Decoding IFRS S1 and S2

ESG Manager's Guide to the IFRS Standards

10 Must Do's for ESG Managers

Introduction

The introduction of IFRS S1 and IFRS S2 by the International Sustainability Standards Board (ISSB) signals a new era in environmental, social, and governance (ESG) reporting. As ESG managers navigate this evolving landscape, adapting to these new standards will be critical.

FRS S1

Focuses on providing a standardized approach to disclosing sustainability-related financial risks and opportunities.

It aligns with existing IFRS accounting standards in defining financial materiality and offers guidance for reporting throughout a company's value chain.

FRS S2

IFRS S2 is geared towards explicit disclosures about climate-related risks and opportunities.

It mandates climate scenario analyses and sets criteria for disclosing climate-related targets, emissions data, and other related information.

1» Embrace the Principle of Double Materiality

One of the key features of the new ISSB standards is the concept of 'double materiality,' emphasizing both financial and sustainability risks and opportunities. ESG managers should adapt their reporting frameworks to encapsulate this dual focus, making sure that both types of materiality are well represented and interconnected.

Prioritize Climate-Related Disclosures «2

Given that IFRS S2 is specifically designed for climate-related disclosures, ESG managers should immediately prioritize collecting, analyzing, and reporting climate-related data, including scenario analyses.

3» Realign Investment Metrics

With IFRS S1 focusing on sustainability-related financial risks and opportunities, investment metrics should be realigned to include these factors. ESG managers must ensure that sustainability-related financial metrics are on par with traditional financial metrics.

Evaluate Existing Standards in Use «4

With ISSB standards designed to be more comprehensive, ESG managers should evaluate the existing frameworks they are using, such as GRI, SASB, or TCFD. Understanding the similarities and differences will help integrate the new standards more smoothly.

5» Conduct Comprehensive Stakeholder Consultations

ESG managers should proactively reach out to key stakeholders, including investors, employees, and partners, to prepare them for the changes in disclosure and reporting. Feedback from these consultations can help tailor the implementation process more effectively.

Address Entire Value Chains «6

IFRS S1 provides guidance on reporting across an entity's entire value chain. ESG managers should ensure that their reporting encompasses not just direct operations but also suppliers, contractors, and other stakeholders in the value chain.

7» Enhance Third-Party Validations

IFRS S2 recommends third-party validations for climate-related targets. ESG managers should look to include third-party validations for all significant sustainability metrics, not just climate-related ones, to enhance credibility.

«8 Develop Transitional Plans

Given that the new standards will become effective for the annual reporting period starting on January 1, 2024, ESG managers should develop and communicate transitional plans outlining how they will shift from existing to new standards.

9» Advocate for Jurisdictional Adoption

Since ISSB standards are voluntary and require jurisdictional adoption for enforcement, ESG managers can play an advocacy role. They can lobby for the adoption of these standards by regulatory bodies in their respective jurisdictions.

«10 Engage in Continuous Learning and Training

Given the complexity and breadth of the new standards, ongoing education is crucial. ESG managers should engage in training programs, webinars, and other educational platforms to stay updated.

Summiting ISSB

The new ISSB standards represent a significant milestone in ESG reporting, bringing with them the promise of greater consistency and comparability. ESG managers will play a crucial role in the successful adoption of these standards. By taking proactive steps now, they can effectively navigate the transition and emerge as leaders in the new era of sustainability reporting.