Gül Saldıraner

EG Partner
CPA
Independent Auditor
Sustainability Auditor
www.eg-econsulting.com

New Era in Capital Markets: First Global Sustainability Disclosure Standards IFRS S1 and IFRS S2 Published

On June 26, 2023, the International Sustainability Standards Board (ISSB) published the first two global sustainability disclosure standards: General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1) and Climate-related Disclosures (IFRS S2). These standards enhance trust and reliability in companies' sustainability disclosures, supporting informed investment and economic decision-making. The standards apply to annual reporting periods, with the first expected disclosures benefiting from these standards starting in 2025.

- ✓ IFRS S1 requires companies to disclose information regarding sustainability-related risks and opportunities in the short, medium, and long term. These disclosures reflect elements that could impact a company's future outlook, affecting its cash flows, access to financing, and cost of capital.
- ✓ IFRS S2 mandates disclosures on climate-related risks and opportunities, covering both physical and transition risks.

While combined application of the standards is required for compliance, companies have been granted exemptions from certain requirements in the first year, with an option to limit disclosures related to climate-related risks and opportunities. The implementation of these standards will depend on each country's regulations and procedures.

In summary, IFRS S1 and IFRS S2 require companies to disclose their general strategies, processes, performance, and governance procedures regarding risks and opportunities related to sustainability and climate, ensuring that investors have reliable disclosures needed for investment decisions.

Background

Before publishing IFRS S1 and IFRS S2 in June 2023, ISSB released draft standards in March 2022. The draft IFRS S1 proposed that companies disclose sustainability-related risks and opportunities and provide a complete set of financial disclosures. Draft IFRS S2 incorporated recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) and considered sector-specific disclosure requirements derived from Sustainability Accounting Standards Board (SASB) Standards, continuously evaluating feedback until finalization.

ISSB (International Sustainability Standards Board)

Investors are increasingly emphasizing ESG criteria in their investment decisions and expect companies to provide reliable, consistent, understandable, high-quality, and globally comparable information regarding sustainability-related risks and opportunities. In response to these demands from businesses and investors, the IFRS Foundation announced the establishment of the ISSB in November 2021.

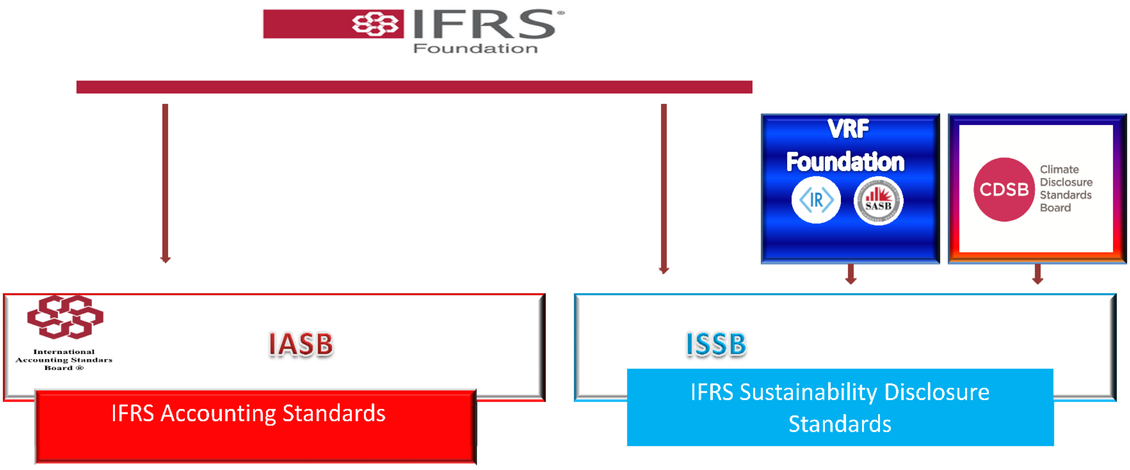
ISSB focuses on the needs of investors and financial markets. Its goals are to develop a global baseline standard for sustainability disclosures, meet investors' information needs, ensure companies provide comprehensive sustainability information to global capital markets, and facilitate alignment with jurisdiction-specific and broad stakeholder disclosures.

ISSB works closely with the IASB (International Accounting Standards Board) to ensure connection and compatibility between IFRS Accounting Standards and IFRS Sustainability Disclosure Standards. Both boards are independent, and their standards complement each other, providing comprehensive information to investors.

ISSB builds upon market-driven, investor-focused reporting initiatives. Accordingly, on August 1, 2022, the IFRS Foundation consolidated the VRF (Value Reporting Foundation), which included SASB and Integrated Reporting (IR) Frameworks, and the Climate Disclosure Standards Board (CDSB) under its umbrella. The IFRS Advisory Council and the Integrated Reporting and Connectivity Council (IRCC) advise IASB and ISSB on how to integrate relevant reporting requirements and guide the application of IR principles and concepts in their projects.

ISSB recognizes SASB standards as a foundational input in developing sustainability disclosure standards and commits to enhancing them while encouraging their use by businesses and investors. Additionally, ISSB works closely with GRI and TCFD, having incorporated all TCFD recommendations in the creation of its disclosure standards.

In light of the above explanations, interactions among the boards can be summarized as follows.



ISSB Takes Over Responsibilities from TCFD Starting in 2024

Following the publication of IFRS S1 and IFRS S2, the Financial Stability Board (FSB) requested the IFRS Foundation to assign ISSB the responsibility of monitoring progress in climate-related disclosures, previously managed by TCFD.

Established by the FSB in 2015 to create a reliable environment for investors when assessing climate-related risks in economic decision-making and to develop consistent, reliable standards, TCFD will transfer its responsibilities to ISSB upon the effective date of the standards. From 2017 onwards, TCFD played a significant role in contributing to the development of IFRS S1 and IFRS S2, with all its recommendations considered throughout the process.

The IFRS Foundation and ISSB will thus continue advancing global sustainability disclosure standards to meet investor demands for transparent, consistent, and comparable sustainability information.

REFERENCES

[1] IFRS - 26 June 2023 ISSB issues inaugural global sustainability disclosure standards https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/

[2] IFRS - International Sustainability Standards Board https://www.ifrs.org/groups/international-sustainability-standards-board/

[3] IFRS - IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/

[4] IFRS - IFRS S2 Climate-related Disclosures https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/

[5] IFRS - July 2023 IFRS Foundation welcomes culmination of TCFD work and transfer of TCFD monitoring responsibilities to ISSB from 2024 https://www.ifrs.org/news-and-events/news/2023/07/foundation-welcomes-tcfd-responsibilities-from-2024//?utm_medium=social&utm_source=linkedin&utm_campaign=s1_s2