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# 01 SRA CONSULTING NEWSLETTER

## IFRS S1 and S2

**Background of the Establishment of IFRS S1 and S2.**
IFRS S1 and S2 were developed by the International Sustainability Standards Board (ISSB) under the IFRS Foundation to address challenges in sustainability reporting and enhance the transparency and consistency of information provided to investors and other stakeholders. One of the main reasons for establishing these standards was to unify the various sustainability reporting frameworks that had been adopted globally.

Prior to the introduction of IFRS S1 and S2, entities used multiple reporting standards, such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Task Force on Climate-related Financial Disclosures (TCFD), and the Carbon Disclosure Project (CDP). The differences among these frameworks led to inconsistencies in sustainability reporting, making it difficult for investors and entities to compare available information.

IFRS S1 and S2 serve as a global standardized framework to ensure that sustainability reporting becomes more consistent and comparable across entities and industry sectors.

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# Explanation of IFRS S1 and S2

## IFRS S1

General requirements for reporting sustainability-related information that affects an entity's financial position. It helps investors understand the risks and opportunities associated with sustainability.

## IFRS S2

Specifically, it focuses on the disclosure of risks and opportunities related to climate change, including its impact on an entity's strategy, business model, and financial statements.

## Effective Date of IFRS S1 and S2

IFRS S1 and S2 became effective on **January 1, 2024**. However, entities are permitted to adopt the standards earlier than the official effective date set by the ISSB.

## Reporting Content Based on IFRS S1 and S2

| Content | Description |
|---|---|
| Governance | The processes, controls, and governance procedures used by the entity to monitor and manage sustainability or climate-related risks and opportunities. |
| Strategy | The entity's approach to managing sustainability or climate-related risks and opportunities. |
| Risk Management | The processes used by the entity to identify, assess, prioritize, and monitor sustainability or climate-related risks and opportunities. |
| Metrics and Targets | The entity's performance in managing sustainability or climate-related risks and opportunities, including progress toward set targets or those mandated by laws and regulations. |

# Below are the key elements that must be reported.

## Governance

- The Governance Body
- Management's role in the governance processes, controls and procedures.

## Risk Management

- Risk Identification & Management
- Opportunity Identification & Management
- Integration into Overall Risk Management

## Strategy

- Identified Risks & Opportunities
- Impact on Business Model & Value Chain
- Strategic & Decision-Making Implications
- Financial Impact
- Resilience & Adaptability

## Metrics and Targets

- Metrics from IFRS Sustainability Disclosure Standards (IFRS S1)
- Entity's Metrics for Measuring & Monitoring Sustainability Risks & Opportunities (IFRS S1)
- Cross-Industry Metrics (IFRS S2)
- Industry-Specific Metrics (IFRS S2)
- Targets Set by the Entity or Required by Law, Including Progress Measurement (IFRS S1 & S2)

For more detailed information, please refer to IFRS S1 and S2 or contact us.

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## IMPLEMENTATION OF IFRS S1 AND S2 BY ENTITIES

IFRS S1 and S2 can be applied by various entities, regardless of whether their general-purpose financial statements are prepared in accordance with IFRS Accounting Standards or other applicable accounting principles and practices, such as Generally Accepted Accounting Principles (GAAP). In their implementation, entities must ensure that sustainability reports align with the principles of IFRS S1 and S2, including fair presentation, materiality, connectivity of information, and the reporting entity's scope. Consequently, the disclosed information must be transparent, relevant, and comparable to meet the needs of investors and other stakeholders.

## PRESENTATION OF ADDITIONAL INFORMATION IN REPORTS

When preparing reports in accordance with IFRS S1 and S2, entities are permitted to include additional information that is not explicitly required by these standards, provided that it does not obscure or reduce the clarity of the key information mandated by IFRS S1 and S2.

Furthermore, certain jurisdictions may require sustainability disclosures to be included in general-purpose financial reports in compliance with local laws or regulations. In such cases, entities may integrate sustainability-related information into their financial statements to meet regulatory requirements, even if the information is not considered material under IFRS S1 and S2. However, in such circumstances, entities must ensure that the additional information does not mislead or obscure the material information required by IFRS S1 and S2.

# Reporting Format: Integrated or Separate?

IFRS S1 and S2 do not mandate entities to present sustainability reports separately from their financial statements. Instead, these standards encourage the integration of information and the avoidance of unnecessary duplication. If an entity manages sustainability-related risks and opportunities in a comprehensive manner, it can disclose risk management information within a single, integrated report. This approach ensures that the information remains efficient, clear, and non-repetitive, making it easier for stakeholders to understand the impact of sustainability on the entity's overall business performance.

Overall, the adoption of IFRS S1 and S2 provides entities with flexibility in integrating sustainability-related information into their primary financial reports, as long as they adhere to the principles outlined in these standards. The objective is to ensure that investors and stakeholders gain a comprehensive understanding of how sustainability-related risks and opportunities influence the entity's financial position and business strategy.

# Benefits of Adopting IFRS S1 and S2

Implementing IFRS S1 and S2 offers various benefits for entities and stakeholders, particularly in enhancing transparency and the management of sustainability-related risks. The key advantages include:

- Improving investors' understanding of sustainability-related risks and opportunities, enabling them to better predict future cash flows and reducing the entity's cost of capital.
- Enhancing transparency and access to funding, helping entities build investor confidence and strengthen corporate governance.
- Improving the comparability of sustainability information, making it easier for stakeholders to make data-driven decisions.
- Supporting the management of sustainability and climate-related risks, thereby increasing long-term business resilience.
- Strengthening an entity's reputation and credibility by demonstrating a commitment to sustainable and responsible business practices.

# About Us.

SRA Consulting is a consulting firm in the business, management, and public sector that focus on several consulting services such as sustainability and reporting strategies, assurance, operational performance, accounting, governance, and other consulting services according to client's needs. SRA commit to provide services that are consistent, professional, and of the highest quality to create value for our clients. We deliver innovative solutions for business and government sectors and help them to manage the sustainability challenges that the world is increasingly facing. Our goal is to help our clients to achieve a sustainable growt.

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