

IFRS Sustainability Developments

ISSB prioritises climate disclosures with transition relief

What you need to know

- ▶ On 4 April 2023, the ISSB tentatively decided to allow an optional transition relief for an entity to report only on climate-related risks and opportunities in the first year that it applies IFRS S1 and IFRS S2
- ▶ The transition relief would be available to an entity when it applies IFRS S1 for the first time, including if it chooses to early adopt the standard
- ▶ If an entity elects to apply the transition relief, it must disclose that fact
- ▶ The transition relief will not affect the effective date of IFRS S1 and IFRS S2 (on or after 1 January 2024)

Introduction

On 4 April 2023, the International Sustainability Standards Board (ISSB or the Board) held a supplementary meeting where it tentatively decided to allow an entity an optional transition relief when applying IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) for the first time. The relief is intended to allow an entity to provide only climate-related disclosures in its first year of implementation of IFRS S1 and IFRS S2 *Climate-related Disclosures* (IFRS S2). The proposed relief is subject to finalisation by the Board. This transition relief will not change the effective date of IFRS S1, and would not have any implications for the application of IFRS S2.

Background and highlights

In February 2023, the ISSB granted permission for the staff to begin the balloting process for IFRS S1 and IFRS S2. The ISSB plans to issue the final IFRS S1 and IFRS S2 standards in June 2023. IFRS S1 and IFRS S2 are required to be applied together, for annual reporting periods beginning on or after 1 January 2024.

The proposed IFRS S1 requires an entity to disclose material information about its exposure to all significant sustainability-related risks and opportunities. During the 2022 consultation period for the IFRS S1 and IFRS S2 exposure drafts, the ISSB heard concerns from stakeholders about the broad scope of the disclosures that will be required by IFRS S1, which would be challenging to provide at the beginning.

In light of that feedback, and given the view of the Trustees of the IFRS Foundation that climate-related financial reporting should be prioritised, the ISSB agreed in this supplementary meeting to introduce an optional transition relief that would allow an entity to report only on climate-related risks and opportunities in the first year that it applies IFRS S1 and IFRS S2. This means that, if the proposed relief is finalised as it is, an entity will have the option of an extra year before it has to also report on the full spectrum of sustainability-related financial information.

Therefore, for annual reporting periods beginning on or after 1 January 2024, if an entity elects to apply the relief, it will apply IFRS S2 in accordance with IFRS S1, only to the extent that IFRS S1 refers to climate-related information. Then, for the following annual reporting periods, the entity will apply IFRS S1 in full; that is, the entity will be required to disclose material information about all relevant sustainability-related risks and opportunities, including those for climate per IFRS S2.

If an entity elects to apply the transition relief, it must disclose that fact. Because the transition relief is optional, an entity may choose to provide information on climate as well as on all of its other sustainability-related risks and opportunities in its first year of adoption.

This transition relief would be available to an entity when it applies IFRS S1 and IFRS S2 for the first time, including if it chooses to early adopt the standards. Other transition reliefs that the Board previously tentatively decided on will remain in place, such as the disclosure of comparative information not being required in the first annual reporting period in which an entity applies IFRS S1 and IFRS S2. In addition, the Board tentatively decided that the comparative reporting relief would be extended to the second annual reporting period for the IFRS S1 (non-climate) sustainability-related information that it did not include in the first year.

How we see it

We welcome the ISSB's tentative decision to allow an entity an optional relief from reporting full sustainability-related financial information in its first year of applying IFRS S1 and S2. This will give an entity valuable time to prepare to report on the full spectrum of its sustainability-related risks and opportunities, while allowing it to focus initially on providing relevant and useful climate-related disclosures.

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