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# Exposure Draft

IFRS<sup>®</sup> Sustainability Disclosure Standard

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## Illustrative Guidance on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Comments to be received by 29 July 2022



# **Exposure Draft**

## **Illustrative Guidance**

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

*Comments to be received by 29 July 2022*

This Illustrative Guidance accompanies the ED/2022/S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (published March 2022; see separate booklet). It is published by the International Sustainability Standards Board (ISSB) for comment only. Comments need to be received by 29 July 2022 and should be submitted by email to [commentletters@ifrs.org](mailto:commentletters@ifrs.org) or online at <https://www.ifrs.org/projects/open-for-comment/>.

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ILLUSTRATIVE GUIDANCE ON GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED  
FINANCIAL INFORMATION

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## Illustrative Guidance

*This guidance accompanies, but is not part of, [draft] IFRS S1. It illustrates aspects of [draft] IFRS S1 but is not intended to provide an interpretation.*

### Implementing materiality judgements

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IG1 The objective of sustainability-related financial disclosure is to provide primary users with material information about all of the significant sustainability-related risks and opportunities to which a reporting entity is exposed, enabling them to assess an entity's enterprise value and is useful when making decisions about 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 reporting requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

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

IG4 To meet the common information needs of its primary users, an entity first separately identifies the information needs shared by one of the three types of primary users defined in the [draft] Standard—for example, investors (existing and potential)—then repeats the assessment for the two remaining types—namely lenders (existing and potential) and other creditors (existing and potential). The combined information needs identified is the set of common information needs the entity aims to meet.

IG5 In other words, the assessment of common information needs does not require identifying information needs 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 those information needs that are common to all types of primary users, it might exclude information that meets the needs of only one type.

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<sup>1</sup> Throughout this [draft] Standard, the terms 'primary users' and 'users' are used with the same meaning and refer to existing and potential investors, lenders and other creditors.

### **Interaction between an entity's disclosure and its materiality assessment**

IG6 Materiality judgements will vary for each entity and all disclosures are subject to materiality judgements even if an IFRS Sustainability Disclosure Standard requires disclosure. Making materiality judgements involves both qualitative and quantitative considerations. For example, IFRS Practice Statement 2 *Making Materiality Judgements* states that such qualitative considerations may include:

characteristics of an entity's transaction, other events or conditions or of their context, that, if present, make(s) information more likely to influence the decisions of the primary users of the entity's financial statements.

As a result, by its nature, some information required by IFRS Sustainability Disclosure Standards is likely to be material because of the presence of a qualitative factor. For example, it is likely that all entities exposed to significant climate-related risk would assess information about the governance of that risk to be material.

IG7 Because materiality judgements are entity-specific, it is expected that an entity's disclosures would provide:

- (a) information specific to the practices and circumstances of the entity, rather than a generic disclosure; and
- (b) material information necessary for an assessment of how the entity contributes to and is affected by sustainability-related risks and opportunities.

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

IG8 The primary users of general purpose financial reporting generally consider information from sources other than general purpose financial reporting. For example, these users might also consider information about the industry an entity operates in; information about its competitors and the state of the economy; and information in the entity's press releases as well as other documents the entity has published. Availability of publicly available information does not relieve an entity of the obligation to provide material information about all of its sustainability-related risks and opportunities.

### **Interaction with local laws and regulations**

IG9 An entity's general purpose financial reporting shall comply with the requirements in IFRS Sustainability Disclosure Standards, including requirements related to materiality (materiality requirements), for the entity to state its compliance with those Standards. Hence, an entity that wishes to state compliance with IFRS Sustainability Disclosure Standards cannot provide less information than the information required by those Standards, even if local laws and regulations permit it to do so.

- IG10 Nevertheless, local laws and regulations may specify requirements for the entity to provide information in the general purpose financial reporting. In such circumstances, providing information to meet local legal or regulatory requirements is permitted by IFRS Sustainability Disclosure Standards, even if that information would not meet the definition of material information. However, such information shall not obscure information that is material according to IFRS Sustainability Disclosure Standards.

## Selecting sustainability-related financial disclosures

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- IG11 In order to meet the objectives of the [draft] Standard, an entity is required to identify the significant sustainability-related risks and opportunities which could reasonably be expected to affect its business model, strategy or cash flows.
- IG12 The sustainability-related risks and opportunities facing an entity can change over time and it is unlikely that IFRS Sustainability Disclosure Standards will specifically address every significant sustainability-related risk and opportunity. The [draft] Standard includes requirements for an entity to consider the applicability of other sources of guidance that are designed to meet the needs of users of general purpose financial reporting (see paragraphs 50–54). These materials can inform the:
- (a) identification of significant sustainability-related risks and opportunities; and
  - (b) selection of metrics or other information for disclosure.
- IG13 The following two examples illustrate how entities can use other sources of information to fulfil the requirements of the [draft] Standard. The first focuses on the industry-based SASB Standards and the second focuses on the CDSB Framework application guidance for water- and biodiversity-related disclosures.

### Industry-based SASB Standards

#### Identification of risks and opportunities

- IG14 The [draft] Standard requires a description of the specific sustainability-related risks or opportunities that an entity reasonably expects could affect its business model, strategy and cash flows, its access to finance and its cost of capital over the short, medium or long term (see paragraph 16(a)). In fulfilling this requirement, an entity in the meat, poultry and dairy industry would consider the disclosure topics and associated metrics included in the SASB Standards. The disclosure topics in SASB Standards represent specific sustainability-related risks and opportunities that are likely to be applicable, based on the activities conducted in an industry. The disclosure topics help identify significant sustainability-related risks and opportunities that entities with similar business models are likely to face.

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IG15 In reviewing and considering the SASB Standard for the meat, poultry and dairy industry, an entity might conclude that some of the disclosure topics pertain to risks or opportunities that have implications for the entity's enterprise value, including:

- (a) food safety; and
- (b) the health and safety of its workforce.

IG16 Therefore, the entity in this example can use the disclosure topics from this SASB Standard to inform its identification and description of the significant sustainability-related risks and opportunities, in accordance with paragraph 51 of the [draft] Standard. For example, it may explain that a failure to maintain the quality and safety of its product could result in costly recalls, harm the reputation of its brand, lead to fines, reduce its revenues, and increase regulatory scrutiny, including trade restrictions. It might also disclose the importance of 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, and heightened regulatory scrutiny.

**Selection of metrics or other information**

IG17 The [draft] Standard requires that an entity disclose the metrics it uses to manage its sustainability-related risks and opportunities (see paragraph 30). In the absence of an applicable IFRS Sustainability Disclosure Standard, an entity can consider, to the extent that these do not conflict with an IFRS Sustainability Disclosure Standard, the metrics associated with the disclosure topics included in the industry-based SASB Standards.

IG18 Those metrics are intended to measure performance to assist primary users in assessing an entity's management of those sustainability-related risks and opportunities. The metrics were developed by the SASB to facilitate the disclosure of comparable information by entities participating in the industry or engaging in its essential activities. However, an entity is responsible for deciding what information, including metrics, is material to its general purpose financial reporting, taking into account its particular circumstances. In this case, the meat, poultry and dairy entity could consider the following metrics included in the SASB Standards:

- (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 GFSI food safety certification program;
  - (iii) **FB-MP-250a.3.** (1) Number of recalls issued and (2) total weight of products recalled;



- (iv) **FB-MP-250a.4.** Discussion of markets that ban imports of the entity's products;
- (b) Workforce health and 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.

IG19 Each of these metrics is supported by technical protocols that provide detailed guidance on definitions, scope, accounting, compilation and disclosure; the technical protocols may also serve as criteria against which the disclosed information can be verified. For example, in applying the associated technical protocols, the meat, poultry and dairy entity would disclose information on 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 associated technical protocols guide the entity in this example to consider 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 fatalities.

IG20 The [draft] Standard requires that a complete set of sustainability-related financial disclosures present fairly the sustainability-related risks and opportunities to which an entity is exposed (paragraph 45). Appropriate non-mandatory standards and guidance, such as the SASB Standards, can help the entity to apply the requirements of the [draft] Standard in a way that meets users' needs for information that is relevant, faithfully representational, comparable, verifiable, timely and understandable.

### **CDSB Framework application guidance for water- and biodiversity-related disclosures**

IG21 An entity may have identified sustainability-related risks and opportunities relating to water and biodiversity, but is yet to select sustainability-related financial disclosures in order to fulfil the objective of the [draft] Standard. In the absence of IFRS Sustainability Disclosure Standards relating to water- and biodiversity-related risks and opportunities, it can consider the CDSB Framework application guidance for water- and biodiversity-related disclosures. The application guidance for water- and biodiversity-related disclosures applies the CDSB Framework for disclosing environmental and social information to users of general purpose financial reporting. The application guidance applies the CDSB Framework's reporting requirements 1–6 to water and biodiversity, with specific resource and entity-specific disclosure examples. One of the guiding principles of the CDSB Framework states that connections shall be made between environmental, social and

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other information (via general purpose financial reporting), which supports connected information.<sup>2</sup>

- IG22 The [draft] Standard requires that an entity provide disclosures that represent core aspects of the way in which an entity operates covering governance, strategy, risk management, and metrics and targets (paragraph 11).
- IG23 The CDSB Framework application guidance for water- and biodiversity-related disclosures can support entities in identifying disclosures that benefit primary users in their assessment of the entity's enterprise value in relation to water- and biodiversity-related risks and opportunities. The CDSB Framework application guidance supports the disclosure of consistent, complete, comparable and verifiable information, including consistent metrics and standardised qualitative disclosures, to enable primary users to assess how both water- and biodiversity-related risks and opportunities affect:
- (a) the entity's financial position and financial performance;
  - (b) the value, timing and certainty of the entity's future cash flows over the short, medium and long term and, therefore, the assessment of enterprise value by primary users of general purpose financial reporting; and
  - (c) the entity's strategy and business model.
- IG24 The CDSB Framework application guidance describes the range of disclosures that an entity should consider providing in order to meet primary users' needs. For example:
- (a) Governance—in the entity's disclosure on governance relating to water-related risks and opportunities, the CDSB Framework application guidance on water-related disclosures for requirement 1 (titled 'governance') of the CDSB Framework suggests the disclosure of how water policies, strategy and information are delegated to management. The application guidance also suggests disclosure on governance if there are specific bodies/individuals or mechanisms in place in hotspot areas affected by significant water loss to tackle compliance with water-related regulation and engagement with stakeholders, given the need to collaborate with stakeholders to achieve effective water management.
  - (b) Strategy—in providing disclosure on the entity's strategy in relation to biodiversity-related risks and opportunities, the CDSB Framework application guidance on biodiversity-related disclosures for requirement 2 (titled 'management's environmental policies, strategy and targets') of the CDSB Framework describes that primary users would benefit from explanations of the likely effects of future biodiversity-related risks and opportunities, quantified when possible, as well as the entity's biodiversity strategy, performance and resilience,

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<sup>2</sup> The CDSB Framework and CDSB Framework application guidance can be found here: <https://www.ifrs.org/sustainability/climate-disclosure-standards-board/>

taking account of regulatory and market trends and environmental changes.

- (c) Risk management—on the risk management of water-related risks, the entity would review the CDSB Framework application guidance on water-related disclosures for requirement 3 (titled ‘risks and opportunities’) of the CDSB Framework, which suggests entities describe the systems and processes used for assessing, identifying, and monitoring water-related risks and opportunities, including whether they are integrated with existing risk management systems and processes and are stakeholder inclusive.
- (d) Metrics and targets—the CDSB Framework application guidance on biodiversity-related disclosures identifies that primary users would benefit from disclosure of science-based and time-bound targets with appropriate context, as well as timelines and indicators when disclosing metrics and targets for the delivery of biodiversity policy and strategy with disclosure of the methodologies used, baselines and an explanation of progress, supported with examples of common biodiversity metrics (see CDSB Framework application guidance on biodiversity-related disclosures for requirements 1–6 of the CDSB Framework).



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