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IFRS® Sustainability Disclosure Practice Statement

Accompanying Guidance on IFRS Sustainability Disclosure Practice Statement 1 *Nature-related Disclosures*

Illustrative Examples on disclosure of information related to the location of activities and assets throughout the value chain

Comments to be received by 19 February 2027



International Sustainability Standards Board

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Accompanying Guidance on Exposure Draft

IFRS Sustainability Disclosure Practice Statement 1

Nature-related Disclosures

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Illustrative Examples

IE1 These examples accompany, but are not part of, [draft] IFRS Sustainability Disclosure Practice Statement 1 *Nature-related Disclosures*. They illustrate hypothetical situations in which an entity applies the [draft] Practice Statement together with particular requirements in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.

IE2 The examples are not intended to provide interpretative guidance or to illustrate all the information an entity might be required to disclose. The analysis in each example is based on the limited facts presented and does not represent the only way in which the applicable requirements could be applied. An entity would consider all relevant facts and circumstances when applying IFRS S1 and the [draft] Practice Statement. The information, skills, capabilities and resources available to entities may differ, and an entity applies the proportionality mechanisms in IFRS S1 and the [draft] Practice Statement in accordance with its own facts and circumstances.

Disclosure of information related to the location of activities and assets throughout the value chain

IE3 These examples illustrate circumstances in which information about location informs an entity's identification and assessment of nature-related risks and opportunities and its determination of what information to disclose about them. They also illustrate circumstances in which an entity determines that disaggregation by location would not provide material information or would obscure material information.

IE4 Information about the location of assets and activities is not necessarily material merely because a location has particular environmental, ecological, social or jurisdictional characteristics. An entity assesses whether information is material from the perspective of the reporting entity and the information needs of primary users. Information about location is required to be disclosed when it is material to understanding a sustainability-related risk or opportunity that could reasonably be expected to affect the entity's prospects or the effects of that risk or opportunity on the entity.

IE5 Although the examples use particular industries and business activities, the principles they illustrate are not limited to those industries or activities. An entity applies the requirements to its own facts and circumstances, including its business model, its position in the value chain, its dependencies and impacts, and the nature-related risks and opportunities that could reasonably be expected to affect its prospects.

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Example 1—Determining the appropriate geographical scale for information about a water-related risk

Objective

IE6 This example illustrates how information about the location of assets and activities can inform the entity's determination of what information is material about a nature-related risk that could reasonably be expected to affect its prospects. In particular, it illustrates how an entity might determine the appropriate geographical scale and level of aggregation for that information.

IE7 The example illustrates how characteristics associated with different locations can affect an entity's exposure to a nature-related risk and how the significance of affected facilities to the entity influences the information that is material. Specifically, it illustrates circumstances in which an entity determines that:

(a) information about a group of similarly exposed facilities is appropriately aggregated;

(b) separate information about one critical facility is material;

(c) separate information about each individual facility in the group would obscure material information about the facilities' common exposure and the entity's response capacity; and

(d) no separate information is required about locations that do not give rise to a nature-related risk that could reasonably be expected to affect the entity's prospects.

IE8 This example illustrates the application of paragraphs 17(a) and 18(a), as well as paragraphs B37–B42, of the [draft] Practice Statement. The example does not illustrate all the information the entity might be required to disclose about the nature-related risk.

Fact pattern

IE9 Entity A manufactures specialised components through a network of production facilities in several markets. Its production processes depend on reliable access to substantial volumes of freshwater of a specified quality. Disruption at some facilities could affect Entity A's production, costs and ability to supply important markets, depending on the significance of the facility and Entity A's ability to transfer production.

IE10 In applying paragraph 10(a) and paragraphs B26–B36 of the [draft] Practice Statement, Entity A uses all reasonable and supportable information available to it at the reporting date without undue cost or effort to identify nature-related risks and opportunities that could reasonably be expected to affect its prospects and to determine the scope of its value chain in relation to each of those risks and opportunities.

IE11 The information used by Entity A includes information about facility water use and water sources that it already obtains for operational and risk-management purposes, together with available information about the relevant river basins and regulatory conditions. The level of detail available to Entity A differs across its facilities. Where information specific to an individual facility or basin is unavailable without undue cost or effort, Entity A uses reasonable and supportable information available at a broader geographical level. Entity A uses this information to identify whether characteristics associated with particular locations give rise to water-related risks that could reasonably be expected to affect its prospects.

IE12 Entity A identifies a risk that reduced water availability or restrictions on water abstraction could reasonably be expected to disrupt production or increase operating costs at some of its facilities. The risk could affect Entity A, for example, through lost production, increased water sourcing or treatment costs, and capital expenditure required to expand or establish production at other facilities.

IE13 Entity A considers the groups of facilities described in paragraphs IE14–IE19.

Facilities without heightened exposure

IE14 Some facilities have reliable access to water of the required quality from more than one source. Using the reasonable and supportable information described in paragraphs IE10–IE11, Entity A does not identify a water-related risk associated with those facilities that could reasonably be expected to affect its prospects.

Facilities with similar heightened exposure

IE15 Several facilities in Region A account for only a small share of Entity A's production and draw water from different river basins in which water scarcity is increasing. These facilities have similar production processes and operate under comparable regulatory and product-certification conditions. Production could generally be transferred between them within a reasonable period and at a reasonable cost.

IE16 Entity A determines that disruption at an individual facility in this group could not reasonably be expected, by itself, to affect Entity A's prospects. However, disruption at several of the facilities could significantly reduce Entity A's production and increase its costs. Entity A determines that, although disruption across several facilities is less likely than disruption at one facility, the likelihood and potential consequences are sufficient for the collective risk to be one that could reasonably be expected to affect its prospects.

A critical facility with distinct exposure

IE17 One facility is Entity A's principal production facility supplying specialised components to an important market (Market X). It accounts for a significant share of Entity A's production and margin in that market.

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IE18 The facility principally relies on one water source in Basin D. Entity A identifies Basin D as a water-stressed area in which water scarcity and competing demand are increasing. The relevant regulatory authority is considering restrictions on industrial water abstraction. Entity A has limited alternative sources capable of providing water of the required quality and quantity, and transferring production would require significant expenditure and time.

IE19 Applying paragraph B32 of the [draft] Practice Statement, Entity A identifies Basin D as a sensitive location because it is subject to a high degree of water stress. Identifying Basin D as a sensitive location informs Entity A's assessment of the water-related risk. However, that identification does not, by itself, determine whether the risk could reasonably be expected to affect Entity A's prospects.

Application

IE20 Entity A first considers whether characteristics associated with the relevant locations give rise to a water-related risk that could reasonably be expected to affect its prospects. For facilities associated with an identified risk, Entity A considers the significance of the facilities to its business model, the potential effects of disruption and its ability to respond.

IE21 The level of specificity of the information available to Entity A does not, by itself, determine the level at which Entity A presents material information about the risk.

IE22 Entity A determines that information about the similarly exposed facilities is material on an aggregated basis, in accordance with paragraphs B41–B42 of the [draft] Practice Statement. Although the facilities draw water from different basins, they share characteristics relevant to understanding the risk, including their individual significance to Entity A, their risk exposure and Entity A's ability to transfer production. The material information concerns the possible collective effect on Entity A rather than the exposure of any individual facility. Entity A therefore concludes that separate information about each facility would obscure material information about the facilities' common exposure and Entity A's response capacity.

IE23 Entity A reaches a different conclusion for the critical facility. The location-related conditions in Basin D do not, by themselves, determine that information about the facility is material. Entity A determines that information about the facility and Basin D is material because those conditions interact with the facility's significance to Entity A, its reliance on one water source and the limited availability of timely alternatives. Disruption could therefore affect Entity A's production, margin and ability to serve an important market. Applying paragraphs B29–B30 of IFRS S1, Entity A concludes that aggregating information about the critical facility with information about the similarly exposed facilities would obscure material information about the concentration of the risk and Entity A's limited ability to respond. Entity A therefore presents information about the critical facility separately when describing where the water-related risk is concentrated in its

business model, in accordance with paragraph 18(a) of the [draft] Practice Statement.

IE24 Entity A also determines that the appropriate geographical scale follows from the information necessary to understand the entity-level effects of the risk. Material information at the regional level is sufficient for the similarly exposed facilities, whereas material information at the basin and facility levels is necessary for users of general purpose financial reports to understand the critical concentration in Basin D. This conclusion illustrates the application of paragraphs B37–B42 of the [draft] Practice Statement.

IE25 In its disclosure about the identified water-related risk, Entity A does not provide information about facilities for which it has not identified a risk that could reasonably be expected to affect its prospects. It provides information about the similarly exposed facilities on an aggregated basis and provides separate information only about the critical facility. The environmental characteristics of a location, including its identification as or proximity to a sensitive location, do not, by themselves, result in material information about Entity A.

Illustrative disclosure

IE26 The following excerpts illustrate how Entity A communicates material information about its water-related risk and where it is concentrated. They do not provide a location-by-location inventory of Entity A's facilities and are not intended to prescribe the form in which the information is presented.

Excerpts from Entity A's disclosure

Exposure	Disclosed information
Group of similarly exposed facilities	*'… Entity A operates several facilities in Region A that account for only a small share of production and draw water from separate river basins in which water scarcity is increasing. These facilities have similar production processes, and Entity A can generally transfer production between them within a reasonable period and at reasonable cost. Disruption at any one facility would not, by itself, be expected to affect Entity A's prospects. However, disruption at several facilities in Region A could reduce production and increase operating costs. …'*
Critical facility	*'… Market X is important to Entity A. Entity A's principal facility supplying specialised components to Market X depends principally on water from Basin D in Region D, a water-stressed area in which water scarcity and competing demand are increasing. The facility accounts for a significant share of Entity A's production and margin in Market X. The relevant regulatory authority is considering restrictions on industrial abstraction. Entity A has limited alternative water sources capable of meeting the facility's requirements, and transferring production would require significant expenditure and time. Disruption at the facility could therefore affect Entity A's ability to supply Market X and its financial performance in that market. …'*

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IE27 The excerpts provide material information at the geographical scales necessary to understand the effects of the water-related risk on Entity A. Entity A provides regional information about the similarly exposed facilities because the potential effect on Entity A arises collectively. It provides basin- and facility-level information about the critical facility because the risk is concentrated in an operation that is significant to Entity A and for which Entity A has limited alternatives. Separate information about every facility would obscure these distinctions.

IE28 The excerpts do not illustrate other information Entity A might be required to disclose about the identified water-related risk, including, for example, information about its response to the risk, its current and anticipated financial effects, or relevant metrics, such as metrics in the SASB Standards concerning water withdrawal or consumption and the entity's exposure to areas subject to heightened water-related risk.

Example 2—Disclosing assets or activities vulnerable to nature-related risks and aligned with nature-related opportunities

Objective

IE29 This example illustrates how an entity might prepare disclosures required by paragraph 30(a) of the [draft] Practice Statement on the amount and percentage of assets or activities vulnerable to nature-related risks and aligned with nature-related opportunities. It also illustrates how to aggregate and disaggregate that information, in this case by location, in accordance with paragraphs 31–32.

IE30 In particular, the example illustrates how information about the location of those assets and activities informs:

(a) the preparation of the metrics;

(b) the identification of a significant geographical concentration about which information is material; and

(c) the aggregation or disaggregation of material information.

IE31 The example also illustrates an entity's use of all reasonable and supportable information available to it at the reporting date without undue cost or effort in preparing the vulnerability metric, in accordance with paragraph 33(a) of the [draft] Practice Statement.

IE32 The example does not illustrate all the information the entity might be required to disclose about the nature-related risk or opportunity. For simplicity, Entity C has identified one nature-related risk that results in assets being included in its vulnerability metric and one nature-related opportunity that results in activities being included in its alignment metric. The example does not illustrate assets or activities associated with more than one nature-related risk or more than one nature-related opportunity. The example also does not illustrate circumstances in which the assets included in the vulnerability metric are associated with activities included in the alignment

metric. The measures, denominators and information sources used by Entity C reflect its particular facts and circumstances and are not prescribed by the [draft] Practice Statement.

Fact pattern

IE33 Entity C owns and manages productive forestry assets in several operating regions. It sells forestry-based materials to commercial customers.

IE34 Entity C has identified a nature-related physical risk arising from deterioration in soil condition. Entity C has assessed productive forestry assets in several operating regions as vulnerable to the identified soil-condition risk. A substantial proportion of the aggregate carrying amount of the assets Entity C has assessed as vulnerable is located in Region A. Entity C expects that continued deterioration in soil condition could reduce forest productivity, delay future harvests and require additional expenditure to maintain or restore productive capacity. Entity C concludes that the risk could reasonably be expected to affect its prospects.

IE35 Entity C has also identified a nature-related opportunity arising from increasing contractual demand for forestry-based products that meet its specified land-management and traceability criteria. Entity C expects that supplying qualifying products could increase its access to particular customers, support future sales and provide greater stability of contracted demand. Entity C concludes that the opportunity could reasonably be expected to affect its prospects.

IE36 Entity C determines that the carrying amount of its productive forestry assets reported in the related financial statements provides an appropriate basis for measuring the assets it has assessed as vulnerable to nature-related risks. Entity C selects that measure because it enables users of general purpose financial reports to understand the amount of the relevant assets and facilitates connections with information in Entity C's financial statements.

IE37 Entity C determines that revenue from qualifying products provides an appropriate basis for measuring the activities it has identified as aligned with the nature-related opportunity. Revenue reflects Entity C's current sales activity associated with the identified opportunity.

Application

Preparing the vulnerability metric

IE38 Entity C has assessed productive forestry assets in several operating regions as vulnerable to the identified soil-condition risk. Entity C includes the carrying amount of those assets in the numerator of the metric. The denominator is the total carrying amount of Entity C's productive forestry assets across all operating regions.

IE39 In determining the assets included in the metric, Entity C uses all reasonable and supportable information available to it at the reporting date without undue cost or effort. For most assets, that information includes information specific to the asset about soil condition, forest growth and productivity.

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Where asset-specific information about soil condition is unavailable without undue cost or effort, Entity C uses regional soil-condition information together with operational information about growth and productivity. Entity C uses that information to assess whether deterioration in soil condition could reduce the assets' productive capacity, delay future harvests or require additional expenditure to maintain or restore output.

IE40 Having determined that the identified soil-condition risk could reasonably be expected to affect its prospects and having identified the assets included in the metric, Entity C considers whether information about where those assets are located would provide material information about the entity-wide amount and percentage.

IE41 The assets included in the metric are located in several operating regions. Region A accounts for CU300 million of the CU360 million aggregate carrying amount included in the metric. Entity C determines that information about this geographical concentration of assets assessed as vulnerable is material and therefore presents the amount and percentage relating to Region A separately.

IE42 Entity C aggregates the remaining assets included in the metric outside Region A because more granular geographical information about those assets would not provide material information.

IE43 Entity C discloses information about the metric in accordance with paragraphs 49–50 of IFRS S1 and paragraph 30(a) of the [draft] Practice Statement.

Preparing the alignment metric

IE44 Entity C includes in its alignment metric revenue from products that meet its specified land-management and traceability criteria. Entity C uses its total revenue as the denominator because it determines that this measure enables users of general purpose financial reports to understand the significance of the aligned activities to Entity C as a whole.

IE45 Entity C discloses information about the metric in accordance with paragraphs 49–50 of IFRS S1, including how it identifies qualifying products and calculates the amount and percentage. The measure and denominator selected by Entity C reflect its particular circumstances and are not prescribed by the [draft] Practice Statement.

IE46 Entity C does not include products in the metric merely because they have characteristics that might be beneficial to nature. The products included in the metric meet Entity C's stated criteria and are associated with the contractual demand that gives rise to the identified nature-related opportunity.

IE47 Entity C considers whether geographical disaggregation of the metric would provide material information about the opportunity or its effects on the entity's prospects. In doing so, Entity C considers:

(a) the customer markets in which revenue from the qualifying products is generated; and

(b) the operating regions from which those qualifying products originate.

IE48 Entity C determines that neither geographical dimension differentiates the nature-related opportunity or its effects on Entity C's prospects. It therefore presents the alignment metric without geographical disaggregation.

Illustrative disclosure

IE49 The following excerpts illustrate information Entity C might disclose. They are not intended to prescribe the measures used or the form in which the information is presented.

Assets vulnerable to nature-related risks

IE50 Entity C's total carrying amount of productive forestry assets in the related financial statements is CU1,500 million.

Measure	Amount	Percentage of total productive forestry assets
Productive forestry assets assessed as vulnerable to the identified soil-condition risk	CU360 million	24%
Region A	CU300 million	20%
Other regions	CU60 million	4%

IE51 Entity C defines the vulnerability metric as the carrying amount and percentage of its productive forestry assets assessed as vulnerable to the identified soil-condition risk. Each percentage uses Entity C's total carrying amount of productive forestry assets as the denominator.

IE52 For the purposes of this example, the amount comprises productive forestry assets assessed as vulnerable to the identified risk arising from deterioration in soil condition. The deterioration could reduce forest productivity, increase management and restoration costs and affect the timing of future harvests.

IE53 Entity C separately presents Region A because the region contains a significant geographical concentration of the assets included in the metric and information about this concentration is determined to be material.

Activities aligned with nature-related opportunities

Measure	Amount	Percentage of total revenue
Revenue from products meeting specified land management and traceability criteria	CU210 million	10%

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IE54 Entity C defines the metric as revenue from products that meet its specified land-management and traceability criteria. Revenue from qualifying products was CU210 million, representing 10% of Entity C's total revenue of CU2,100 million.

IE55 Revenue from qualifying products is generated in several customer markets, and those products originate from Entity C's activities in several operating regions. Entity C determines that disaggregation by customer market or product origin would not provide material information about the nature-related opportunity or its effects on Entity C's prospects. Entity C therefore presents the metric without geographical disaggregation.

IE56 In its sustainability-related financial disclosures, Entity C identifies the relationship between the revenue amounts used in preparing the metric and relevant revenue information in the related financial statements.

Example 3—Using nature-related scenario analysis to assess resilience

Objective

IE57 This example illustrates how an entity might use information about its sourcing locations and the conditions supporting production in those locations in an approach to nature-related scenario analysis that is commensurate with its circumstances and that informs its assessment of the resilience of its strategy and business model to an identified nature-related risk. The example illustrates the application of paragraphs 20–24 and B49–B66 of the [draft] Practice Statement.

IE58 The example illustrates how an entity:

(a) determines that an approach combining quantitative and qualitative analysis is commensurate with its circumstances;

(b) uses information about its value chain that is available at different levels of geographical specificity;

(c) identifies sourcing concentrations relevant to the resilience assessment;

(d) tests whether its sourcing strategy and response options remain effective under different scenario conditions;

(e) uses the resulting analysis to assess the resilience of its strategy and business model to the risk; and

(f) discloses information about its approach, significant assumptions, scenario-specific results and its resulting resilience assessment.

IE59 For simplicity, the example illustrates Entity B's use of scenario analysis and its assessment of the resilience of its strategy and business model in relation to one identified nature-related risk. The example does not necessarily illustrate Entity B's complete assessment of the resilience of its strategy and business model to nature-related risks or all the information that the entity

might be required to disclose about that assessment. The approach used by Entity B reflects its exposure to the identified risk and the skills, capabilities and resources available to it. The example does not illustrate the approach that would necessarily be commensurate with another entity's circumstances. It also does not illustrate all the information the entity might be required to disclose about the identified nature-related risk.

Fact pattern

IE60 Entity B manufactures food products using an agricultural input, Input Y, sourced from suppliers in several geographical regions. Production of Input Y depends substantially on pollination by wild pollinators. The availability of that ecosystem service depends, in part, on the extent and condition of habitats near the areas in which Input Y is produced.

IE61 Entity B has identified a nature-related physical risk arising from deterioration in the pollination service on which production of Input Y depends. Habitat loss or degradation in some sourcing regions could reduce the abundance of wild pollinators, leading to lower crop yields, reduced availability of Input Y and higher procurement costs. Input Y is used in an important, high-margin product category. Entity B sources Input Y from suppliers in several regions, but introducing additional qualified suppliers would require time. Replacing Input Y with a different input would be possible, but would require product reformulation and could not be implemented immediately.

IE62 Entity B defines the short, medium and long terms consistently with the time horizons used in its procurement, product-development and strategic-planning processes, as follows:

(a) the **short term** as up to three years;

(b) the **medium term** as more than three years and up to seven years; and

(c) the **long term** as more than seven years and up to fifteen years.

IE63 Entity B determines that localised deterioration in pollination services could affect the availability and cost of Input Y over the short to medium term. Deterioration in wild-pollination services across several significant sourcing regions could affect availability and cost over the medium to long term, particularly if several regions are affected before Entity B can put alternative supplies in place.

IE64 In applying paragraph B6 of IFRS S1, Entity B uses all reasonable and supportable information available to it at the reporting date without undue cost or effort to identify the risk and determine the scope of its value chain in relation to that risk. The information used includes procurement records, supplier information, commodity-risk information and external information about habitat extent, habitat condition and dependency on wild-pollination services.

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IE65 Entity B has information about the locations of some direct suppliers. For other suppliers, it has information about groups of suppliers or broader sourcing regions. Entity B does not know the precise location of every upstream producer. Entity B already uses quantitative information about purchasing volumes, supplier concentration, inventories and input costs in its procurement and commodity-risk processes.

IE66 Entity B sources Input Y from suppliers in several geographically dispersed regions and had previously considered that dispersion to reduce its vulnerability to disruption in an individual region. However, all significant sourcing regions depend on wild-pollination services. The habitats supporting those services and the conditions that could reduce them differ between regions.

IE67 Entity B's initial screening indicates that different conditions could reduce wild-pollination services in several significant sourcing regions before Entity B can put alternative supplies in place. Entity B therefore determines that geographical dispersion does not necessarily mean that its sourcing strategy is resilient to disruption affecting several regions during the same period.

Application

IE68 Entity B uses nature-related scenario analysis to assess the resilience of its strategy and business model to the identified nature-related risk. In determining an approach to nature-related scenario analysis that is commensurate with its circumstances, Entity B considers its exposure to the identified risk and the skills, capabilities and resources available for the analysis. (See paragraphs B50–B55 of the [draft] Practice Statement.) Entity B determines that an approach combining quantitative and qualitative analysis is commensurate with its circumstances.

IE69 Entity B determines that quantitative analysis would provide useful information because Input Y is significant to Entity B, sourcing is concentrated in a limited number of regions and Entity B has quantitative information about procurement, cost and response options. Entity B also determines that qualitative analysis, including scenario narratives, would provide useful information about future conditions affecting wild-pollination services and the feasibility of Entity B's responses where the reasonable and supportable information available to Entity B without undue cost or effort does not support quantification.

IE70 Entity B's conclusion reflects its particular exposure to the identified risk and the skills, capabilities and resources available to it. In other circumstances, an approach relying more extensively on either quantitative or qualitative analysis might be commensurate with an entity's circumstances.

IE71 Entity B's approach enables it to consider all reasonable and supportable information available at the reporting date without undue cost or effort, in accordance with paragraphs B56–B58 of the [draft] Practice Statement. That information includes quantitative and qualitative information about its sourcing locations and the conditions relevant to its dependency on wild-pollination services. Entity B considers information about its sourcing

locations to assess whether its geographically dispersed sources of Input Y could be affected during the same period and whether alternative supply would be available in time. Entity B's more detailed analysis covers sourcing regions representing 80% of its purchases of Input Y by volume. Entity B also considers whether information about the remaining sourcing regions could affect the conclusions from its analysis.

IE72 In undertaking its analysis, Entity B:

(a) identifies the sourcing regions and concentrations most relevant to the identified risk, using information about purchase volumes, dependency on wild pollination and available alternative supply;

(b) considers whether conditions affecting wild-pollination services could constrain one or several significant sourcing regions before alternative supply is available; and

(c) tests whether inventories, additional suppliers, supplier-development plans and product reformulation would enable it to respond.

IE73 Entity B analyses two contrasting but plausible scenario conditions:

(a) **localised deterioration**, in which wild-pollination services decline in one significant sourcing region while other significant sourcing regions remain available; and

(b) **widespread deterioration**, in which wild-pollination services decline in several significant sourcing regions before Entity B can put additional supplies or product reformulation in place.

IE74 Entity B selects these scenario conditions to test whether its geographically dispersed sourcing provides effective diversification. The localised-deterioration scenario tests whether Entity B can redirect supply when disruption is confined to one region. The widespread-deterioration scenario tests whether different conditions could affect several sources of Input Y before Entity B can respond.

IE75 The analysis indicates that Entity B's resilience depends on the number and significance of sourcing regions affected, when and for how long they are affected, and whether Entity B can implement alternative sourcing or product reformulation in time. Entity B uses those results to assess the resilience of its strategy and business model, as illustrated in the disclosure excerpt accompanying paragraph IE76.

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Illustrative disclosure

IE76 The following excerpt illustrates some, but not all, of the information Entity B might disclose about its assessment of its resilience. It is not intended to prescribe the form in which that information is presented.

Excerpt from Entity B's disclosure

Nature-related scenario analysis

Approach and scope

Entity B used scenario analysis to assess how deterioration in wild-pollination services could affect the availability and cost of Input Y and the resilience of its strategy and business model. It considered whether inventories, alternative suppliers and product reformulation would enable it to respond.

Entity B's nature-related scenario analysis combined quantitative and qualitative analysis. Quantitative analysis assessed purchasing concentration, sourcing volumes, inventories, potential changes in the availability and cost of Input Y, and the time and expenditure required to implement response options. Entity B used qualitative scenario narratives to assess future conditions affecting wild-pollination services and the feasibility of its responses where the available information did not support quantification.

Entity B defines the short term as up to three years, the medium term as more than three years and up to seven years, and the long term as more than seven years and up to fifteen years.

Entity B's more detailed analysis covered sourcing regions representing 80% of its purchases of Input Y by volume. Entity B also considered whether its remaining sourcing regions could affect the conclusions from the analysis.

Entity B used information about individual supplier locations where that information was available. For other suppliers, it used information about groups of suppliers or broader sourcing regions. Significant assumptions included the conditions affecting wild-pollination services in the sourcing regions, whether several significant sourcing regions could be affected during the same period, the availability of alternative suppliers and the time and cost required to reformulate affected products.

Localised deterioration

Under the localised-deterioration scenario, Entity B determined that its inventories and currently available alternative sources would enable it to manage a short-term disruption in one significant sourcing region. If the deterioration persisted into the medium term, Entity B would need to qualify additional suppliers and would incur higher procurement costs.

Widespread deterioration

Under the widespread-deterioration scenario, Entity B determined that its geographical diversification would provide less protection than it had previously assumed. Although the sourcing regions are geographically dispersed, they depend substantially on wild-pollination services. Under the scenario, several significant regions are affected before Entity B can obtain additional supplies.

Entity B determined that it would have limited access to unaffected suppliers of Input Y during the period needed to qualify additional suppliers. Its inventories and existing alternative-sourcing arrangements would not provide the same protection as they would under the localised scenario. Replacing Input Y would require product reformulation, time and additional expenditure.

Resilience assessment

Entity B concluded that its strategy and business model are resilient to short-term disruption confined to one significant sourcing region. Its resilience would be significantly weaker if several significant sourcing regions were affected before additional supplies or reformulated products were available.

Entity B is developing additional suppliers whose exposure to deterioration in wild-pollination services is less likely to coincide with that of its current significant sourcing regions. It is also evaluating product reformulation to reduce its dependency on Input Y. These measures could improve Entity B's resilience over the medium to long term but are not yet fully implemented.

Limitations

Entity B's analysis is subject to limitations arising from incomplete information about the locations of some upstream producers and limited quantitative information about future conditions affecting wild-pollination services. Entity B used qualitative information and information about broader sourcing regions where more specific quantitative information was unavailable.

Example 4—Disclosing information about a nature-related target informed by law or regulation

Objective

IE77 This example illustrates how an entity might disclose whether and how a nature-related target has been informed by law or regulation, in accordance with paragraphs 34(b)–(c) of the [draft] Practice Statement.

IE78 In particular, the example illustrates how an entity determines what jurisdictional information to disclose to explain:

(a) the target's scope, timing and implementation;

(b) how information about jurisdictions with similar regulatory requirements can be aggregated; and

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(c) when separate information about a jurisdiction is necessary because its regulatory requirements have different implications for the target and the entity's prospects.

IE79 The example does not illustrate all the information the entity might be required to disclose about its nature-related target, the associated nature-related risk or opportunity, or its progress towards achieving the target.

Fact pattern

IE80 Entity D manufactures specialised materials at facilities in several jurisdictions. Its manufacturing process can result in discharges of Pollutant P to freshwater. Entity D can reduce these discharges by modifying the production process and installing additional water-treatment equipment.

IE81 Entity D has identified a nature-related transition risk arising from changes in laws and regulations governing the use and discharge of Pollutant P. Those changes could require capital expenditure, increase operating costs, constrain production or affect Entity D's access to important markets. Entity D concludes that the risk could reasonably be expected to affect its prospects.

IE82 Entity D has also identified a nature-related opportunity arising from customer demand for products manufactured using an alternative process that results in lower discharges of Pollutant P. Entity D expects that developing this production capability could support its access to particular customers and markets. Entity D concludes that the opportunity could reasonably be expected to affect its prospects.

IE83 As part of its response to the risk and opportunity, Entity D sets a target to reduce discharges of Pollutant P from the relevant manufacturing activities by 70% by 20X9, compared with a 20X0 baseline.

IE84 In setting the target, Entity D considers laws and regulations affecting its manufacturing activities in the jurisdictions in which it operates. Those laws and regulations inform the pollutant and manufacturing activities covered by the target, its end date and its implementation milestones.

IE85 Several jurisdictions that are significant to Entity D's manufacturing activities, referred to collectively as Jurisdiction Group A, have adopted broadly comparable regulations. Those regulations:

(a) cover the same pollutant and manufacturing activities;

(b) establish similar discharge limits;

(c) have similar implementation dates; and

(d) require broadly comparable modifications to Entity D's production processes and water-treatment equipment.

IE86 Jurisdiction B has adopted a more stringent discharge limit with an earlier implementation date. Entity D operates a significant manufacturing facility in Jurisdiction B. To meet the requirement, Entity D will need to accelerate conversion of the facility and incur capital expenditure earlier than planned.

If Entity D does not complete the conversion by the implementation date, production at that facility could be constrained, affecting its ability to supply an important market.

IE87 Other jurisdictions in which Entity D operates have not adopted comparable regulations within Entity D's strategic-planning horizon. The entity-wide target nevertheless includes the relevant manufacturing activities in those jurisdictions. Entity D plans to apply some of the production-process changes there because using a common production specification is expected to improve operational efficiency.

IE88 The laws and regulations in Jurisdiction Group A and Jurisdiction B inform the manufacturing activities and pollutant covered by Entity D's target, its 20X9 end date and its implementation milestones. The earlier implementation date and more stringent requirement in Jurisdiction B also inform the sequence in which Entity D plans to convert its facilities.

Application

IE89 Entity D determines that information about whether and how law or regulation informed its target is material because the relevant requirements give rise to a nature-related risk and affect the target's scope, timing and implementation, as well as Entity D's related capital-allocation and production decisions.

IE90 Entity D considers whether information about the target should be provided separately for each jurisdiction in which it operates. It determines that information about Jurisdiction Group A can be aggregated because the applicable regulations cover the same pollutant and manufacturing activities, establish similar discharge limits and implementation dates and require broadly comparable modifications to Entity D's production processes and water-treatment equipment. Entity D concludes that separate information about the target for each jurisdiction in the group would not provide material information about how law or regulation informed the target.

IE91 Entity D reaches a different conclusion for Jurisdiction B. Its earlier implementation date and more stringent regulation affect the timing of capital expenditure, the conversion of a significant facility and Entity D's ability to supply an important market. Entity D determines that aggregating information related to Jurisdiction B with information related to Jurisdiction Group A would obscure material information about the target's implementation and its implications for Entity D's prospects. Entity D therefore discloses information related to Jurisdiction B separately.

IE92 Entity D does not provide jurisdiction-by-jurisdiction information about the remaining jurisdictions because they have not adopted comparable regulations within its strategic-planning horizon. Although the entity-wide target includes relevant manufacturing activities in those jurisdictions, Entity D determines that separate information about their legal and regulatory circumstances would not provide material information about how law or regulation informed the target.

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IE93 These conclusions illustrate the application of paragraphs 34(b)–(c) of the [draft] Practice Statement, applied together with the aggregation and disaggregation requirements in paragraphs B29–B30 of IFRS S1.

Illustrative disclosure

IE94 The following excerpt illustrates information Entity D might disclose. It is not intended to prescribe the form in which that information is presented.

Excerpt from Entity D's disclosure

Target and objective

Entity D has set an entity-wide target to reduce discharges of Pollutant P from its relevant manufacturing activities by 70% by 20X9, compared with a 20X0 baseline. The target supports Entity D's response to a nature-related transition risk arising from changes in laws and regulations governing Pollutant P and a nature related opportunity arising from demand for products manufactured using an alternative production process. The target includes relevant manufacturing activities in all jurisdictions in which Entity D operates, including jurisdictions without comparable regulatory requirements.

How law and regulation informed the target

Laws and regulations in jurisdictions that are significant to Entity D's manufacturing activities informed the activities and pollutant within the target's scope, its end date and Entity D's implementation milestones. Entity D's implementation plan prioritises conversion of its facility in Jurisdiction B, followed by facilities in Jurisdiction Group A and then the remaining facilities included in the entity-wide target. The implementation plan and order of conversion is designed to enable the relevant jurisdictional requirements in Jurisdiction B and Jurisdiction Group A to be met.

Jurisdiction Group A

In Jurisdiction Group A, broadly comparable requirements apply to Pollutant P and the relevant manufacturing activities. Those requirements establish similar discharge limits and implementation dates and require similar modifications to Entity D's production processes and water-treatment equipment. They informed Entity D's common implementation milestones for the facilities in those jurisdictions.

Jurisdiction B

Jurisdiction B has established a more stringent discharge limit for Pollutant P with an earlier implementation date. Entity D operates a significant manufacturing facility in that jurisdiction. Entity D plans to accelerate conversion of the facility and incur the related capital expenditure earlier than for facilities in Jurisdiction Group A. If the conversion is not completed by the implementation date, production at the facility could be constrained, affecting Entity D's ability to supply an important market.



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