementation of IFRS S2 by adding additional disclosures to its TCFD reporting and explaining its progress. The extra information required by IFRS S2 compared to the TCFD recommendations, for example, industry-based information, is explained in this comparison; and educational material on making the transition is here. Companies should note that IFRS S2 cannot be applied without critical elements that are described in IFRS S1, including the consideration of foundational concepts such as 'materiality' and 'reporting entity'.

In addition to considering the SASB Standards to identify sustainability-related risks and opportunities and applicable disclosure requirements, a company may consider the applicability of the CDSB Framework Application Guidance for Water-related Disclosures and the CDSB Framework Application Guidance for Biodiversity-related Disclosures. Many companies that have used CDSB's framework for reporting environmental and social information with the same rigour as financial information may find it a good foundation on which to build full IFRS S1 and IFRS S2 compliance.

IFRS S1 incorporates concepts from the Integrated Reporting Framework, building on its definitions of sustainability and the resources and relationships (or 'capitals') that a company 'depends on or affects' to create, preserve or erode value over time, as well as expanding on the Framework's focus on the connectivity of information. The disclosures on sustainability-related risks and opportunities and connected information required by IFRS S1 and IFRS S2 could be embedded into an integrated report for users of general purpose financial reports. See the digital tool How to apply the Integrated Reporting Framework with IFRS S1 and IFRS S2: A mapping tool.