IFRS®
Sustainability

Sustainability-related risks and opportunities and the disclosure of material information

Educational material

In June 2023, the International Sustainability Standards Board (ISSB) issued its inaugural Standards, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. The ISSB is committed to supporting the implementation of those Standards. This educational material has been developed as part of delivering on that commitment.

This document is not part of IFRS Sustainability Disclosure Standards and does not add to or change the requirements in the Standards. It was developed to aid stakeholders' understanding of the Standards.

This educational material portrays hypothetical situations and explains and illustrates how an entity might apply some of the requirements in IFRS Sustainability Disclosure Standards (also referred to as ISSB Standards). The examples are illustrative and use fact patterns that are intentionally simple. Although some aspects of the examples may be present in actual fact patterns, an entity would need to evaluate all relevant facts and specific circumstances of a particular fact pattern when applying ISSB Standards.

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OVERVIEW

Introduction

IFRS S1 requires that an entity disclose *material information* about the sustainability-related risks and opportunities that could reasonably be expected to affect its cash flows, its access to finance or cost of capital over the short, medium or long term.[1] These risks and opportunities are collectively referred to as '*sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects*'.

In ISSB Standards, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions of primary users. Primary users are existing and potential investors, lenders and other creditors.

This educational material describes the characteristics of material information and the concept of sustainability-related risks and opportunities. It also explains the requirements related to identifying and disclosing material information about sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects.

This educational material is structured into three chapters:

- **Chapter 1—The definition of material information and its application in ISSB Standards**

  This chapter examines the main components of the definition of 'material information' to enable an understanding of the use of this term in ISSB Standards and how to make materiality judgements in that context.

- **Chapter 2—Sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects and its application in ISSB Standards**

  This chapter examines what sustainability-related risks and opportunities are and how they could reasonably be expected to affect an entity's prospects to enable an understanding of how this concept is used in ISSB Standards. This chapter uses examples and explains the factors an entity considers when identifying sustainability-related risks and opportunities.

- **Chapter 3—Identifying and disclosing material information**

  This chapter builds on the first two chapters and explains the requirements associated with identifying and disclosing *material information* about sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects. The chapter gives an example of a process an entity could follow to identify and disclose such material information and, in doing so, explains how an entity uses the sources of guidance referenced in ISSB Standards.

1 Throughout this educational material, the term 'entity' refers to the reporting entity.

Connectivity and interoperability considerations

When applying ISSB Standards, an entity is required to provide information in a manner that enables primary users to understand the connections between disclosures provided across its sustainability-related financial disclosures and its related financial statements (for the purposes of this document, this is referred to as part of 'connectivity considerations').[2] In addition, an entity might consider whether its sustainability-related financial disclosures, prepared applying ISSB Standards, are compatible with the requirements of other standards (for the purposes of this document, this is referred to as 'interoperability considerations').

Therefore, it might be helpful to also consider materiality in ISSB Standards in the context of matters related to connectivity and interoperability. To facilitate such considerations, throughout this educational material separate boxes labelled 'connectivity considerations' and 'interoperability considerations' are provided, as explained below.

Connectivity considerations

Connectivity considerations are expected to be helpful because sustainability-related financial disclosures accompany an entity's financial statements. Further, these considerations might be helpful to preparers with a financial reporting background who are applying ISSB Standards.

- IFRS S1 requires sustainability-related financial information to be provided in a way that allows users to understand connections both between the items to which the information relates and between disclosures provided by the entity in its general purpose financial reports.
- Connectivity between sustainability-related financial information and the related financial statements is an important consideration for the ISSB's work because sustainability-related financial disclosures are intended to be provided alongside an entity's financial statements.
- Connectivity between IFRS Sustainability Disclosure Standards and IFRS Accounting Standards (for the purposes of this document, the two sets of Standards are referred to collectively as 'IFRS Standards') and between sustainability-related financial disclosures and financial statements prepared using those IFRS Standards is a fundamental consideration for the ISSB and International Accounting Standards Board (IASB).

Interoperability considerations

Interoperability considerations might be helpful to preparers who are applying ISSB Standards alongside the European Sustainability Reporting Standards (ESRS) and Global Reporting Initiative (GRI) Standards.

Interoperability relates to the connections and interactions between the ISSB Standards and other standards that an entity may need or want to apply with ISSB Standards—in particular ESRS and GRI Standards.

2 For further information about connectivity, why it matters and what benefits it can deliver, see the following article: https://www.ifrs.org/news-and-events/news/2023/03/connectivity-what-is-it-and-what-does-it-deliver/.

MAIN MESSAGES

Chapter One: The definition of material information and its application in ISSB Standards

1. **ISSB Standards are designed to result in the provision of information that is useful to primary users of general purpose financial reports (primary users).** The definition of material information in ISSB Standards focuses on whether information could reasonably be expected to influence the decisions that primary users make on the basis of general purpose financial reports, which include financial statements and sustainability-related financial disclosures. Primary users are existing and potential investors, lenders and other creditors.

Interoperability considerations
The ISSB's focus on providing decision-useful information to primary users distinguishes sustainability-related financial information prepared applying ISSB Standards from some other sustainability reporting standards, which focus on providing information to a broader set of stakeholders (including, for example, employees or customers).

2. **Materiality is an entity-specific characteristic of *information*.** ISSB Standards set out requirements that an entity applies in preparing sustainability-related financial disclosures. Materiality is used to assess whether *information* required by ISSB Standards would need to be disclosed by a particular entity. In other words, the definition of 'material information' is used as a filter to assess whether *information* about a sustainability-related risk or opportunity would need to be provided by an entity to meet the requirements set out in ISSB Standards. The term materiality is *not* used in ISSB Standards in relation to the significance or importance of a sustainability-related risk or opportunity. Instead, ISSB Standards require disclosure of (material) information about the sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects.

Interoperability considerations
The use of the word 'materiality' in ISSB Standards differs from its use in some other sustainability standards. For example, ESRS use the term materiality to both identify the 'material' matters and their related impacts, risks and opportunities to report on and to assess the 'materiality of information' disclosed on those matters. However, when applying ISSB Standards, assessments of material information—and more particularly the application of the ISSB definition of materiality—are *only* applied to determine what information to provide about a sustainability-related risk or opportunity.

3. **When making materiality judgements, an entity assesses whether omitting, misstating or obscuring information could reasonably be expected to influence the decisions primary users make about providing resources to the entity.** When making materiality judgements, an entity considers whether the information—if omitted, misstated or obscured—could reasonably be expected to affect primary users' expectations about returns, for example, dividends, principal and interest payments or market price increases. Those expectations depend on primary users' assessment of the amount, timing and uncertainty of future net cash inflows to the entity and on their assessment of stewardship of the entity's economic resources by the entity's management and its governing body(s) or individual(s).

Connectivity considerations

IFRS Standards use aligned definitions of 'material information', and the supporting requirements and guidance related to materiality are also aligned. This alignment facilitates connectivity in an entity's general purpose financial reports because both sets of Standards require an entity to report information that could reasonably be expected to influence primary users' decisions.

Interoperability considerations

The definition of 'material information' in ISSB Standards is aligned with the corresponding definition used in ESRS related to 'financial materiality'.

An entity reporting in accordance with ISSB Standards or ESRS will need to apply the requirements regarding material information in the respective standards if the entity also wants to meet the disclosure requirements of the other set of standards. ESRS requires that information be provided when it is 'material from an impact perspective', when it is 'material from a financial perspective', or both.

- ESRS requires that information be provided from an impact perspective, as defined in ESRS, when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment arising from its own operations and/or upstream or downstream value chain. This means that when assessing materiality using ESRS, the information needs of other stakeholders beyond primary users must be considered when disclosing information.
- On financial materiality, ESRS 1 states 'in particular information is considered material for primary users of general purpose financial reports if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's sustainability statement'. The financial materiality assessment in ESRS 1 corresponds to the identification of information that is material for primary users of general purpose financial reports in making decisions relating to providing resources to the entity (see paragraph 48 of ESRS 1 and paragraph 18 of IFRS S1). The definition of information that is considered material for users of general purpose financial reports is therefore aligned between the two sets of standards.

Chapter Two: Sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects and its application in ISSB Standards

4. **IFRS S1 describes the concept of sustainability-related risks and opportunities**. This description includes consideration of:
   - an entity's interactions with stakeholders, society, the economy and the natural environment throughout its value chain;
   - resources and relationships throughout the entity's value chain;
   - dependencies and impacts on those resources and relationships; and
   - sustainability-related risks and opportunities arising from those dependencies and impacts.

5. **An entity *identifies* sustainability-related risks and opportunities that could reasonably be expected to affect its prospects**. An entity applying ISSB Standards identifies those sustainability-related risks and opportunities that could reasonably be expected to affect its cash flows, its access to finance or cost of capital over the short, medium or long term. These sustainability-related risks and opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'. In considering what *could reasonably be expected to affect an entity's prospects*, the entity considers an external perspective—that is, what an external party could reasonably expect.

6. **ISSB Standards do not require that an entity use a specific approach or method to identify sustainability-related risks and opportunities; however, the Standards do require entities to consider specific sources of guidance to identify such risks and opportunities**. ISSB Standards provide guidance to assist entities in identifying sustainability-related risks and opportunities, including specifying particular sources of guidance. These sources of guidance help entities to identify relevant sustainability-related risks and opportunities (and decide what information to disclose about those risks and opportunities). For example, to identify such risks and opportunities, IFRS S1 requires entities to refer to and consider the SASB Standards, and IFRS S2 requires entities to refer to and consider the *Industry-based Guidance on Implementing IFRS S2*.

Chapter Three: Identifying and disclosing material information

7. **An entity might follow a process to identify and disclose material information about the sustainability-related risks and opportunities it has identified**. Once an entity has identified its sustainability-related risks and opportunities, it will need to identify and disclose material information about those risks and opportunities. ISSB Standards do not require that an entity disclose all information about the sustainability-related risks and opportunities that it has identified. ISSB Standards are designed to result in an entity providing information that is useful for the decisions that primary users of general purpose financial reports make. This educational material provides an example of a process an entity might follow to identify and disclose such information:

   - Step 1—identify information about sustainability-related risks and opportunities that has the potential to be material;
   - Step 2—assess whether the potentially material information identified in Step 1 is, in fact, material;
   - Step 3—organise the information within the draft sustainability-related financial disclosures; and
   - Step 4—review the draft sustainability-related financial disclosures.

Connectivity considerations

The example four-step process to identify material information is similar to the 'four-step materiality process' illustrated in IFRS Practice Statement 2 *Making Materiality Judgements*.

In addition, this educational material uses content from IFRS Practice Statement 2 to explain concepts related to the identification of material information. This content has been adapted to suit the context of sustainability-related financial disclosures.

8. **ISSB Standards require the disclosure of information about how an entity's activities impact people and the environment when those impacts give rise to sustainability-related risks or opportunities that could reasonably be expected to affect the entity's prospects, and the related information about those impacts is material to primary users**. IFRS S1 explains that an entity's dependencies and impacts give rise to sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. An entity will need to understand its dependencies and impacts to identify sustainability-related risks and opportunities. Information about both dependencies and impacts could be material to primary users in understanding the sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects.

Interoperability considerations

In ESRS, impact materiality assessments consider how an entity impacts people or the environment. GRI Standards consider how an entity impacts the economy, environment, and people, including impacts on their human rights. This is sometimes referred to as an 'inside-out perspective'.

CHAPTER 1—THE DEFINITION OF MATERIAL INFORMATION AND ITS APPLICATION IN ISSB STANDARDS

Introduction—The definition of material information

IFRS S1 defines 'material information':

> In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity.

ISSB Standards are designed to help meet the information needs of primary users by requiring entities to provide material information about an entity's sustainability-related risks and opportunities. The application of ISSB Standards is intended to result in an entity producing decision-useful information about its sustainability-related risks and opportunities for primary users. Part of the process requires an entity to determine the information about a sustainability-related risk or opportunity that is material.

An entity uses the definition of material information to assess information to be disclosed in its sustainability-related financial disclosures, so that general purpose financial reports include material information. Material information is that information which, if omitted, misstated or obscured could reasonably be expected to influence primary users' decisions. An entity must ensure that material information is not obscured by other information, such as disclosures to meet the information needs of stakeholders other than primary users.

An entity is required to provide information to enable users of general purpose financial reports to understand the effects of sustainability-related risks and opportunities on the entity's prospects, if it is material. This is the case even if that information is *not* specified by ISSB Standards. Conversely, an entity need not disclose information that is required by ISSB Standards if that information is not material (see paragraphs B25—B26 of IFRS S1).

Connectivity considerations

ISSB Standards and IFRS Accounting Standards use aligned definitions of 'material information'. This facilitates connectivity in an entity's general purpose financial reports. Using this aligned definition in an entity's sustainability-related financial disclosures and its financial statements—with a common focus on meeting the information needs of primary users—facilitates a closer connection than if the entity's sustainability-related information were provided using another definition of material information.

Both IFRS Accounting Standards and IFRS Sustainability Disclosure Standards define 'material information' in terms of the information needs of primary users and whether omitting, misstating or obscuring that information could reasonably be expected to influence primary users' decisions. However, the distinct scopes of the reported information—including differences in relevant time horizons and the types of information required to meet the respective objectives of sustainability-related financial disclosures and the related financial statements—mean that distinct materiality judgements are necessary for those disclosures and for the related financial statements.

IFRS Accounting Standards Definition of 'material information'	**IFRS Sustainability Disclosure Standards Definition of 'material information'**
Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of **general purpose financial statements** make on the basis of those financial statements, which provide **financial** information about a specific reporting entity.	**In the context of sustainability-related financial disclosures**, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of **general purpose financial reports** make on the basis of those reports, **which include financial statements and sustainability-related financial disclosures** and which provide information about a specific reporting entity.

Interoperability considerations

A note on terminology

ISSB Standards refer to 'material information' about sustainability-related risks and opportunities. When explaining how the term 'material' is used in ISSB Standards, this educational material uses it in a manner that is consistent with its use in ISSB Standards—to refer to *material information*.

Other uses of the term material/materiality in sustainability reporting

- Separate from consideration of 'material information', ESRS refer to 'material matters' in relation to the significance or importance of impacts and of risks or opportunities, and GRI Standards refer to 'material topics' in relation to the significance of impacts on the economy, environment and people, including impacts on their human rights. ISSB Standards do not use the terms 'material risks' or 'material opportunities'. The absence of references to material risks or material opportunities does *not* mean that ISSB Standards require disclosure of information about every conceivable sustainability-related risk or opportunity regardless of its significance or importance to the entity. ISSB Standards require that an entity provide *material information* about sustainability-related risks and opportunities to the extent that these risks and opportunities *could reasonably be expected to affect the entity's prospects*.
- In sustainability-related reporting, the term 'materiality' is also commonly used in the context of a 'materiality assessment'. This is the process an entity undertakes to identify which sustainability-related topics to report on. In other sustainability standards, entities are required to undertake such a materiality assessment. However, ISSB Standards do not refer to a 'materiality assessment' in this manner.

Despite these differences in the application of the word 'material', when applying the concept of 'materiality' in ISSB Standards and 'financial materiality' in ESRS—given the ultimate focus on that which could reasonably be expected to (if omitted, misstated or obscured) influence primary users' decisions—this difference is not in itself expected to result in different outcomes of the information reported. That is, for aligned disclosure requirements, information that is 'financially material' in ESRS is expected to be material information using ISSB Standards, and vice versa. Note, however, that distinct disclosure requirements under each set of standards means an entity will still need to apply the requirements in each in order to state compliance.[3]

3 Refer to the ESRS–ISSB Standards Interoperability Guide, which describes the alignment of disclosure requirements between ESRS and ISSB Standards with a specific focus on climate reporting. The guide also provides information that an entity starting with each set of standards needs to know to enable compliance with both sets of standards, ensuring interoperability between them. The guide includes section on materiality, and can be found here: https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/esrs-issb-standards-interoperability-guidance.pdf.

Main components of the definition of 'material information'

This section examines the main components of the definition of 'material information'. Specifically, this section explains:

- the information needs of primary users and the decisions they make based on general purpose financial reports;
- the meaning of 'in the context of sustainability-related financial disclosures'; and
- the meaning of 'omitting, misstating or obscuring' information.

The information needs of primary users and the decisions they make based on general purpose financial reports

> In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information **could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures** and which provide information about a specific reporting entity.

Primary users

Primary users are existing and potential investors, lenders and other creditors (see Appendix A of IFRS S1).[4]

Materiality judgements involve considerations related to both who the primary users are and what decisions they make based on general purpose financial reports. General purpose financial reports do not, and cannot, provide all the information that all primary users need. Therefore, the entity aims to meet the common information needs of primary users (see paragraph IG4 of the *Accompanying Guidance on IFRS S1*). These information needs are explained in Table 1.1.

4 Throughout this educational material, the terms 'primary users' and 'users' are used interchangeably, with the same meaning.

Table 1.1—Primary users and their information needs

Information primary users are assumed to know	Primary users are those that have a reasonable knowledge of business and economic activities (see paragraph IG3 of the *Accompanying Guidance on IFRS S1*). Many primary users cannot require entities to provide information directly to them; they therefore rely on information in general purpose financial reports.
Common information needs of primary users	An entity considers the information needs that are common to each of the three types of primary users. That is, it considers the information needs of investors (existing and potential), lenders (existing and potential), and other creditors (existing and potential). An entity does not aim to satisfy specialised information needs that are unique to a specific subset of users within each of the three types of primary users (see paragraph IG4 of the *Accompanying Guidance on IFRS S1*). For example, in considering the information needs of existing and potential investors, an entity does not single out and only consider the information needs of 'impact investors' who may have specific social and environmental goals, which might be in addition to more general information needs about the amount, timing and uncertainty of cashflows and management's stewardship. Instead, it considers information needs that are common among existing and potential investors. Some information needs will be common among the three types of primary users, but others might be specific to only one or two types of primary users. If an entity focuses only on information needs that are common to all types of primary users, it might exclude information that meets the needs of one type (see paragraph IG6 of the *Accompanying Guidance on IFRS S1*). For example, an entity should not restrict itself to reporting on short-term risks and opportunities because its lenders have provided only short-term funding, as the information needs of equity investors about long-term sustainability-related risks and opportunities would also need to be considered.
Consideration of both 'existing and potential'	Because primary users include both existing and potential investors, lenders and other creditors, an entity *cannot focus* on *only* the needs of, for example, *existing* investors, lenders and other creditors when determining the information it provides.

An entity assesses whether information is material based on whether that information could reasonably be expected to influence decisions of primary users. Although the entity itself makes this assessment, it is based on the perspective of primary users and their information needs. This means that, for example:

- information about a sustainability-related risk or opportunity that management determines *could not reasonably be expected to* influence primary users' decisions would not be considered to be material;
- information cannot be assumed to be immaterial simply because users have not asked for it; and
- information about a sustainability-related risk or opportunity that an entity considers to have a low likelihood of occurring and a low impact might still be material if an entity considers that

primary users could reasonably be expected to take a different view. For example, if primary users expect that there is a high likelihood or high impact of the risk occurring, information about the risk would need to be provided (see examples '*entity determines it could reasonably be expected to be affected by a sustainability-related risk to which it does not believe itself to be exposed*' on page 27, and '*making materiality judgements*' on page 50).

In addition to primary users, other parties—such as the entity's management, regulators and members of the public—might be interested in sustainability-related financial disclosures and might find this information useful. However, sustainability-related financial disclosures prepared in accordance with ISSB Standards are not primarily designed to meet these other parties' information needs and the disclosures are not directed at these other parties.

Interoperability considerations

IFRS S1 focuses on the information needs of primary users—existing and potential investors, lenders and other creditors. This focus distinguishes sustainability-related financial information from broader, multi-stakeholder reporting focused on, for example, an entity's contribution to sustainable development.

The decisions primary users make based on general purpose financial reports

When identifying material information, an entity considers:

- the type of decisions primary users make based on general purpose financial reports, which include financial statements and sustainability-related financial disclosures; and
- the information primary users need to make those decisions.

Primary users do not make decisions based on one form of general purpose financial report published by an entity (see paragraph BC68 of the *Basis for Conclusions on IFRS S1*).

Assessing whether information could reasonably be expected to influence primary users' decisions about providing resources to the entity requires the entity to consider the characteristics of primary users (such as, potential investors) while also considering the entity's own circumstances (for example, the entity's own industry) (see paragraph IG2 of the *Accompanying Guidance on IFRS S1*).

When making materiality judgements, an entity considers whether the information could influence primary users' decisions about providing resources to the entity. Those decisions involve decisions about:

- buying, selling or holding equity and debt instruments;
- providing or settling loans and other forms of credit; and
- exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources (see paragraph B14 of IFRS S1).

These decisions depend on primary users' expectations about returns—for example, dividends, principal and interest payments, or market price increases. These expectations depend on primary users' assessments of:

- the amount, timing and uncertainty of future net cash inflows to the entity; and
- stewardship of the entity's economic resources by the entity's management and its governing body(s) or individual(s) (see paragraph B15 of IFRS S1).

In the context of sustainability-related financial disclosures

In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity.

Sustainability-related financial disclosures serve a specified objective: they aim to provide information about an entity's sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions about providing resources to the entity.

Other reports provided as part of an entity's general purpose financial reports, such as the financial statements, serve their specified objectives and provide particular information about an entity. In accordance with ISSB Standards, an entity considers whether information is material in the context of the specified objective of sustainability-related financial disclosures. Therefore, information that is material for sustainability-related financial disclosures might not be material for financial statements, or the other way around. For example, materiality judgements in the context of the financial statements as compared to in the context of the sustainability-related financial disclosures could result in different disaggregated information being provided about the entity's revenue, since these reports serve different objectives. For example, applying paragraph 35(a) of IFRS S1—which requires an entity to disclose information about how a sustainability-related risk or opportunity has affected the financial performance for the reporting period—might result in material information about the revenue attributable to the effects of a sustainability-related risk or opportunity, but that information may not be material for financial statements.

The assessment of whether information is material when applying ISSB Standards is anchored to and bound by the specified objective of sustainability-related financial disclosures.

Connectivity considerations

Although the definition of 'material information' in IFRS Standards is aligned with the definition of the same term in IFRS Accounting Standards, the information required to meet the objective of the respective general purpose financial reports is distinct. Sustainability-related financial disclosures and financial statements each serve specified objectives and provide distinct information about an entity. Therefore, the materiality judgements an entity makes in preparing its sustainability-related financial disclosures will be distinct from those it makes in preparing its financial statements.

Sustainability-related financial disclosures:

- complement information in an entity's financial statements.
- are likely to include more qualitative information and forward-looking information than financial statements.
- provide information about sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects, whereas financial statements provide information about an entity's assets, liabilities, equity, income and expenses. Therefore, sustainability-related financial disclosures that provide information about sustainability-related risks and opportunities are not limited to information about whether those risks and opportunities have affected or relate to an entity's assets, liabilities, equity, income or expenses. For example, sustainability-related financial disclosures include information about:
  - other aspects of the entity—such as its governance, strategy and risk management processes in relation to a sustainability-related risk or opportunity; and
  - anticipated financial effects.

In preparing sustainability-related financial disclosures, entities will more often have to:

- consider implications over longer time periods than those used in preparing financial statements (although in the preparation of financial statements judgement about the long term can also be required); and
- consider implications of interactions throughout their value chain (see paragraph BC69 of the *Basis for Conclusions on IFRS S1*).

Omitting, misstating or obscuring information

In the context of sustainability-related financial disclosures, **information is material if omitting, misstating or obscuring that information** could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity.

In assessing whether information is material, an entity considers the effect of omitting, misstating or obscuring that information on primary users' decisions. An entity is required to identify its sustainability-related financial disclosures clearly and distinguish them from other information the entity provides (see paragraph B27 of IFRS S1). This is important in the context of sustainability-related financial disclosures because:

- **the location of sustainability-related financial disclosures within general purpose financial reports might vary between entities**. ISSB Standards state that there are various possible locations in general purpose financial reports in which to disclose sustainability-related financial information—for example, in management commentary or in a similar report that forms part of the entity's general purpose financial reports.[5] These reports might also provide information to meet other requirements. In such cases, ISSB Standards require that an entity make its sustainability-related financial disclosures clearly identifiable and not obscured by additional information (see paragraphs 61–62 of IFRS S1).[6]
- **information might be provided alongside information to meet the needs of other stakeholders in addition to primary users**. An entity's sustainability reporting might include information intended for a broader range of stakeholders beyond primary users or to meet particular needs of primary users that are not common information needs. In such cases, IFRS S1 requires that sustainability-related financial disclosures be clearly identifiable and not obscured by that additional information.

Part of the assessment of whether information is misstated includes an entity considering the accuracy of information disclosed. Accurate information does not have to be perfectly precise. For example, accuracy requires that factual information is free from material error (see paragraph D15 of IFRS S1).

Information is obscured if it is communicated in a way that would have a similar effect for primary users to omitting or misstating that information (see paragraph B27 of IFRS S1). See Chapter 3 for more information on disclosing material information and obscuring information.

5 Subject to any regulation or other requirements that apply to an entity, there are various possible locations in its general purpose financial reports in which to disclose sustainability-related financial information. Sustainability-related financial disclosures could be included in an entity's management commentary or a similar report when it forms part of an entity's general purpose financial reports. Management commentary or a similar report might be known by or included in reports with various names, such as 'management report', 'management's discussion and analysis', 'operating and financial review', 'integrated report' or 'strategic report' (see paragraph 61 of IFRS S1).

6 Information required by ISSB Standards might be included in sustainability-related financial disclosures by cross-reference to another report published by the entity. If an entity includes information by cross-reference, the entity is required to apply the requirements in paragraphs B45–B47 of IFRS S1 (see paragraph 63 of IFRS S1).

CHAPTER 2—SUSTAINABILITY-RELATED RISKS AND OPPORTUNITIES THAT COULD REASONABLY BE EXPECTED TO AFFECT AN ENTITY'S PROSPECTS AND ITS APPLICATION IN ISSB STANDARDS

IFRS S1 requires that an entity disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or its cost of capital over the short, medium or long term. These risks and opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects' (see paragraph 3 of IFRS S1).

This chapter explains:

- what these sustainability-related risks and opportunities are (and includes examples); and
- how to identify such sustainability-related risks and opportunities.

What are sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects?

IFRS S1 specifies that sustainability-related risks and opportunities arise out of the interactions between an entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. This description is intentionally broad (see paragraph B2 of IFRS S1).

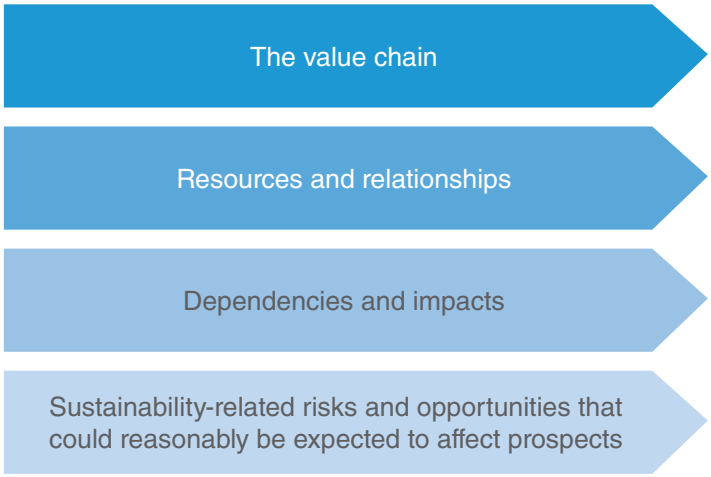
IFRS S1 explains that an entity both depends on resources and relationships throughout its value chain and affects those resources and relationships, which can contribute to their preservation, regeneration and development, or to their degradation and depletion. It is the entity's dependencies and impacts on those resources and relationships that might give rise to sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects (see paragraph B2 of IFRS S1).

The risks and opportunities that could reasonably be expected to affect the entity's prospects—its cash flows, its access to finance or cost of capital—might change over time. Thus, an entity needs to reconsider this assessment over time.

Information about sustainability-related risks and opportunities is useful to primary users because an entity's ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. Together, the entity and the resources and relationships throughout its value chain form an interdependent system in which the entity operates. The entity's dependencies on those resources and relationships and its impacts on those resources and relationships give rise to sustainability-related risks and opportunities for the entity (see paragraph 2 of IFRS S1).

This section explains these concepts—the value chain, resources and relationships, dependencies and impacts (see Figure 2.1)—to build an understanding of what sustainability-related risks and opportunities are and how they could affect an entity's prospects.

Figure 2.1—The concepts underlying sustainability-related risks and opportunities



These concepts are explained sequentially—that is, this section works through each part of the description of sustainability-related risks and opportunities in IFRS S1 and explains what an entity might consider in identifying sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

This is a possible way to identify sustainability-related risks and opportunities incorporating the various requirements an entity needs to apply to make a statement of compliance with ISSB Standards. However, an entity does not need to use this sequential approach to identify such risks and opportunities. An entity may take an alternative approach to identifying sustainability-related risks and opportunities. For example, the entity might look at its contractual arrangements (that is, a relationship it depends on) as a starting point in identifying sustainability-related risks and opportunities.

The definition of value chain

Understanding the value chain—which includes the entity's operations—is critical to identifying an entity's sustainability-related risks and opportunities that could reasonably be expected to affect its prospects. An entity needs to understand the term value chain to identify sustainability-related risks and opportunities.

IFRS S1 defines 'value chain':

> The full range of interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates.
>
> A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity's operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.

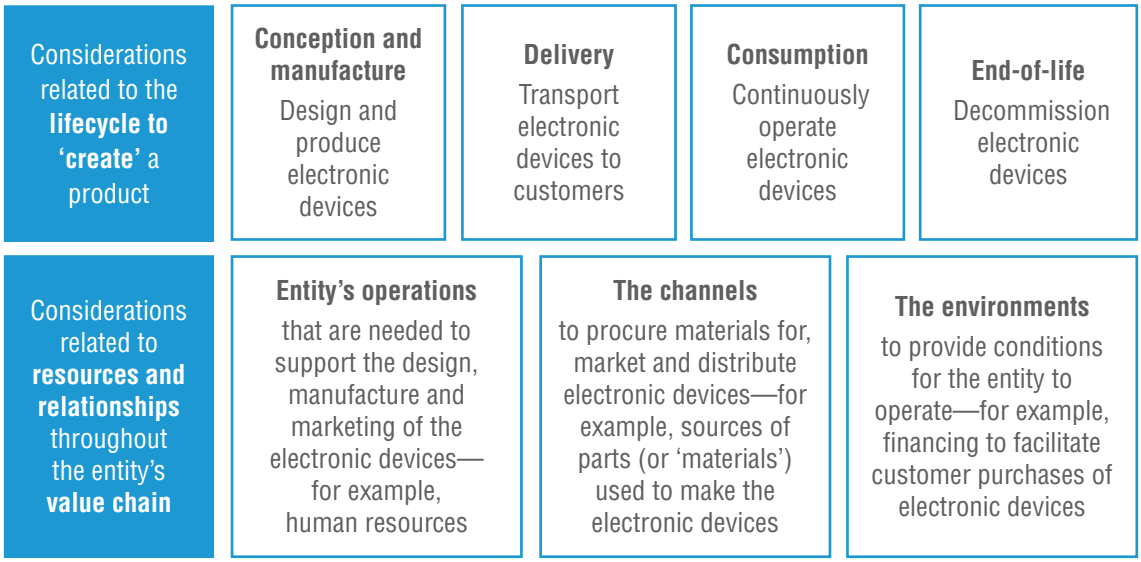
The first sentence of the definition of a value chain emphasises that an entity determining the scope of its value chain considers both:

- its business model, that is, aspects of the entity's operations associated with creating value and generating cash flows; and
- its external environment, that is, the external conditions and events that affect the entity's operations.

The second part of the definition of a value chain emphasises the breadth and composition of the value chain. It explains that, in determining the scope of its value chain, an entity looks at what it uses and depends on throughout the full lifecycle of a product or service, from conception to delivery, consumption and end-of-life. It also explains that an entity looks at those interactions, resources and relationships—including those along its supply, marketing and distribution channels—as well as the financing, geographical, geopolitical and regulatory environments in which the entity operates.[7] For example, an entity that manufactures electronic devices considers the scope of its value chain throughout its product lifecycle, as illustrated in Figure 2.2.

7 The definition of value chain refers to some of the interactions, resources and relationships an entity uses and depends on including those along its supply, marketing and distribution channels. This educational material sometimes uses the term 'chain' instead of 'channel'. In those circumstances, no difference is intended. For example, this educational material refers to 'supply chain', which is intended to have the same meaning as 'supply channel'.

Figure 2.2—Possible considerations for an electronics manufacturer when determining the scope of its value chain in order to identify sustainability-related risks and opportunities



Example—The entity, its business model, the external environment and distribution channels

An entity that manufactures electronic devices considers both its business model and the external environment in which it operates when determining the scope of its value chain. For example, when considering its distribution channels, the entity considers its:

- **business model**—as part of its activities, the entity depends on third-party vendors to sell its products to customers. These third-party vendors represent aspects of the entity's operations associated with generating cash flows and so reflect part of the entity's business model and value chain.
- **external environment**—changes in the regulatory environment in a jurisdiction in which the entity sells its products might affect which products the entity sells to its customers. The regulatory environment relates to those regulatory conditions and events outside of the entity that can affect its operations. For example, a regulation that affects the entity's industry by standardising and limiting the types of charging devices permitted to be manufactured, in an effort to reduce electronic waste, could affect the entity's operations. The regulatory environment that an entity operates in is, therefore, part of the entity's value chain.

Interactions throughout the entity's value chain

To identify its sustainability-related risks and opportunities, an entity considers its interactions with stakeholders, society, the economy and the natural environment throughout its value chain (see paragraph 2 of IFRS S1). These interactions occur as the entity operates its business model and from the external environment in which the entity operates.

An entity's ability to generate cash flows is inextricably linked to these interactions. That is, an entity cannot generate cash flows without interacting with stakeholders, society, the economy and/or the natural environment throughout its value chain.

An entity's interactions can be both direct and indirect. For example, an entity might interact directly with the natural environment through its use of timber as a raw material to create its products. Another entity might interact indirectly with the natural environment through its suppliers; its suppliers might use timber as a raw material to create a product the entity uses. When an entity considers its value chain (including the breadth and composition of the value chain), the entity considers both its direct and indirect interactions with its stakeholders, society, the economy and the natural environment when identifying sustainability-related risks and opportunities.

Example—Interactions with stakeholders, society, the economy and the natural environment

An entity operating in the Containers and Packaging industry depends on suppliers in three jurisdictions for raw materials. These suppliers are part of its value chain because the entity uses and depends on each supplier to operate its business and create its products. The entity considers its interactions—both direct and indirect—with stakeholders, society, the economy and the natural environment throughout its value chain. The entity notes that:

- Jurisdiction A's local communities are protesting against the entity's deforestation practices, which could affect the ability of the entity's suppliers in Jurisdiction A to do business with the entity (interactions with society);
- Jurisdiction B's government has introduced a tax incentive for entities pursuing sustainable operations, which could influence how the entity's suppliers operate (interactions with the economy); and
- Jurisdiction C is experiencing a drought, which could affect the ability of the entity's suppliers in Jurisdiction C to produce the raw materials needed by the entity (interactions with the natural environment).

The entity considers these factors in identifying sustainability-related risks and opportunities. For example, the entity might determine that tax incentives in Jurisdiction B represent a sustainability-related opportunity that could reasonably be expected to affect the entity's prospects.

This example shows that if the entity's business partners in its value chain face sustainability-related risks and opportunities, the entity could be exposed to sustainability-related risks and opportunities as a consequence.

Determining the scope of an entity's value chain—proportionality mechanism

The potential scope of an entity's value chain, including its breadth and composition, is significant. Recognising the potential challenges for application, the ISSB decided to limit the extent of the effort needed when determining the scope of an entity's value chain. To do this it introduced a proportionality mechanism[8] in IFRS S1 that states that an entity is not required to undertake an exhaustive search when assessing the scope of its value chain to identify sustainability-related risks and opportunities; instead, the entity is required to use 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' (see paragraph B6 of IFRS S1). It is also noted that ISSB Standards only require that material information be provided about sustainability-related risks and opportunities to inform primary users' decisions, so the analysis of the value chain and the identification of material information is made within that context.

This requirement to use 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' assists entities by establishing parameters for the type of information they consider when identifying sustainability-related risks and opportunities arising from their value chains, and the effort required to obtain such information. This requirement also clarifies that an entity:

- is required to use all information available to it at the reporting date without undue cost or effort;
- is not required to carry out an exhaustive search for information associated with its value chain that would require undue cost or effort; and
- is required to determine the scope of its value chain using information that is reasonable and supportable (see paragraphs B8–B10 of IFRS S1).

This concept also provides relief to entities that face challenges associated with obtaining information from entities throughout their value chains (see paragraph BC58 of the *Basis for Conclusions on IFRS S1*).

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8 The ISSB Standards include several proportionality mechanisms, that is, mechanisms intended to assist entities in applying ISSB Standards.

Resources and relationships

The resources and relationships which an entity depends on and affects exist throughout its value chain. IFRS S1 explains that in identifying sustainability-related risks and opportunities that could reasonably be expected to affect its prospects, an entity considers resources and relationships that it depends on to generate cash flows and that it affects through its activities and outputs (see paragraph B2 of IFRS S1).

Resources and relationships can take many forms. For example, an entity might interact with the natural environment through its use of minerals (as a raw material) to create its products. That is, the entity depends on this resource to generate cash flows. Other forms and examples of resources and relationships are illustrated in Figure 2.3. These examples build on the forms of resources and relationships described in paragraph B4 of IFRS S1. Figure 2.3 is not intended to represent a classification system for such resources and relationships.[9]

Figure 2.3—Forms and examples of resources and relationships

Human	Intellectual	Financial	Natural	Manufactured	Social
• Entity's workforce • Workers in supply chains	• Patents • Copyrights • Trademarks	• Cash • Investments • Access to financial resources	• Land • Water • Minerals • Raw materials	• Machinery • Equipment • Buildings • Infrastructure	• Stakeholder relationships • Customers • Indigenous communities

Resources and relationships can:

- be internal, such as the entity's workforce, its know-how or its organisational processes;
- be external, such as the materials and services the entity needs to access or the relationships it has with suppliers, distributors and customers; and
- include (but are not limited to) the resources and relationships recognised as assets in the entity's financial statements (see paragraph B4 of IFRS S1).

To identify sustainability-related risks and opportunities, an entity needs to understand the resources and relationships it depends on and affects.

9 The concept of resources and relationships is similar to the notion of 'the capitals' in the Integrated Reporting Framework. The Integrated Reporting Framework became an IFRS Foundation resource as a result of the consolidation of the Value Reporting Foundation by the IFRS Foundation in August 2022. Some concepts from the Integrated Reporting Framework are embedded in IFRS S1 and IFRS S2.

Dependencies and impacts

An entity considers how it—directly and indirectly—depends on and affects resources and relationships. IFRS S1 explains that an entity:

- depends on resources and relationships to generate cash flows; and
- affects resources and relationships through its activities and outputs.

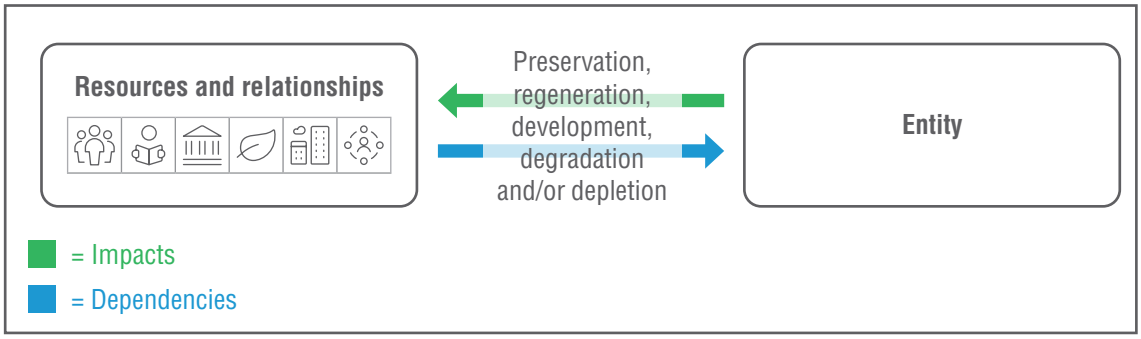
These dependencies and impacts contribute to the preservation, regeneration and development of resources and relationships, or to their degradation and depletion (see paragraph B2 of IFRS S1). This concept is explained further in Table 2.1.

Table 2.1—An entity's dependencies and impacts on resources and relationships as a result of the entity's activities and outputs.

Entity's activities and outputs	Entity's **dependency** on a resource and relationship to generate cash flows	Entity's **impact** on a resource and relationship through its activities and outputs
The entity **extracts** groundwater for irrigation.	The entity depends on **water** to operate its business model.	The entity's activities might **deplete** the water source because of its dependency on water and its activities impacting the water.
The entity **invests** in employee training.	The entity operates in a highly competitive market and depends on a **highly specialised workforce** to operate its business model.	The entity's investment in training can help to **develop** its workforce because of its dependency on a highly specialised workforce and its activities which impact the workforce.

As illustrated, an entity's activities and outputs can affect resources and relationships on which it depends. In such circumstances, the entity is affected by its own impact on the resource or relationship. This interdependent system, in which the entity both depends on and affects its resources and relationships, is described in IFRS S1 and depicted in Figure 2.4.

Figure 2.4—The interdependent system, in which the entity both depends on and affects resources and relationships



However, an entity's dependencies and impacts might not always be closely related. That is, an entity can depend on something it does not impact, and can impact something it does not depend on. Yet, in both cases—the dependency and impact—might give rise to sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects.

Sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects

IFRS S1 explains that an entity's dependencies and impacts on resources and relationships might give rise to sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects. For example, if an entity's access to a resource—that is, its ability to depend on a relationship that it uses to generate cash flows—is at risk, the entity's prospects might be affected. In such circumstances an entity should assess whether this is a sustainability-related risk that **could reasonably be expected** to affect its **prospects**.

'Could reasonably be expected'

IFRS S1 requires disclosure of information about sustainability-related risks and opportunities that *could reasonably be expected* to affect the entity's prospects. This means, when identifying such sustainability-related risks and opportunities, the entity considers an external perspective. An entity might judge that a sustainability-related risk or opportunity *could reasonably be expected* to affect its prospects (based on the expectations of an external party), even though the entity itself might not have that expectation. In particular, the entity needs to consider matters about which information, if misstated, omitted or obscured, could reasonably be expected to influence a decision by primary users. Thus, the perspective of primary users is a particular consideration for the entity.

Example—Entity determines it could reasonably be expected to be affected by a sustainability-related risk to which it does not believe itself to be exposed

An entity is a clothing manufacturer that sources its supplies from a jurisdiction that is known for its effective human rights protections.

The entity's industry peers have disclosed risks of human rights violations throughout their supply chains in their sustainability-related financial disclosures. These peers source supplies from jurisdictions in which the entity does not.

When assessing its sustainability-related risks, the entity considers both entity-specific factors and external factors, including that:

- it does not expect the risk of human rights violations throughout its supply chain to affect the entity's prospects (entity-specific factor); and
- the industry in which the entity operates is known to be exposed to risks of human rights violations throughout the supply chain (external factor).

Due to its concentration of suppliers in a jurisdiction that is known for its effective human rights protections, the entity does not believe itself to be exposed to such risk. However, the entity determines that *it could reasonably be expected* that it is exposed to the risk of human rights violations in its supply chain, because primary users expect this to be a risk for an entity in this industry.

In such circumstances, an entity discloses associated material information. For example, the entity could disclose that it is not exposed to the risk of human rights violations throughout its supply chain and explain why this is the case.

'Entity's prospects'

In ISSB Standards, an entity's prospects refers to the entity's *cash flows, its access to finance or cost of capital over the short, medium or long term.*

An entity assesses whether a sustainability-related risk or opportunity could reasonably be expected to affect its cash flows, its access to finance or cost of capital—this assessment does not require that the sustainability-related risk or opportunity affect all three, though, in practice, they are often interrelated.

The effects of sustainability-related risks and opportunities on the entity's *cash flows, its access to finance and cost of capital* include:

- the amount, timing and uncertainty of the entity's incoming and outgoing cash flows;
- the entity's ability to obtain funding; and
- the cost incurred by the entity to secure funding for its operations and investments.

The effect of a sustainability-related risk or opportunity on an entity's *access to finance and cost of capital* brings in an assessment of how other market participants might interact with the entity. For example, if an entity has a negative reputation associated with its management of a sustainability-related risk, some lenders might not want to be associated with this entity because of the reputational risk that could arise from lending to the entity. As a result, the entity might find access to capital to be constrained, forcing it to seek capital elsewhere, perhaps on less favourable terms (such as with higher interest rates, lower borrowing amounts, or with more covenant restrictions than its peers). If the entity determines that a sustainability-related risk could reasonably be expected to affect its access to finance or cost of capital, the entity would need to determine what information is material about this sustainability-related risk and disclose that information when applying ISSB Standards.

The effects on an entity's cash flows, access to finance and cost of capital are assessed over the *short, medium and long term* to evaluate the potential implications of sustainability-related risks and opportunities for an entity. Short-, medium- and long-term time horizons can vary among entities and depend on many factors, for example:

- industry-specific characteristics, such as cash flow, investment and business cycles;
- the planning horizons typically used in an entity's industry for strategic decision-making and capital-allocation plans; and
- the time horizons over which primary users assess entities in that industry (see paragraph 31 of IFRS S1).

Sometimes shorthand references are made about ISSB Standards, such as ISSB Standards require information to be provided when sustainability-related risks and opportunities give rise to 'financial effects'.

That shorthand reference to 'financial effects' could be misunderstood to imply that the ISSB Standards focus only, for example, on whether cash flows are affected, rather than considering the broader factors specifically referenced as an entity's prospects in IFRS S1.

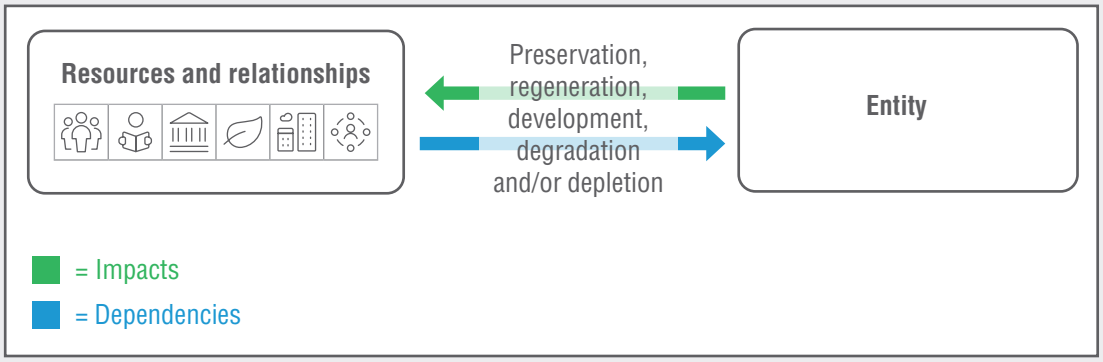
Examples—Sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects

In the examples below, an entity considers the resources and relationships throughout its value chain on which it depends and which it affects, and whether they give rise to sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

Specifically, these examples illustrate scenarios in which such sustainability-related risks and opportunities arise from an entity's:

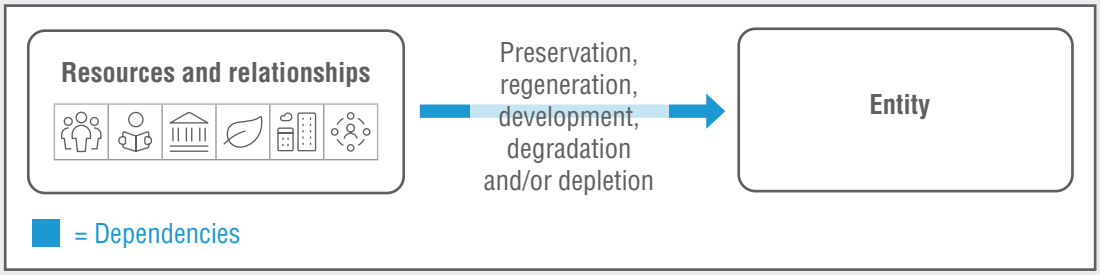
- dependency on a resource and a relationship that it affects (Figure 2.5);
- dependency on a resource and a relationship that it does not affect (Figure 2.6); and
- impact on a resource and relationships on which it does not depend (Figure 2.7).

Figure 2.5—Sustainability-related opportunity arising from an entity's dependency on a relationship that it affects



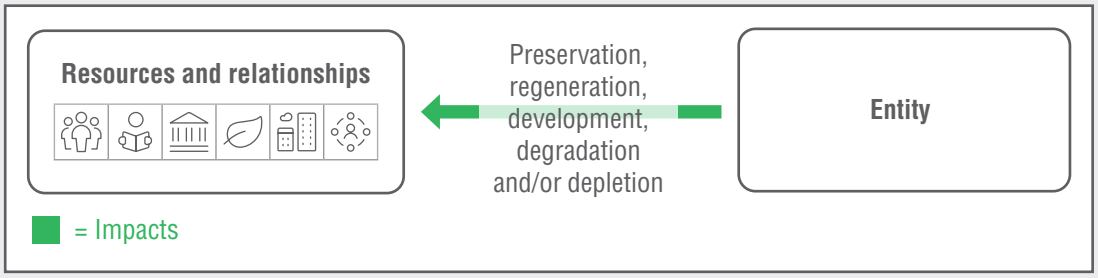
- **Relationship that the entity is dependent on that it also affects**: highly specialised workforce.
- An entity operates in a highly competitive market and *depends on* a highly specialised workforce to achieve its strategic purposes. Therefore, the entity's future success is likely to depend on its ability to attract and retain that resource.
- At the same time, that ability will depend, in part, on some of the *impacts of* the entity's employment practices—such as whether the entity invests in employee training and wellbeing, which, in turn, might *impact* the levels of employee satisfaction, engagement and retention. The engagement scores of its employees have consistently been above the average of its closest competitors.
- As the entity is expecting the industry to enter into a new phase of growth that will require further investment to attract and retain talent, the entity concludes that this is a sustainability-related opportunity that could reasonably be expected to positively affect its ability to generate cash flows, and therefore affect the entity's prospects.

Figure 2.6—Sustainability-related opportunity arising from an entity's dependency on a resource that it does *not* affect



- **Resource that the entity is dependent on that it does not affect**: access to finance.
- An entity that invests in the development of clean technologies (which support the transition to a lower-carbon economy) *depends* on its access to cash and financial resources to fund its operations. Specifically, the entity depends on investor appetite to invest in entities whose business models support the transition to a lower-carbon economy.
- A changing financing environment related to a positive change in investor appetite for the entity's business model could affect the entity's access to the financial resources that the entity depends on.
- The entity concludes that this is a sustainability-related opportunity that could reasonably be expected to affect positively the entity's ability to obtain funding from external sources, and therefore affect the entity's prospects.

Figure 2.7—Sustainability-related risk arising from an entity's impacts on a resource on which it does *not* depend



- **Resource that the entity affects that it does not depend on:** local marine species.
- An entity uses water to operate its business model, and through its water use, the entity's activities could *impact* local marine species. However, the entity does not depend on this marine species to operate its business model. In addition, the species that are most likely to be affected are not currently believed to be endangered.
- However, if the entity's activities were believed to have the potential to contribute to the degradation or depletion of that water source and therefore endanger particular marine species, these potential impacts, in turn, could create a risk to the entity's operations because of its dependency on its legal and social licence to operate. So for example, this could give rise to regulatory risks or reputational risks.
- Given its specific circumstances, the entity determines that its *impacts* could give rise to a sustainability-related risk that could reasonably be expected to affect the amount and timing of the entity's incoming and outgoing cash flows, its ability to obtain funding and/or the cost of capital and, therefore, affect the entity's prospects.

The examples included in this section of the educational material are those which ultimately result in the entity determining whether information is material about sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects.

The focus on sustainability-related risks and opportunities that 'could reasonably be expected to affect an entity's prospects' is intended to ensure that it is clear that entities do not need to identify every possible sustainability-related risk or opportunity. That is, without this focus, the focus could be on *any sustainability-related risk or opportunity* identified. For example, an entity depends on clean air (a resource) to generate cash flows (just as every entity does). This is because clean air is essential for the entity's employees, customers, etc. Therefore, the entity might identify a sustainability-related risk related to the resulting disruption to business continuity if the entity were unable to access clean air. However, this is a risk that might not be reasonably expected to affect the entity's prospects, nor would identifying this possible but not reasonably expected risk likely result in the provision of material information. Every entity depends on clean air to operate.

However, in some circumstances, an entity might identify a sustainability-related risk related to its access to clean air and it might therefore be appropriate for an entity to disclose information about the risks arising from its dependence on clean air. For example, an entity might operate in a region in which the air is of such poor quality that the entity is affected—or could reasonably be expected to be affected—because its employees are unable to commute to the entity's workplace or live in the region. In such a case, the entity would identify a sustainability-related risk related to its access to clean air that could reasonably be expected to affect its prospects, and would therefore disclose the material information about this risk.

Therefore, an entity will not disclose information about every sustainability-related risk or opportunity. Even though an entity might depend on and affect many resources and relationships throughout its value chain, IFRS S1 requires that it disclose *material information* about sustainability-related risks and opportunities that could reasonably be expected to *affect its prospects*.

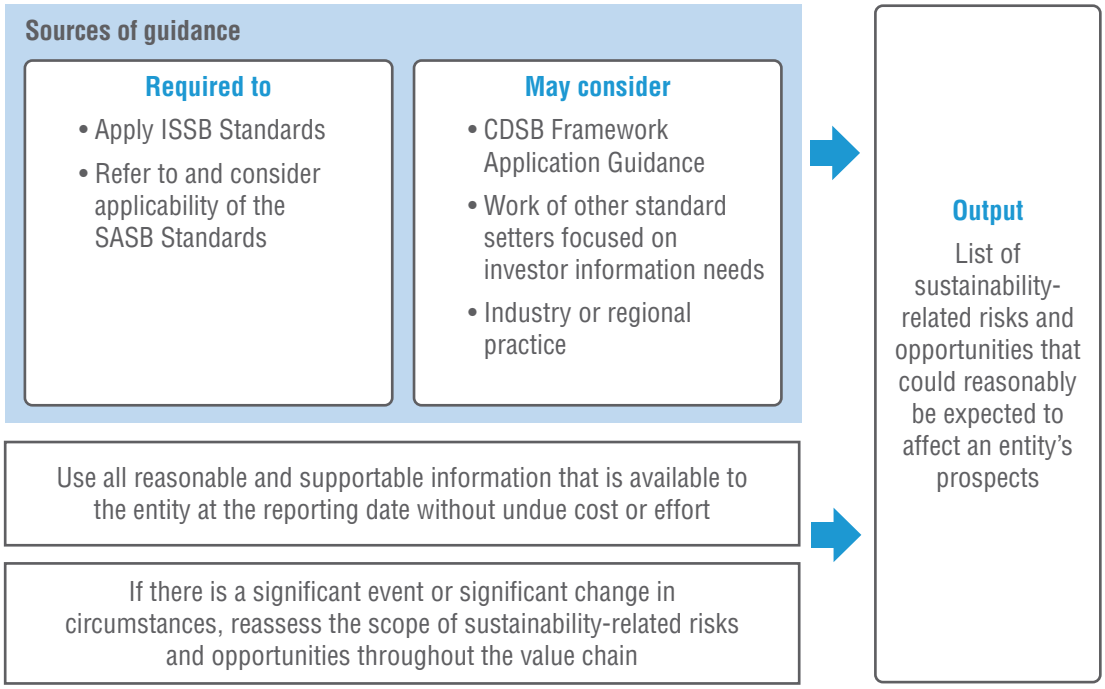
How to identify sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects

An entity determines what constitutes a sustainability-related risk or opportunity based on its facts and circumstances. Entities often have well-established processes for identifying, assessing and responding to sustainability-related risks and opportunities as part of the management of their businesses.

For the purposes of preparing sustainability-related financial disclosures, IFRS S1 sets out requirements related to the identification of sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects. IFRS S1 requires an entity:

- to use the sources of guidance in the manner set out in IFRS S1;
- to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort; and
- to reassess the scope of sustainability-related risks and opportunities throughout its value chain if a significant event or significant change in circumstances occurs.

Figure 2.8—Using ISSB Standards to identify sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects



Apply ISSB Standards

ISSB Standards (which include the appendices to ISSB Standards) set out requirements that help entities to identify sustainability-related risks and opportunities (see paragraphs 54–55 of IFRS S1). Additionally, the Basis for Conclusions, the Accompanying Guidance and educational materials (referred to as 'related materials') can also help in this process.[10] For example, IFRS S2 and its related materials contain requirements, guidance and examples that help an entity to identify its climate-related risks and opportunities (see Appendix A of this educational material).

ISSB Standards do not require an entity to use a specific approach or method to identify sustainability-related risks and opportunities. Instead, ISSB Standards provide guidance that helps an entity to identify sustainability-related risks and opportunities, including requirements related to the sources of guidance to use.[11]

The explanation of 'sustainability-related risks and opportunities' provided in this chapter can help an entity to identify sustainability-related risks and opportunities (see Figure 2.9).

Figure 2.9—Example of using underlying concepts to assist in identifying sustainability-related risks and opportunities

Concepts underlying sustainability-related risks and opportunities	Identifying sustainability-related risks and opportunities by using the concepts	Example
The value chain	An entity assesses the scope of its value chain and considers its interactions with stakeholders, society, the economy and the natural environment.	A clothing brand company considers its interactions with the natural environment in its supply channels.
Resources and relationships	The entity considers the resources and relationships throughout its value chain.	The clothing brand company considers its use of water in its production process.
Dependencies and impacts	The entity identifies the dependencies and impacts it has on resources and relationships.	The clothing brand company considers its dependency on high amounts of water to produce its products.
Sustainability-related risks and opportunities that could reasonably be expected to affect prospects	The entity identifies sustainability-related risks and opportunities that could reasonably be expected to affect its prospects, which arise from the dependencies and impacts it has on resources and relationships.	The clothing brand company identifies a sustainability-related opportunity to use new technology that would reduce the water-intensive processes in its production. This would significantly reduce production costs incurred by the entity.

10 The Basis for Conclusions, Accompanying Guidance, and educational materials are not required to be considered or applied when applying ISSB Standards. Refer to paragraphs 10—20 of Agenda Paper 1 *Application of paragraph 29(b)–(c) of IFRS S2, using ISSB Standards and related materials* from the March 2024 Transition Implementation Group on IFRS S1 and IFRS S2 meeting for an overview of how to use and apply ISSB Standards and related materials.

11 For the avoidance of doubt, IFRS S1 requires that an entity apply the requirements in ISSB Standards related to the identification of sustainability-related risks and opportunities.

An entity can use the description in IFRS S1 of sustainability-related risks and opportunities both to identify its sustainability-related risks and opportunities and to assess the completeness of identified sustainability-related risks and opportunities. For example, an entity might consider whether it has:

- assessed the scope of its value chain, including its breadth and composition, when considering its interactions—that is, interactions between the entity and stakeholders, society, the economy and the natural environment;
- considered resources and relationships throughout its value chain; and
- identified and considered whether dependencies and impacts give rise to sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

The assessment of whether such risks and opportunities could reasonably be expected to affect the entity's prospects—its cash flows, its access to finance or cost of capital—explicitly requires assessing the effects over the short, medium and long term.

Sources of guidance an entity is required to refer to and consider the applicability of—Disclosure topics in the SASB Standards

IFRS S1 requires that an entity refer to and consider the applicability of the disclosure topics in the SASB Standards to identify sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects (see paragraph 55(a) of IFRS S1).

The SASB Standards are tailored to specific industries, which helps entities to identify sustainability-related risks and opportunities that are relevant to their business activities.

To use the SASB Standards an entity should identify the SASB Standard(s) most closely aligned with its activities, and then consider the applicability of the disclosure topics in the identified SASB Standard(s) for the entity's activities (see paragraph IG17 of the *Accompanying Guidance on IFRS S1*).

Example—Referring to and considering the SASB Standards to identify sustainability-related risks and opportunities

An entity in the dairy industry would refer to and consider the applicability of the disclosure topics in the *Meat, Poultry & Dairy* SASB Standard. After considering the applicability of the disclosure topics in this SASB Standard, the entity might conclude that the disclosure topics (1) food safety and (2) workforce health & safety are applicable in the entity's circumstances.

Therefore, the entity could use the disclosure topics in this SASB Standard to inform its identification of sustainability-related risks and opportunities. Applying those disclosure topics, the entity could explain that a failure to maintain the quality and safety of its product might result in costly recalls and harm the reputation of its brand. The entity could also explain that such failure might lead to fines, reduce its revenues and increase regulatory scrutiny, including the imposition of trade restrictions.

An entity could repeat this approach for each applicable disclosure topic.

An entity might conclude that a disclosure topic in the SASB Standards is not applicable in the entity's circumstances. In that case, the entity would not be required to include sustainability-related financial information that reflects the metrics specified in the disclosure topic in its general purpose financial reports.[12]

Structure of the SASB Standards

The SASB Standards are organised by industry. Each SASB Standard contains, among other things:

- industry names and descriptions, which are intended to help an entity to identify the one or more SASB Standards that are likely to be applicable to its business model and activities. Industry names might not precisely align with the industry an entity considers itself a part of, because industries are often classified and defined according to local conventions. However, even in these circumstances the SASB Standards assist an entity in identifying relevant sustainability-related risks and opportunities.
- disclosure topics, which describe specific sustainability-related risks or opportunities associated with the activities of entities in a particular industry. The disclosure topics (including their accompanying descriptions) define specific sustainability-related risks or opportunities based on the activities of entities in a particular industry, including a brief description of how management or mismanagement might affect an entity's financial-risk-and-return profile. These disclosure topics are intended to help entities to identify specific sustainability-related risks and opportunities for disclosure in a consistent manner based on their business model and activities.

12 Refer to https://www.ifrs.org/content/dam/ifrs/supporting-implementation/ifrs-s1/using-sasb-standards-for-ifrs-s1.pdf for more information on how to use the SASB Standards.

Sources of guidance an entity may refer to and consider

In addition to the requirement to refer to and consider the applicability of the disclosure topics in the SASB Standards, IFRS S1 sets out the following sources of guidance (see paragraph 55(b) of IFRS S1). An entity *may refer to and consider*[13] these sources of guidance when identifying sustainability-related risks and opportunities that could reasonably be expected to affect its prospects:

1. The **Climate Disclosure Standards Board (CDSB) Framework Application Guidance**.

   The CDSB Framework Application Guidance on Biodiversity-related Disclosures identifies potential physical biodiversity-related risks, such as reduction in soil fertility, reduction in pollination for crop production and reduced availability of fish stocks.

   The CDSB Framework Application Guidance on Water-related Disclosures identifies potential water-related opportunities, such as improved water efficiency, development of new products and services, and conservation and restoration of ecosystems through engagement and collaboration with stakeholders.

2. Materials of **other primary user-focused standard-setters**.

   Example—Referring to and considering the applicability of materials of a primary user-focused standard-setter to identify sustainability-related risks and opportunities

   An entity operates in a jurisdiction whose national standard-setter is responsible for the issuance of standards designed to meet the information needs of primary users. The standard-setter has issued a standard on human capital-related disclosures. IFRS S1 permits the entity to consider the applicability of this standard when identifying sustainability-related risks and opportunities.

3. Sustainability-related risks and opportunities identified by entities that operate in the **same industry(s)** or in the **same geographical region(s)**.

   Example—Referring to and considering the applicability of sustainability-related risks and opportunities of industry peers

   An entity operating in the Medical Equipment and Supplies industry recently acquired an entity that operates in the Health Care Distributors industry. While reassessing the scope of sustainability-related risks and opportunities throughout its value chain (as required on the occurrence of a significant event), the acquiring entity considers the sustainability-related risks and opportunities that might be prevalent in the health-care distributors industry. To assist in identifying such risks and opportunities, the acquiring entity refers to sustainability-related risks and opportunities identified in the sustainability-related financial disclosures of entities operating in that industry.

13 The reference to these sources of guidance is in contrast to the reference to the SASB Standards, which an entity *is required* to refer to and consider.

Identifying the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects—proportionality mechanism

An entity applies the sources of guidance referenced in IFRS S1 to identify the sustainability-related risks and opportunities that could reasonably be expected to affect its prospects. The entity is not required to undertake an exhaustive search for information to identify these sustainability-related risks and opportunities. Instead, it uses all reasonable and supportable information that is available to it at the reporting date, subject to that information being available without undue cost or effort (see paragraph B6 of IFRS S1). Reasonable and supportable information might be both internal and external, such as:

- the entity's risk-management processes;
- industry and peer group experience;
- external ratings, reports and statistics; and
- information that the entity uses:
  - to prepare its financial statements;
  - to operate its business model;
  - to set its strategy; and
  - to manage its sustainability-related risks and opportunities (see paragraph B9 of IFRS S1).

Using 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' is helpful because of the wide range of information that could be relevant in identifying the sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects. This requirement to use all reasonable and supportable information is intended to set parameters and provide guidance to an entity in determining the information to consider and the effort it makes to obtain such information.

This requirement clarifies that an entity is:

- prohibited from overstating or understating opportunities (or risks) on the basis of information that is unsupportable or unreasonable;
- required to use all information that it has at the reporting date (including information about past events, current conditions and forecasts of future conditions); and
- not expected to carry out an exhaustive search for information to identify every sustainability-related risk or opportunity, because such an exhaustive search would represent 'undue cost or effort' (see paragraph BC51 of the *Basis for Conclusions on IFRS S1*).

Reassessment of the scope of sustainability-related risks and opportunities throughout the value chain

Changes might occur that affect an entity's value chain. To ease application, an entity is only *required* to reassess the scope of the affected sustainability-related risks and opportunities in its value chain on the occurrence of a significant event or significant change in circumstances (see paragraph B11 of IFRS S1). So, an entity is not required to reperform this assessment at each reporting date. See Appendix B of this educational material for more information.

CHAPTER 3—IDENTIFYING AND DISCLOSING MATERIAL INFORMATION

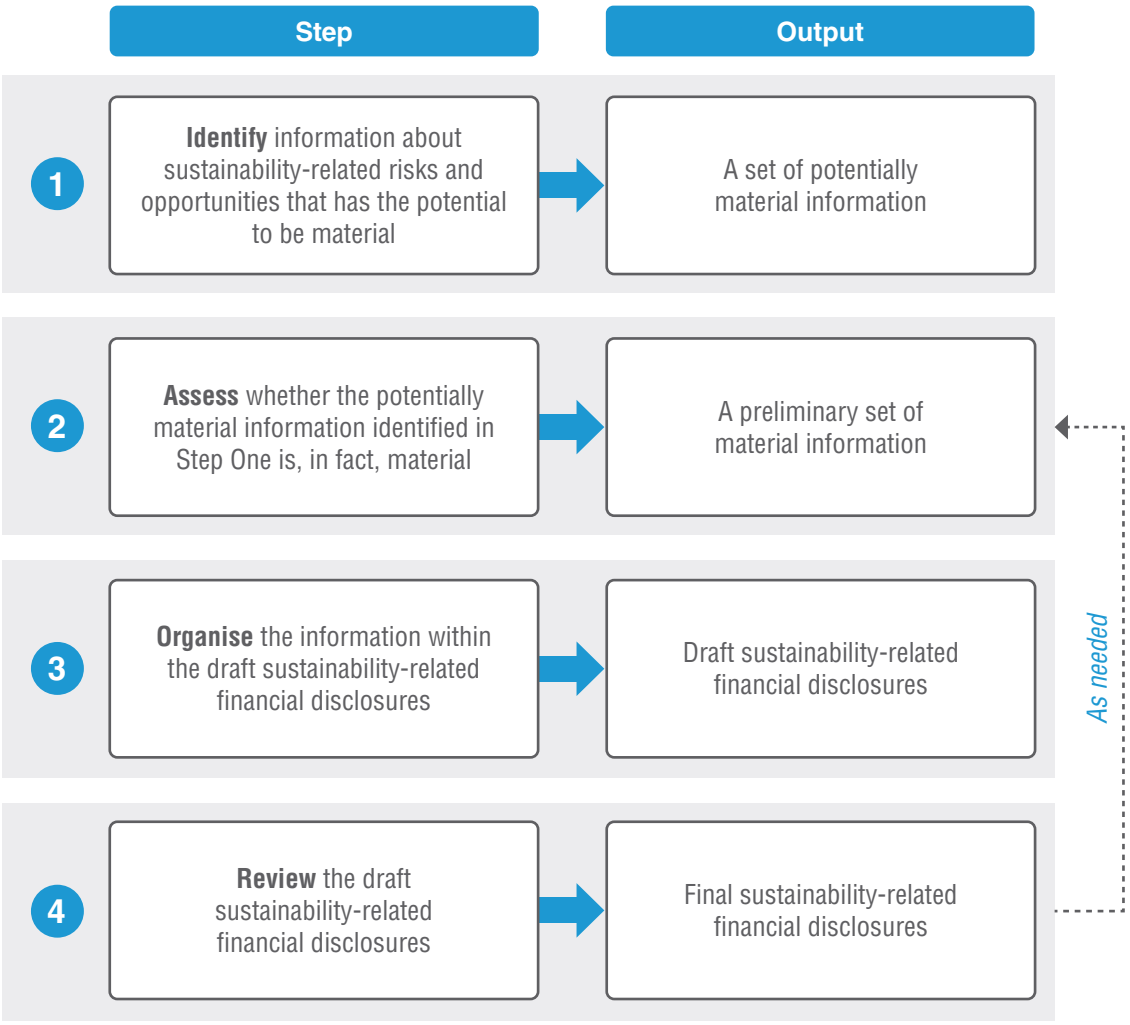
This chapter builds on Chapter 1 and Chapter 2. Chapter 1 explains the definition of material information and its application in ISSB Standards. Chapter 2 explains what ISSB Standards mean by 'sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects'—and how to identify such risks and opportunities.

Bringing these explanations together, Chapter 3 explains how to apply the requirements in ISSB Standards to identify and disclose material information about sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects.

An entity might find it helpful to follow a process to identify and disclose material information about those sustainability-related risks and opportunities. The four-step process described in this chapter, and depicted in Figure 3.1, is an example of such a process and is designed as a guide to help an entity efficiently and effectively apply judgement.[14]

14 This example process is not intended to describe the assessment of material information for local legal and regulatory purposes. An entity refers to its local requirements to assess whether it is compliant with local laws and regulations.

Figure 3.1—Identifying and disclosing material information about sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects



Connectivity considerations

This educational material uses a four-step process as an example approach an entity can take to assess whether information is material when preparing its sustainability-related financial disclosures. This approach is similar to the 'four-step materiality process' explained in IFRS Practice Statement 2 *Making Materiality Judgements*.

Step 1—Identify information about sustainability-related risks and opportunities that has the potential to be material

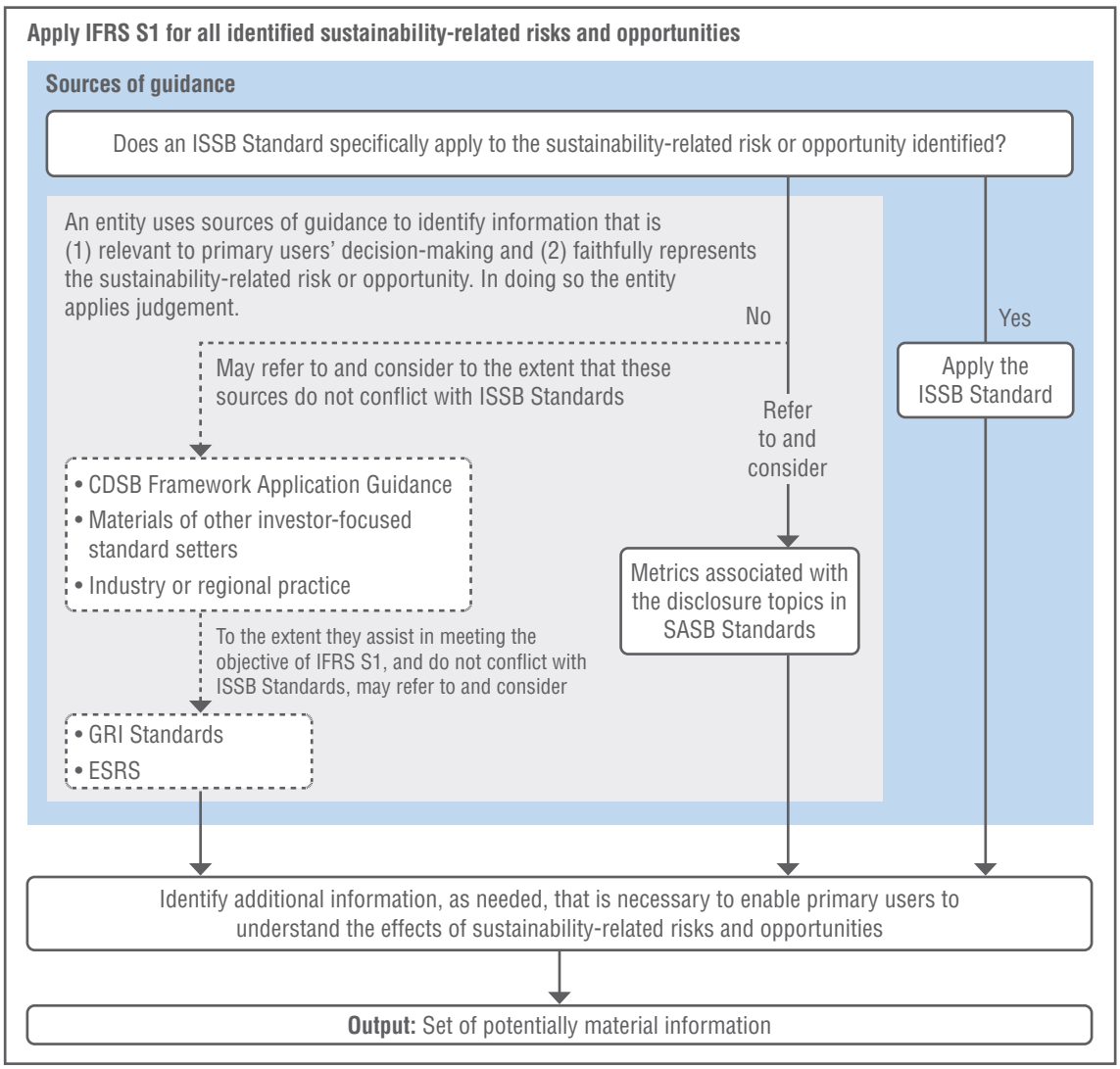
In Step 1, an entity identifies information about its sustainability-related risks and opportunities that primary users might need to understand to make decisions relating to providing resources to the entity.

As a starting point to identifying this information, an entity considers the requirements in ISSB Standards. When developing a Standard, the ISSB identifies the information it expects will meet the needs of primary users for a wide variety of entities in a range of circumstances.

Additionally, ISSB Standards require that an entity disclose additional information when that information is necessary to enable primary users to understand the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term (see paragraph 15(b) of IFRS S1), even if an ISSB Standard does not specifically require the disclosure of that particular information.

In the absence of an ISSB Standard that applies to a specific sustainability-related risk or opportunity that an entity has identified (as explained in Chapter 2), an entity applies the requirements about using alternative sources of guidance to identify information that primary users might need to make decisions related to providing resources to the entity (see paragraphs 57–58 of IFRS S1, which reference Appendix C of IFRS S1). These alternative sources of guidance specify information, including metrics, that might be relevant to a particular sustainability-related risk or opportunity, to a particular industry or in specified circumstances. These are available to assist an entity in identifying disclosure requirements about identified sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects. This process is depicted in Figure 3.2.

Figure 3.2—Step 1—Identifying information about the sustainability-related risks and opportunities that are reasonably expected to affect an entity's prospects that primary users might need to understand to make decisions relating to providing resources to the entity—using sources of guidance



Apply ISSB Standards

Once the entity has identified a sustainability-related risk or opportunity that could reasonably be expected to affect its prospects, IFRS S1 requires that the entity apply the ISSB Standard that specifically applies to that sustainability-related risk or opportunity (see paragraph 56 of IFRS S1). For example, if an entity identifies a climate-related risk or opportunity that could reasonably be expected to affect its prospects, the entity will apply IFRS S2 alongside IFRS S1.

> An entity must apply IFRS S2 in combination with IFRS S1—so, for example, in determining the required level of disaggregation of climate-related information to provide, an entity would refer to the relevant requirements in IFRS S1.

The disclosure requirements in ISSB Standards that specifically apply to a sustainability-related risk or opportunity specify items of information that an entity is required to provide if that information is material in the entity's circumstances. That information represents information the ISSB has identified as likely to be useful to primary users in making decisions about providing resources to the entity. If an entity determines that information required by an ISSB Standard is not material, the entity need not disclose that information (see paragraph B25 of IFRS S1). An entity must determine whether additional information not specified in ISSB Standards is necessary in order to enable primary users to understand the effects of the sustainability-related risk or opportunity on the entity's prospects (see paragraph B26 of IFRS S1).

IFRS S1 requires that an entity apply judgement in the absence of an ISSB Standard that specifically applies to an identified sustainability-related risk or opportunity to identify information that:

- is *relevant* to primary users decision-making; and
- *faithfully represents* the sustainability-related risk or opportunity (see paragraph 57 of IFRS S1).

In applying such judgement, an entity needs to assess what information is useful to primary users.

To help an entity in assessing whether the information is relevant and faithfully represents the identified risk or opportunity, IFRS S1 specifies sources of guidance for the identification of relevant and hence potentially material information.

Sources of guidance that an entity is required to refer to and consider—The applicability of the metrics associated with the disclosure topics included in the SASB Standards

Each industry faces sustainability-related risks and opportunities that are typical for that industry. IFRS S1 requires that an entity disclose industry-based metrics in relation to its sustainability-related risks and opportunities—that is, metrics that are associated with particular business models, activities or other common features that characterise participation in an industry (see paragraph 48 of IFRS S1).

The SASB Standards specify industry-specific disclosure requirements and therefore help to identify relevant industry-specific information. Therefore, they are expected to be particularly useful, especially for entities that have not previously reported sustainability-related financial disclosures focused on meeting primary users' information needs (see paragraph BC125 of the *Basis for Conclusions on IFRS S1*).

In disclosing industry-based metrics, IFRS S1 requires an entity to refer to and consider the applicability of the metrics associated with the disclosure topics included in the SASB Standards.

Example—Using the SASB Standards to identify material information

An entity operating in the meat, poultry and dairy industry—having identified two disclosure topics from the SASB Standards—would refer to and consider the applicability of the metrics included as part of those topics in the *Meat, Poultry & Dairy* SASB Standard, such as:

- food safety:
  - FB-MP-250a.1—Global Food Safety Initiative (GFSI) audit (1) non-conformance rates and (2) associated corrective action rates for (a) major and (b) minor non-conformances;
  - FB-MP-250a.2—Percentage of supplier facilities certified to a Global Food Safety Initiative (GFSI) food safety certification program;
  - FB-MP-250a.3—(1) Number of recalls issued and (2) total weight of products recalled; and
  - FB-MP-250a.4—Discussion of markets that ban imports of the entity's products.
- workforce health & safety:
  - FB-MP-320a.1—(1) Total Recordable Incident Rate (TRIR) and (2) fatality rates for (a) direct employees and (b) contract employees; and
  - FB-MP-320a.2—Description of efforts to assess, monitor and mitigate acute and chronic respiratory health conditions.

Each of these metrics is supported by technical protocols that provide detailed guidance on definitions, scope, implementation and presentation.

An entity might conclude that the metrics specified in the SASB Standards are not applicable to its circumstances, in which case the entity need not include such information in its sustainability-related financial disclosures (see paragraph IG20 of the *Accompanying Guidance on IFRS S1*).

Sources of guidance that an entity may refer to and consider

IFRS S1 also states that an entity may refer to and consider the applicability of the following sources of guidance to assist in developing relevant disclosures—to the extent that these sources do not conflict with ISSB Standards:

- the **CDSB Framework Application Guidance**;
- materials developed by **primary user-focused standard-setters** other than the ISSB; and
- information, including metrics, disclosed by entities that operate in the **same industry(s) or geographical region(s)** (see paragraph 58(b) of IFRS S1).

Sources of guidance that may be used in specific circumstances

When an entity has identified sustainability-related risks and opportunities to report on, it may then refer to and consider the applicability of GRI Standards and ESRS to develop relevant disclosures, to the extent that these sources:

- help the entity to meet the objective of IFRS S1 to disclose information about sustainability-related risks and opportunities that is useful to primary users; and
- do not conflict with ISSB Standards (see paragraph C2 of IFRS S1).

Example—Referring to and considering the applicability of GRI Standards to identify information to disclose about a sustainability-related opportunity

An entity operating in the technology industry relies on highly skilled employees to operate its business model. After referring to and considering the relevant SASB Standards, the entity has identified Employee Recruitment, Inclusion & Performance as a sustainability-related opportunity that could reasonably be expected to affect its prospects.

In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to this sustainability-related opportunity, in addition to referring to and considering the metrics associated with this disclosure topic in the relevant SASB Standard, the entity decides to refer to and consider the applicability of GRI Standards to develop disclosures about this sustainability-related opportunity.

The entity refers to GRI 404 *Training and Education 2016* and determines that two disclosures would provide useful information to primary users:

- Disclosure 404-1 *Average hours of training per year per employee*. The entity concludes that this information might be material. The entity also concludes that this disclosure would help it to meet the objective of IFRS S1 and would not conflict with the ISSB Standards. Note, if the entity discloses this information in its sustainability-related financial disclosures, the entity is required to disclose the specific GRI Standard it applied to prepare this disclosure (paragraph 59 of IFRS S1).
- Disclosure 404-3 *Percentage of employees receiving regular performance and career development reviews*. The entity concludes that this information is not material and does not include such information in its sustainability-related financial disclosures.

The output of Step 1 is a set of potentially material information.

Step 2—Assess whether the potentially material information identified in Step 1 is material

In Step 2, an entity assesses whether the potentially material information identified in Step 1 is, in fact, material. This assessment requires the entity to apply judgement, taking into consideration its facts and circumstances.

This step explains what an entity considers as it makes materiality judgements, including questions an entity might encounter when making **materiality judgements**, such as how to consider:

- **qualitative and quantitative factors**;
- **possible future events with uncertain outcomes**; and
- **changed circumstances and assumptions**.

Materiality judgements

Chapter 1 explains the definition of material information. It also explains that in assessing whether information is material, an entity considers whether the information—if omitted, misstated or obscured—could reasonably be expected to influence primary users' decisions relating to providing resources to the entity.

Materiality judgements are specific to the entity. ISSB Standards do not specify any thresholds for material information or predetermine what information would be material in a particular situation (see paragraph B19 of IFRS S1).

When making materiality judgements, an entity considers whether the item of information could reasonably be expected to affect primary users' assessment of the amount, timing and uncertainty of future net cash inflows to the entity and their assessment of stewardship of the entity's economic resources sufficiently to influence their decisions (see paragraph B15 of IFRS S1).

In assessing whether information could influence primary users' decisions, an entity is required to consider both quantitative and qualitative factors. For example, an entity might consider the magnitude and the nature of the effect of a sustainability-related risk or opportunity on the entity (see paragraph B21 of IFRS S1).

Consideration of quantitative factors

An entity ordinarily assesses whether information is quantitatively material by considering the size of the effect of the sustainability-related risk or opportunity against other related measures. The entity needs to assess whether the effect is of such a size that information about the sustainability-related risk or opportunity could reasonably be expected to influence primary users' decisions about providing resources to the entity. Examples of quantitative factors might include impact on cash flows, amount of resource consumption, return on investment or market share.

Identifying the measures against which an entity makes this quantitative assessment is a matter of judgement. That judgement depends on the measures related to the sustainability-related risk or opportunity and the information that is relevant to the primary users of the entity's general purpose financial reports. For example, when considering the materiality of information about:

- a sustainability-related risk affecting a group of employees, an entity might consider the number of employees affected relative to the total number of employees; or
- a particular category of Scope 3 greenhouse gas (GHG) emissions, an entity might consider the size of those emissions relative to other aspects of the entity's GHG footprint, such as the GHG emissions associated with other categories of Scope 3 GHG emissions or the entity's total Scope 3 GHG emissions.

A quantitative factor can be used to assess both the materiality of quantitative information, such as GHG emissions, and also qualitative information, such as qualitative information about an entity's resilience to a specific sustainability-related risk. For example, information about the resilience of an entity's strategy and business model is more likely to be material for sustainability-related risks that have a greater potential effect on the amount, timing and uncertainty of future cash flows than information about risks that have a lower potential effect on future cash flows.

Consideration of qualitative factors

Qualitative factors an entity considers in making materiality judgements are a characteristic of the entity, such as its governance, and its interactions with its stakeholders, society, the economy and the natural environment throughout the entity's value chain, that ultimately give rise to sustainability-related risks or opportunities. If present, those factors make information more likely to influence the decisions of primary users of the entity's general purpose financial reports. The mere presence of a qualitative factor will not necessarily make the information material, but is likely to increase primary users' interest in that information. However, by its nature, some information required by ISSB Standards is likely to be material because of the presence of a qualitative factor. For example, information about how an entity structures its governance function to manage the topic of climate risk is, by its nature, likely to be material for all entities exposed to a climate-related risk that could reasonably be expected to affect their prospects.

When making materiality judgements, an entity considers both entity-specific and external qualitative factors. In practice, an entity might need to consider them together. Table 3.1 introduces some of these entity-specific and external qualitative factors, but is not meant to provide an exhaustive list.

Table 3.1—Examples of entity-specific qualitative factors and external qualitative factors

Entity-specific qualitative factors	External qualitative factors
Examples include: • the nature of the risk or opportunity; • the extent to which the entity's business model and strategy depend on particular resources or relationships—for example, relationships with important suppliers or customers; and • unexpected variation or change in trends. In some circumstances, the entity might decide that a quantitatively immaterial amount is material, for example, because of an unexpected variation compared to the prior-period amount provided in the sustainability-related financial disclosures.	Examples include: • the entity's geographical location; • the entity's industry or sector; and • the state of the economy or economies in which the entity operates. Entities operating in the same industry or region might share a number of external qualitative factors. External qualitative factors could remain constant over time or could change. Lack of exposure to a risk or opportunity could also reasonably be expected to influence primary users' decisions. That is, if an entity is not exposed to a risk or opportunity to which others in its industry are exposed, information about the lack of exposure to that particular risk or opportunity could be material.

Example—Consideration of qualitative factors

An entity that manufactures packaging products has a significant portion of its suppliers of raw materials (wood) located in a jurisdiction whose government officials have recently reported heightened deforestation activities. The government plans to mandate regulations to curb deforestation activities.

Qualitatively, the information about the new government regulations might be material information because it could reasonably be expected to affect the entity's cash flows.

Consideration of quantitative and qualitative factors

An entity could identify information as material based on one or more quantitative or qualitative factors. In general, the more factors that apply to a particular sustainability-related risk or opportunity, or the more significant the possible effect of those factors, the more likely it is that information about that risk or opportunity is material.

Such factors have no hierarchy: neither quantitative factors nor qualitative factors are more important than the other. As an entity assesses the materiality of information by considering both quantitative and qualitative factors, it would be inappropriate for the entity to rely on purely numerical guidelines or to apply a uniform quantitative threshold for all materiality judgements.

Although an entity cannot rely on a quantitative or qualitative assessment alone for all materiality judgements, it might be appropriate for the entity to assess specific information from a quantitative or qualitative perspective first. For example:

- *assessing information from a quantitative perspective first* could be an efficient approach if an entity concludes the information is material solely based on its size. If the entity concludes that the information is material based on this quantitative threshold—a specified level, rate or amount of one of the measures used in assessing size—the entity might not need to assess that information using other factors.
- *assessing information from a qualitative perspective first* could be an efficient approach if an entity concludes the information is material solely based on the interest primary users have in the topic. If the entity concludes that the information is material based on this qualitative threshold—for example, given the importance of the topic to primary users—the entity might not need to assess that information using other factors.

Because an entity considers both quantitative and qualitative factors when determining whether information is material, the presence of a qualitative factor is likely to lower the threshold for a quantitative assessment. The more significant the qualitative factors, the more likely it is that lower quantitative thresholds will apply. However, an entity might decide that, despite the presence of qualitative factors, information is not material because its effect is so small that it could not reasonably be expected to influence primary users' decisions.

In some circumstances, information could reasonably be expected to influence primary users' decisions such that a quantitative threshold could be reduced to zero and the information would still be material. For example, specific types of information about a sustainability-related risk or opportunity might be highly scrutinised by primary users.

For the avoidance of doubt, an entity is not required to model the effects of qualitative or quantitative factors on its future cash flows to make materiality judgements.

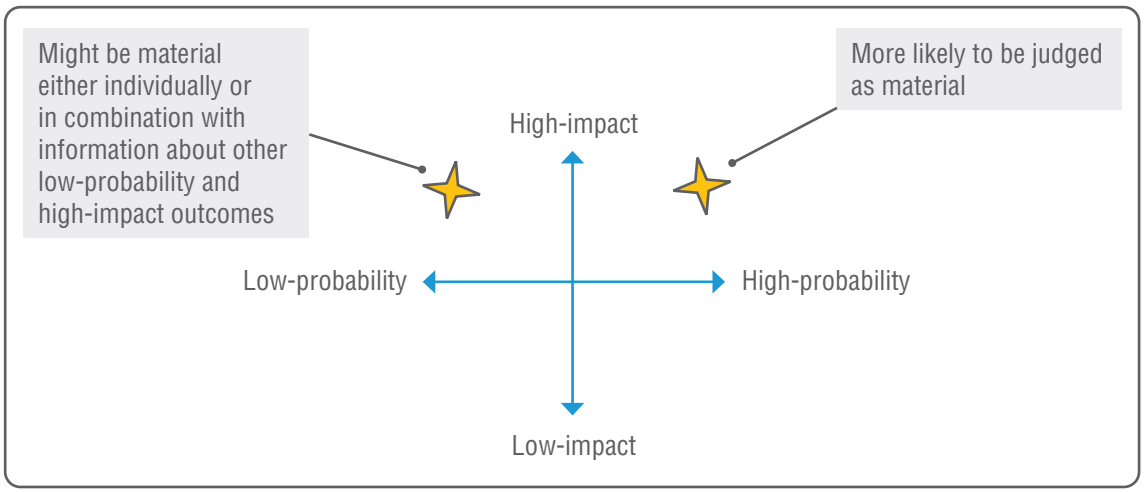
Consideration of possible future events with uncertain outcomes

In some cases, ISSB Standards require that an entity disclose information about possible future events about which the entity does not know the outcome (referred to as 'possible future events with uncertain outcomes'). When assessing whether information about such events is material, an entity is required by IFRS S1 to consider the range of possible outcomes and the likelihood of the possible outcomes within that range (see paragraph B22 of IFRS S1).

In this context, 'possible outcome' refers to the potential effects of the events on the amount, timing and uncertainty of the entity's future cash flows over the short, medium and long term. When considering possible outcomes, an entity is required to consider all pertinent facts and circumstances (see paragraphs B22(a) and B23 of IFRS S1).

An entity is more likely to conclude that information about a possible future event is material if the potential effects are significant and the event is likely to occur. However, IFRS S1 requires that an entity consider whether information about low-probability and high-impact outcomes might be material, either individually or in combination with information about other low-probability and high-impact outcomes (see Figure 3.3) (see paragraph B23 of IFRS S1).

Figure 3.3—Assessing materiality of information about possible future events



Example—Material information about sustainability-related risks in the aggregate

An entity might be exposed to several sustainability-related risks, each of which could cause the same type of disruption, such as disruption to the entity's supply chain. Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—the risk of supply chain disruption from all sources—might be material.

Information about a possible future event that is expected to affect an entity's cash flows many years in the future is less likely to be material than information about a possible future event with similar effects that has the possibility of occurring sooner. However, some information could reasonably be expected to influence primary users' decisions regardless of the magnitude of the potential effects of the future event or the timing of that event (see paragraph B24 of IFRS S1).

Consideration of changed circumstances and assumptions

An entity makes new, and reassesses old, materiality judgements at each reporting date, considering changed circumstances and assumptions (see paragraph B28 of IFRS S1). Such changes can relate to changes in the entity's individual circumstances or in the external environment. For example, the entity's circumstances might change because it has expanded its operations into new jurisdictions, and therefore its materiality judgements will take into account its operations in these new jurisdictions.

Changed circumstances and assumptions might cause some information an entity included in its sustainability-related financial disclosures in prior periods to no longer be material. Conversely, some information an entity did not previously disclose might become material. For example, an unexpected change in an entity's external environment—the emergence of a new technology—might mean that additional information about a sustainability-related risk or opportunity becomes material.

An entity is required to reassess its materiality judgements at each reporting date to consider any such changes. An entity identifies sustainability-related risks and opportunities and provides material information about those sustainability-related risks or opportunities based on facts and circumstances at the reporting date, including providing information that is forward-looking. If an entity is exposed to a sustainability-related risk or opportunity that might have consequences in the long term, the entity would disclose the material information about this sustainability-related risk or opportunity. For example, if at the reporting date an entity anticipates it will be subject to a potential change in climate-related legislation in the future, information about this long-term risk might be material, even though the consequences of that change in legislation would only crystallise in the future.

Example—Making materiality judgements

An entity makes materiality judgements at each reporting date, based on its assessment at that time of the information that could reasonably be expected to influence primary users' decisions. This means that, for example, if the entity:

- previously assessed and concluded information about a sustainability-related risk was not material, but at the current reporting date it assesses and concludes that the sustainability-related risk could reasonably be expected to affect its prospects, then the entity would now be required to provide material information about that matter.
- has information about a sustainability-related risk that it assessed and concluded is effectively managed, but it concludes that primary users might take a different view, then information about the risk might be material.
- has information about a sustainability-related risk that it assessed and concluded is effectively managed, but it reasonably concludes that primary users might not be aware of the entity's mitigation activities, then information about the risk might be material.
- has information about a sustainability-related risk that primary users have not identified as a concern, that information might still be material if the information could reasonably be expected to influence primary users' decisions. For example, if the information would resolve primary users' misunderstanding about whether the entity is exposed to a sustainability-related risk, that information might be material if the information could reasonably be expected to influence primary users' decisions.
- has announced an intention to meet a sustainability-related target related to a sustainability-related risk or opportunity, but has not yet developed a plan to achieve this target, that information might be material.

The output of Step 2 is a preliminary set of material information.

Step 3—Organise the information within the draft sustainability-related financial disclosures

In Step 3, an entity organises the preliminary set of material information in the draft sustainability-related financial disclosures in a way that communicates information clearly and concisely to primary users. For example, sustainability-related financial disclosures should:

- avoid generic information, sometimes called 'boilerplate', that is not specific to the entity;
- avoid duplication of information in general purpose financial reports, including unnecessary duplication of information provided in the related financial statements; and
- use clear language and clearly structured sentences and paragraphs (see paragraph D26 of IFRS S1).

An entity exercises judgement when deciding how to communicate information clearly and concisely. This step explains some of the requirements related to the judgements an entity will make while organising material information, including those related to:

- **aggregating and disaggregating information**;
- **obscuring information**; and
- **disclosing material information**.

This step also explains other requirements in ISSB Standards related to the interaction of ISSB Standards and laws or regulations and to the disclosure of commercially sensitive information about opportunities.

Aggregating and disaggregating information

An entity is required to consider all facts and circumstances and decide how to aggregate and disaggregate information in its sustainability-related financial disclosures. The understandability of sustainability-related financial disclosures cannot be reduced by obscuring material information with immaterial information or by aggregating material items of information that are dissimilar to each other (see paragraph B29 of IFRS S1).

An entity cannot aggregate information if doing so would obscure information that is material. Information is required to be aggregated if items of information have shared characteristics and cannot be aggregated if they do not have shared characteristics. The entity might need to disaggregate information about sustainability-related risks and opportunities. For example, to ensure that material information is not obscured, an entity might disaggregate information by geographical location, in consideration of the geopolitical environment or to distinguish between water drawn from abundant sources and water drawn from water-stressed areas (see paragraph B30 of IFRS S1).

Obscuring information

As explained in Chapter 1, IFRS S1 requires that an entity clearly identify its sustainability-related financial disclosures and distinguish these disclosures from other information. An entity cannot obscure material information. Information is obscured if it is communicated in a way that would have a similar effect on primary users as omitting or misstating that information (see paragraph B27 of IFRS S1).

Circumstances that might result in material information being obscured include:

- not clearly distinguishing material information from additional information that is not material;
- disclosing material information in the sustainability-related financial disclosures, but using vague or unclear language;
- scattering material information about a sustainability-related risk or opportunity throughout the sustainability-related financial disclosures;
- inappropriately aggregating dissimilar items of information;
- inappropriately disaggregating similar items of information; and
- reducing the understandability of the sustainability-related financial disclosures by hiding material information among immaterial information to the extent that a primary user is unable to discern what information is material (see paragraph B27 of IFRS S1).

Interoperability considerations
Entities applying ISSB Standards alongside other sustainability-related standards, such as ESRS and GRI Standards, must not obscure information that is material for primary users with other information intended for a broader range of stakeholders.

Disclosing material information

If an entity concludes that particular information that is necessary to enable primary users to understand the effects of a sustainability-related risk or opportunity on the entity's prospects is material, then ISSB Standards require that the entity disclose this information, regardless of whether it is specifically required by an ISSB Standard (see paragraph B26 of IFRS S1).

For example, the objective of IFRS S1 is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users. However, as explained in Chapter 2, an entity's dependencies and impacts on resources and relationships give rise to sustainability-related risks and opportunities (see paragraph 2 of IFRS S1). Therefore, information about both dependencies and impacts could be necessary to enable a primary user's understanding of the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. An entity makes judgements about whether this information is material in the same way it makes judgements about other types of information—that is, based on the expectation of whether the information could reasonably be expected to influence primary users' decisions.

Interoperability considerations

- In ESRS, impact materiality assessments consider how an entity impacts people or the environment. GRI Standards consider how an entity impacts the economy, environment, and people, including impacts on their human rights. This is sometimes referred to as an 'inside-out perspective'.
- Describing ISSB Standards as 'outside-in' is an incomplete, and therefore incorrect, description. The effect of an entity's activities on resources and relationships—including on people and the environment—might give rise to sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects and thus are relevant when applying ISSB Standards.

Conversely, even if ISSB Standards require that an entity disclose specific information, an entity is not required to disclose that information if it is not material (see paragraph B25 of IFRS S1).

Other considerations—Interaction of ISSB Standards with law or regulation and commercially sensitive information

To state compliance with ISSB Standards when providing sustainability-related financial disclosures, an entity must apply all the requirements in ISSB Standards, including requirements related to material information. However, there are some exceptions, including:

- if local laws and regulations specify requirements that affect what information an entity provides in its sustainability-related financial disclosures (see Appendix C of this educational material).
- if an entity assesses that information about a sustainability-related opportunity is commercially sensitive, the entity is permitted to omit that information from its sustainability-related financial disclosures, in limited circumstances set out in IFRS S1. Such an omission is permitted even if an entity is required to disclose the information by an ISSB Standard and the information is material. IFRS S1 requires that the entity disclose that it used this exemption (see paragraphs B34–B37 of IFRS S1).

The output of Step 3 is the draft sustainability-related financial disclosures.

Step 4—Review the draft sustainability-related financial disclosures

In Step 4, an entity assesses whether information is material both individually and in combination with other information in the context of its whole sustainability-related financial disclosures. For example, even if the entity judges that information is not material on its own, it might be material when considered in combination with other information in the complete set of sustainability-related financial disclosures.

An entity prepares its sustainability-related financial disclosures using the draft sustainability-related financial disclosures from Step 3. In Step 4, the entity 'steps back' and considers its sustainability-related financial disclosures as a whole. For example, an entity might step back and consider whether it has complied with the requirements related to connected information, such as whether primary users will understand connections between the disclosures in its sustainability-related financial disclosures and other disclosures that are part of general purpose financial reports (see paragraphs 21–24 of IFRS S1).

A summary of such considerations an entity might make and the resulting changes is set out in Figure 3.4.

Figure 3.4—Review of draft sustainability-related financial disclosures to determine whether all material information has been identified.

In performing this review, the entity considers whether:	The review might lead to:
All relevant relationships between different items of information have been identified. Identifying new relationships between information might lead to that information being identified as material for the first time.	Additional information being provided in the sustainability-related financial disclosures.
Items of information that are individually immaterial, when considered together, could nevertheless reasonably be expected to influence primary users' decisions.	Greater aggregation or disaggregation of information.
The information in the sustainability-related financial disclosures is communicated in an effective and understandable way, and organised to avoid obscuring material information.	Information that is identified as immaterial being removed from the sustainability-related financial disclosures to avoid obscuring material information.
The sustainability-related financial disclosures provide a fair presentation of the entity's sustainability-related risks and opportunities.	Information being reorganised within the sustainability-related financial disclosures.

The review in Step 4 might lead an entity to reconsider its assessment in Step 2 and decide to reassess some information presented in its draft sustainability-related financial disclosures. After reassessing the information, the entity might conclude that information previously identified as material is, in fact, immaterial and remove it from its sustainability-related financial disclosures.

The output of Step 4 is the final sustainability-related financial disclosures.

APPENDICES

Appendix A
Using IFRS S2 to identify climate-related risks and opportunities

IFRS S2 and related materials contain requirements, guidance and examples that help an entity to identify its climate-related risks and opportunities (see Table A.1).

Table A.1—Examples of applying IFRS S2 and related materials to identify sustainability-related risks and opportunities

Topic	Location in ISSB materials	Excerpt	Considerations in identifying climate-related risks and opportunities
Climate-related physical risks (acute and chronic)	Appendix A of IFRS S2	Risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, drought or heatwaves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and temperature which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity. These risks could carry financial implications for an entity, such as costs resulting from direct damage to assets or indirect effects of supply-chain disruption. The entity's financial performance could also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting the entity's premises, operations, supply chains, transportation needs and employee health and safety.	The entity considers whether and how these climate-related events could affect the resources and relationships that it depends on, and whether these effects give rise to climate-related risks that could reasonably be expected to affect the entity's prospects. Examples of effects on resources might include damage to manufactured assets that could affect future cash flows through disruption to operations and the need to repair the asset.
	Paragraph BC19 of the Basis for Conclusions on IFRS S2	For example, extreme temperatures or severe storms can affect an entity's premises, operations, supply chain, transportation needs or employee safety, with resulting effects on the entity's cash flows, its access to finance or cost of capital.	
	Paragraph BC19 of the Basis for Conclusions on IFRS S2	Chronic risks could also have longer-term financial consequences for entities. For example, rising sea levels might affect an entity's premises or operations.	

Topic	Location in ISSB materials	Excerpt	Considerations in identifying climate-related risks and opportunities
Climate-related opportunities	Paragraph BC22 of the Basis for Conclusions on IFRS S2	An entity might also take advantage of climate-related opportunities—for example, developing new products and services that meet shifting consumer needs or preferences and enhance the entity's brand reputation.	The entity considers whether and how changes in consumer needs or preferences might affect resources and relationships that the entity depends on, and whether these effects give rise to climate-related opportunities that could reasonably be expected to affect the entity's prospects. Examples of opportunities might include potential for developing new products to meet shifting consumer preferences and enhance the entity's brand reputation, which could affect future cash flows due to new revenue streams or improvements in other revenue streams as a result of an enhanced brand.
Climate-related transition risks	Appendix A of IFRS S2	Risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technological, market and reputational risks. These risks could carry financial implications for an entity, such as increased operating costs or asset impairment due to new or amended climate-related regulations. The entity's financial performance could also be affected by shifting consumer demands and the development and deployment of new technology.	The entity considers whether and how a transition to a lower-carbon economy could: • affect resources and relationships that the entity depends on, and whether these effects give rise to climate-related risks or opportunities that could reasonably be expected to affect the entity's prospects. For example, a shift in consumer preferences could affect future cash flows due to reduced demand for the entity's products. • affect resources and relationships that the entity affects, and whether these effects give rise to climate-related risks or opportunities that could reasonably be expected to affect the entity's prospects. For example, a jurisdiction where the entity operates imposes a carbon tax that could affect future cash flows.
	Paragraph BC20 of the Basis for Conclusions on IFRS S2	Transition risks are associated with policy, legal, technology and market changes resulting from efforts to limit global warming and move to a lower-carbon economy. Such changes could include new regulations to minimise greenhouse gas emissions, or a shift in market preferences towards lower-carbon products and services. For example, the move to a lower-carbon economy could include the movement away from fossil fuel energy and related physical assets, as well as efforts to reduce costs and increase or accelerate the deployment of cleaner and more energy-efficient technologies. Transition risks might affect an entity to varying extents depending on the nature, speed and focus of the changes that occur.	

Topic	Location in ISSB materials	Excerpt	Considerations in identifying climate-related risks and opportunities
Climate-related scenario analysis	Paragraph 25(a)(ii) of IFRS S2	An entity shall disclose information about the processes and related policies the entity uses to identify, assess, prioritise and monitor climate-related risks, including information about whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related risks.	The entity can use its resilience assessment, which includes climate-related scenario analysis, to help identify sustainability-related risks and opportunities. For example, through performing a scenario analysis an entity might identify effects on a resource or relationship that it depends on. The scenario analysis might provide an understanding of how that risk could result in changes to future cash flows or access to finance.
Climate-related risks and opportunities	Paragraph BC22 of the Basis for Conclusions on IFRS S2	Climate-related risks and opportunities will vary depending on the region, market and industry in which an entity operates.	The entity considers particular climate-related risks and opportunities in the region, market or industry in which it operates.
	Paragraph BC23 of the Basis for Conclusions on IFRS S2	Climate-related risks and opportunities are distinct but are not always mutually exclusive. For example, changing consumer preferences towards lower-carbon products might pose a risk to the demand for an entity's products and, at the same time, present an opportunity for the entity to develop an alternative, lower-carbon product line or gain market share if it has such a product line.	The entity considers the relationship between the climate-related risks and opportunities it has identified, including how a risk could also provide an opportunity.
	Paragraph BC24 of the Basis for Conclusions on IFRS S2	The impacts of climate change are wide ranging, interrelated and have varied effects on an entity. Therefore, it is impossible to precisely define the full scope of climate-related risks and opportunities that might affect an entity. Consequently, IFRS S2 does not explicitly prescribe what is 'climate-related'.	In the absence of a definition of the term 'climate-related' in IFRS S2, the examples provided as part of the *Basis for Conclusions on IFRS S2* might assist the entity in determining the scope of climate-related risks and opportunities.
	Paragraph BC25 of the Basis for Conclusions on IFRS S2	Although the requirements in IFRS S2 do not explicitly reference some climate-related matters such as reduced access to fresh water, biodiversity loss, deforestation and climate-related social impacts, disclosures about these and other such matters are required if an entity determines that the information is material for investors. For example, if a beverage manufacturer determines it is exposed to short-, medium- or long-term effects of climate change on water availability—especially in water-stressed regions—the entity might determine that information about the implications of reduced water availability for its strategy, operations, capital planning and asset values is material. Therefore, this information would be required by IFRS S2.	

Topic	Location in ISSB materials	Excerpt	Considerations in identifying climate-related risks and opportunities
Industry-specific climate-related risks and opportunities	*Industry-based Guidance on Implementing IFRS S2*[15]	This industry-specific guidance and its related volumes have been identified as likely to result in useful information for primary users.	The entity is required to refer to and consider the applicability of disclosure topics in the *Industry-based Guidance on implementing Climate-related Disclosures*. These disclosure topics might assist an entity in identifying climate-related risks and opportunities.

In identifying the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, an entity might also consider the educational material the IFRS Foundation has published on the nature and social aspects of climate-related risks and opportunities. For example, the educational material *Nature and social aspects of climate-related risks and opportunities* explains assessments an entity might make when identifying climate-related risks and opportunities at the nexus of climate and nature (for example, those related to water or deforestation) and risks and opportunities closely associated with socioeconomic aspects (for example, making the transition to a lower-carbon economy for those applying IFRS S2).

15 The *Industry-based Guidance on Implementing IFRS S2* is derived from the industry-based requirements in the SASB Standards. Therefore, it is structured in a similar manner to the SASB Standards. Page 35 of this educational material explains the structure of the SASB Standards, which can be used to understand the structure of the *Industry-based Guidance on Implementing IFRS S2*.

Appendix B
Reassessment of the scope of sustainability-related risks and opportunities throughout the value chain

An entity is only *required* to reassess the scope of its affected sustainability-related risks and opportunities in its value chain on the occurrence of a significant event or significant change in circumstances (see paragraph B11 of IFRS S1). Table B.1 gives some examples.

Table B.1—Examples of reasons to reassess the scope of sustainability-related risks and opportunities in the value chain

General type of event or change	Example of change in risk or opportunity
Significant change in the entity's value chain	A supplier in the entity's value chain makes a change that significantly alters its GHG emissions
Significant change in the entity's business model, activities or corporate structure	A business combination or acquisition that changes the entity's value chain, introducing different sustainability-related risk exposures
Significant change in an entity's exposure to sustainability-related risks and opportunities	A supplier in the entity's value chain is affected by the introduction of a new regulation that the entity had not anticipated

Example—Reassessment of the scope of sustainability-related risks and opportunities throughout the value chain

A jurisdictional authority introduces a regulation for GHG emissions associated with business travel (Scope 3 Category 6) that an entity had not anticipated. The entity might be required by IFRS S2 to reassess which categories to include in the measurement of its Scope 3 GHG emissions. However, if this regulation has no effect on the entity's other sustainability-related risks and opportunities—for example, the entity's identified risk of water scarcity in its supply chain—then the entity would not be required to reassess the scope of those other sustainability-related risks and opportunities.

An entity considers such significant events or significant changes in circumstances and whether they affect its sustainability-related risks and opportunities. It is noted that significant events or significant changes in circumstances:

- can occur without the entity being involved in that event or change in circumstances;
- can occur as a result of a change in what the entity assesses to be important to primary users; and
- might not necessarily arise from a change in an entity's value chain, and therefore the scope of the entity's sustainability-related risks or opportunities might change even if the entity's value chain has not changed (see paragraph BC61 of the *Basis for Conclusions on IFRS S1*).

Appendix C
Interaction of ISSB Standards with law or regulation

To state compliance with ISSB Standards when providing sustainability-related financial disclosures, an entity must apply all the requirements in ISSB Standards, including requirements related to material information. However, local laws and regulations might specify requirements that affect what information an entity provides in its sustainability-related financial disclosures (see paragraph BC73 of the *Basis for Conclusions on IFRS S1*). Table C.1 sets out requirements related to the effect of law or regulation on information provided in sustainability-related financial disclosures (see paragraphs B31–B33 of IFRS S1).

Table C.1—Effect of law or regulation on information provided in sustainability-related financial disclosures

If a law or regulation…	…then the entity
requires an entity to disclose specific sustainability-related information in its general purpose financial reports	*is permitted* to include in its sustainability-related financial disclosures other information to meet legal or regulatory requirements, even if that information is not material. However, it is required that such information does not obscure material information.
permits the entity to not disclose material information	*is required* to disclose such material sustainability-related financial information.
prohibits the entity from disclosing information	*need not* disclose that information, but is *required* to identify the type of information not disclosed and explain the source of the restriction.

An entity must not obscure material information with other information, including information that is provided to satisfy laws, regulations or other requirements outside those of ISSB Standards. To avoid obscuring material information, IFRS S1 requires that an entity make material information required by ISSB Standards clearly identifiable from immaterial information provided to satisfy laws, regulations or other requirements. Ways in which this distinction might be achieved include:

- using digital tagging to ensure that primary users can extract the information disclosed in accordance with ISSB Standards;
- presenting the information disclosed in accordance with ISSB Standards together with immaterial information in a single report, and using formatting to distinguish the information disclosed in accordance with ISSB Standards (for example, using boxes or shading to emphasise the information disclosed in accordance with ISSB Standards or to make the distinction clear);
- presenting the information disclosed in accordance with ISSB Standards separately so that the information is clearly distinguished from immaterial information (for example, splitting the report into parts); and
- providing two sets of information—one that includes the entire package of information without distinction (both the information disclosed in accordance with ISSB Standards and immaterial information) and an accompanying report that only provides the information disclosed in accordance with ISSB Standards (see paragraph BC74 of the *Basis for Conclusions on IFRS S1*).

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