IFRS S1 and IFRS S2 Proportionality Mechanisms

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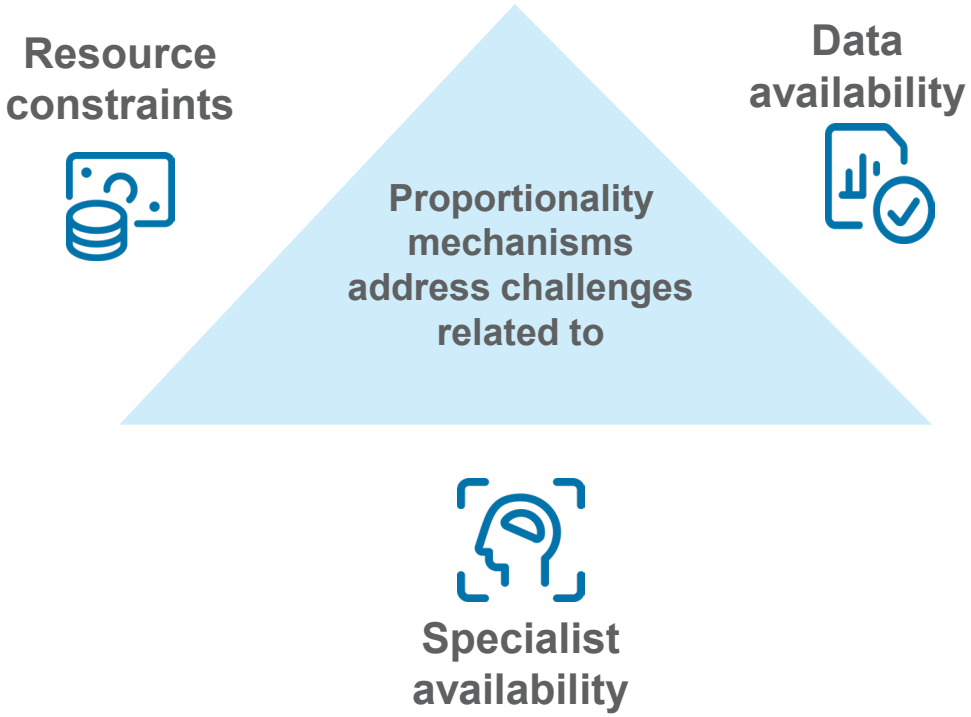
Before we start...

- The Standards and related materials can be found on our website at **www.ifrs.org**.
- The views expressed are those of the presenters, not necessarily those of the ISSB or the IFRS Foundation.

Background

Proportionality mechanisms are designed to help companies with different **levels of capability and preparedness** to apply the IFRS Sustainability Disclosure Standards



- Designed to be **helpful** for companies that would find **some requirements** in IFRS S1 and IFRS S2 challenging to apply.
- **Do not introduce** additional disclosure requirements nor do they **exempt** companies from providing disclosures.[1]

[1] Notwithstanding that one of the proportionality mechanisms applied to anticipated financial effects requirements adjusts the information required to be disclosed (refer to Slide 22)

Mechanisms supporting application of IFRS S1 and IFRS S2

The focus of this webcast

Mechanisms to address proportionality challenges	Transition reliefs	Other mechanisms to facilitate application
• Use all **reasonable and supportable information** that is available to the company at the reporting date **without undue cost or effort**. • **Commensurate** with the **skills, capabilities and resources** that are available to the company.	Reliefs from specific requirements for the first annual reporting period in which the company applies the Standards.	• For current and anticipated financial effects: **need not provide quantitative information if specific conditions** met. • Guidance, educational material and other efforts to facilitate application.

Session overview—proportionality mechanisms

What are the proportionality mechanisms?

Which requirements in IFRS S1 and IFRS S2 include proportionality mechanisms?

How does a company apply the proportionality mechanisms?

Learning objective

To understand the proportionality mechanisms in IFRS S1 and IFRS S2 and how a company may apply them in preparing specific disclosures.

What do the proportionality mechanisms require?

Use all reasonable and supportable information that is available to the company at the reporting date without undue cost or effort

In preparing disclosures for specific requirements, it establishes ***parameters*** for:

- the type of information to consider and
- the effort required.

Supports companies in providing disclosures for specific requirements where there may be a ***high level of judgement or uncertainty***.

Commensurate with the skills, capabilities and resources that are available to the company
(applied in two ways to specific requirements)

Application 1

Requires the use of an *approach* that is commensurate with the **skills, capabilities and resources** that are available to the company.

Application 2

Adjusts the information required to be provided *if* the company does not have the **skills, capabilities or resources** to provide particular information.

Supports companies in applying the requirements in a way that is ***proportionate to their circumstances***.

Which IFRS S1 requirements include proportionality mechanisms?

IFRS S1 requirements *(also apply to IFRS S2)*	**Reasonable and supportable information available […] without undue costs or effort**	**Commensurate with skills, capabilities, and resources that are available…**
Identification of sustainability-related risks and opportunities (IFRS S1.B6(a)) (IFRS S2.11)	✓	
Scope of the value chain (IFRS S1.B6(b))	✓	
Anticipated financial effects (IFRS S1.37 and IFRS S1.39) (IFRS S2.18 and IFRS S2.20)	✓	✓

Which IFRS S2 requirements include proportionality mechanisms?

IFRS S2 specific requirements	Reasonable and supportable information available […] without undue cost or effort	Commensurate with available skills, capabilities, and resources
Approach to climate-related scenario analysis (IFRS S2.B2(b))	✓	✓
Measurement of Scope 3 GHG emissions (IFRS S2.B39)	✓	
Some metrics in cross-industry metric categories (IFRS S2.29(b)-(d)[1], IFRS S2.30)	✓	

[1] the amount and percentage of assets or business activities (1) vulnerable to climate-related transition (2) vulnerable to climate-related physical risks and (3) aligned with climate-related opportunities in IFRS S2.29(b)-(d).

All reasonable and supportable information that is available to the company at the reporting date without undue cost or effort

What is considered in ‘all reasonable and supportable information available at the reporting date’?

- Factors that are specific to a company
- General conditions in the external environment of a company

  In some cases, it includes information about past events, current conditions and forecasts of future conditions.

- Other ISSB Standards **may specify what is ‘reasonable and supportable’ information**.

IFRS S1.B8

What is considered to be ‘reasonable and supportable information available at the reporting date’?

A company is required to:

- consider all information that is reasonably available, including information the company already has. An entity is prohibited from disregarding known information
- have an appropriate basis for using the information
- use information that is available at the reporting date, such as historical, current or forward-looking information (including forecasts of future conditions)

A company may use various sources of internal or external data such as:

- risk management processes
- industry and peer group experience
- reports and statistics
- external ratings

IFRS S1.B9

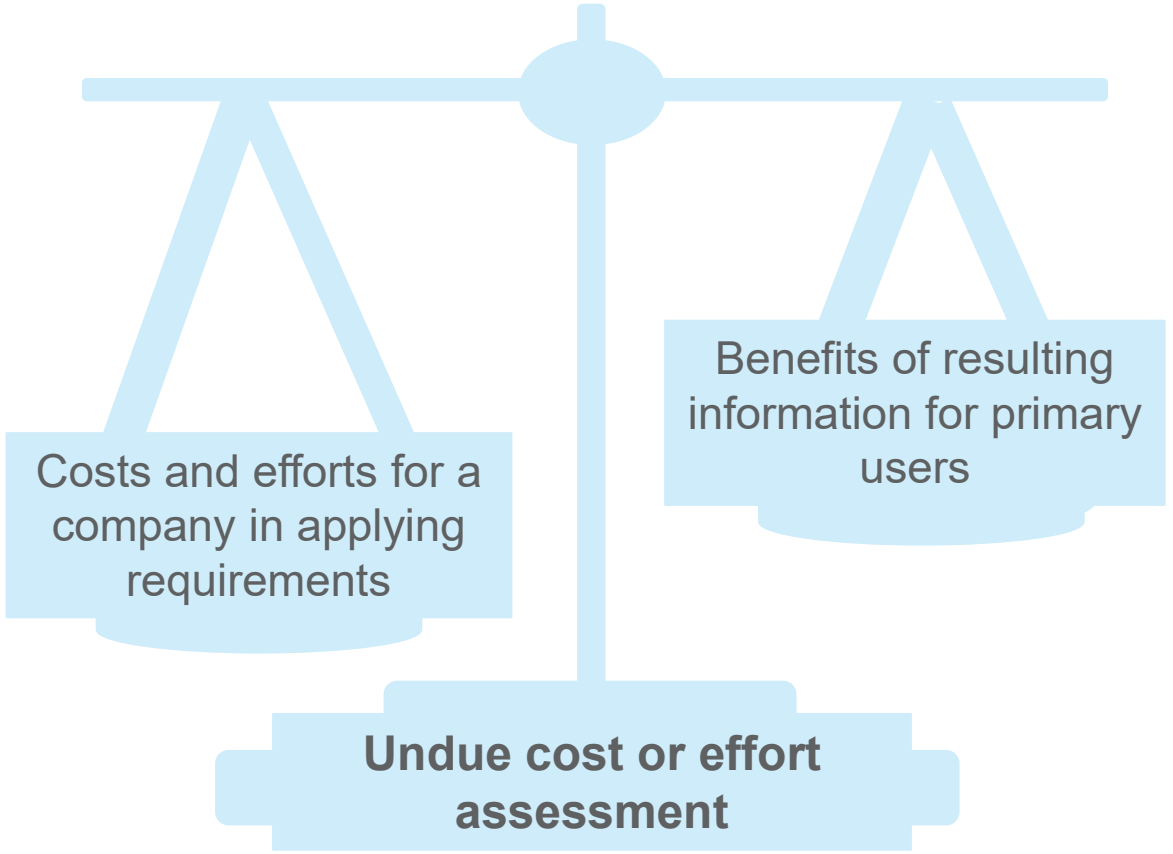
Assessing ‘undue cost or effort’

The assessment of undue cost or effort includes:

- considering the company’s specific circumstances; and
- applying a balanced consideration of
  - the costs and efforts in applying the requirements; and
  - the benefits of resulting information for primary users.

This means a company is not required to undertake an exhaustive search.

The assessment can change over time.



IFRS S1.B10

What information is considered to be ‘available without undue cost or effort’?

Information used by the company in:

- preparing its financial statements
- operating its business model
- setting its strategy
- managing its risks and opportunities

IFRS S1.B9

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EXAMPLES

Considering all reasonable and supportable information that is available at the reporting date without undue cost or effort for specific requirements

Example 1—Identifying sustainability-related risks and opportunities

A company might face challenges such as:

- complexity in its operations;
- breadth and composition of its value chain; or
- timeliness of available information.

Example 1—Identifying sustainability-related risks and opportunities

The company is:

- required to use only information that can be supported to avoid overstating or understating risks and opportunities;
- required to use all information that is reasonably available at the reporting date;
- not required to use information that only becomes available after the reporting date; and
- not required to undertake an exhaustive search for information.

Examples of information available without undue cost or effort:

- information used as part of the risk management process.
- qualitative information used in setting strategy.
- data used in preparing the financial statements.

Examples of external sources of information:

- peer company disclosures
- feedback from investors

Example 2—Measuring Scope 3 GHG emissions

A company might face challenges such as:

quality of data available;

availability and timeliness of data; or

high level of measurement uncertainty.

Example 2—Measuring Scope 3 GHG emissions

The company is:

- required to use information that is reasonable and supportable for estimating GHG emissions data;
- required to use information about past events, current conditions, and forward-looking information available on the reporting date without undue cost and effort;
- not required to use information that would become available after the reporting date; and
- not required to undertake an exhaustive search for information.

Examples of information that might be appropriate:

- previous period information from entities in its value chain as a basis for estimation
- latest activity industry averages;
- emission factors available to the company.

Other IFRS S2 mechanisms also apply

Other IFRS S2 mechanisms may help companies prepare Scope 3 GHG emissions disclosures, such as

- Scope 3 measurement framework using reasonable and supportable available without undue cost and effort at the reporting date

Commensurate with skills, capabilities and resources that are available to the company

Commensurate with available skills, capabilities and resources

A company may consider its available skills, capabilities and resources in preparing some disclosures required by ISSB Standards.

- The available skills, capabilities and resources to consider include both internal and external.
- The company's **circumstances** are likely to **change** over time, and so will its **assessment** of them.
  - For example, a company is expected to develop its skills and capabilities over time and strengthen its disclosures through a process of learning and iteration.
- If resources are available to the company, it can invest in obtaining or developing the necessary skills and capabilities.

Skills

Capabilities

Assessing the company's circumstances

Resources

Application to anticipated financial effects requirements

‘Commensurate with the skills, capabilities and resources that are available to the company’ is used in two ways

Application 1

In preparing disclosures, it *requires* the use of an *approach* that is commensurate with the skills, capabilities and resources that are available to the company.

IFRS S1.37(b) and IFRS S2.18(b)

Reasonable and supportable also applies

In addition, a company **is required** to use all reasonable and supportable information available at the reporting date without undue cost of effort.

IFRS S1.37, IFRS S2.18

Application 2

It *adjusts* the information required to be disclosed *if* the company does not have the skills, capabilities or resources to provide specific information.

IFRS S1.39 and IFRS S2.20

- Relief from providing quantitative information about the anticipated financial effects of a particular sustainability-related risk or opportunity subject to other disclosure requirements.
- Additional information is required if relief used, including qualitative information and explaining why quantitative information is not provided. *

IFRS S1.39, IFRS S2.20

* *For more information watch our webcast on current and anticipated financial effects*

Application to climate-related scenario analysis requirements

- A company is required to use an approach to climate-related scenario analysis that is commensurate with its circumstances to assess its climate resilience. *IFRS S2.22*
- To assess its circumstances, a company is required to consider: *IFRS S2.B2*
  - its exposure to climate-related risks and opportunities
  - its available skills, capabilities and resources.

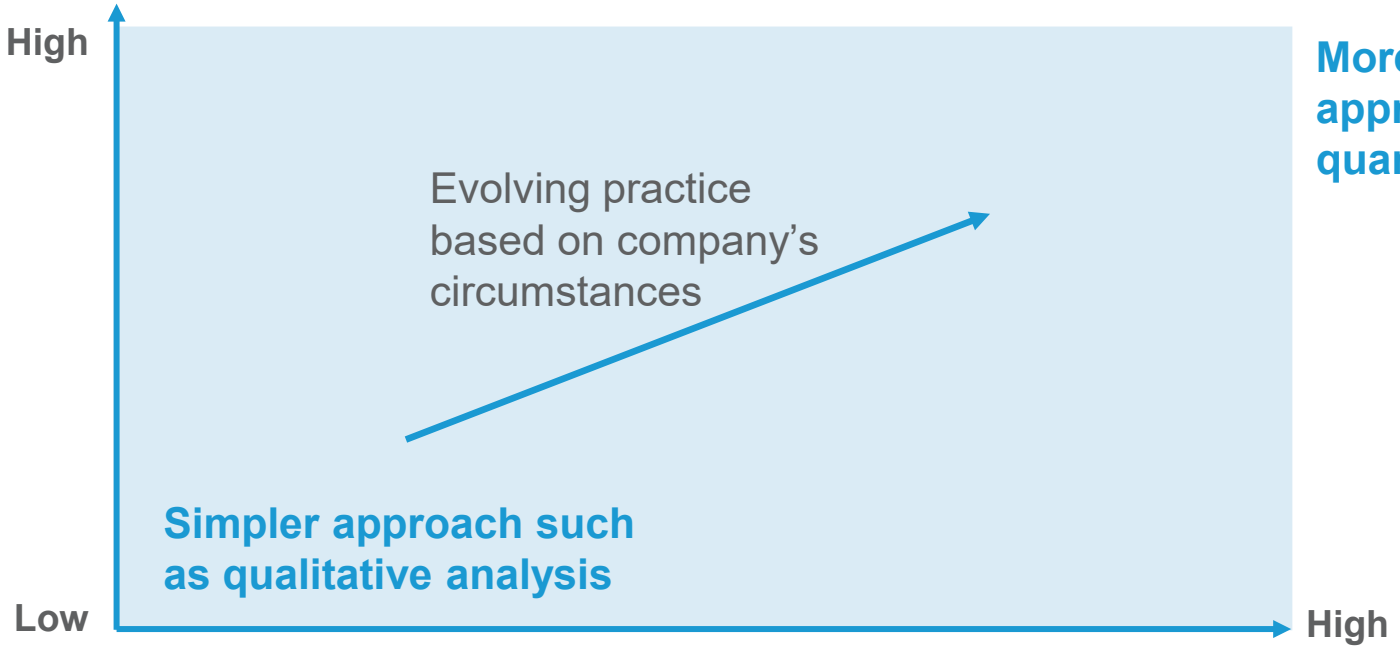
Reasonable and supportable also applies

A company is required to use an approach that ***enables*** it to consider all reasonable and supportable information available to it without undue cost or effort and that is commensurate with its circumstances. *IFRS S2.B1*

Using an approach to climate-related scenario analysis that is commensurate with a company's circumstances

Company's **exposure to climate-related risks** and opportunities

IFRS S2.B4-B5



The skills, capabilities and resources available to the company to carry out climate-related scenario analysis

IFRS S2.B6-B7

Takeaways

1) The proportionality mechanisms are designed to support companies to comply with specific requirements by considering the range of capabilities and preparedness while still providing primary users with decision-useful information.

2) Proportionality mechanisms do not introduce new requirements nor exempt companies from providing disclosures.[1]

3) Applying the proportionality mechanisms requires judgment and is specific to the company's circumstances.

4) What constitutes '*reasonable and supportable information available at the reporting date at undue cost or effort*' and '*commensurate with skills, capabilities and resources*' is expected to change over time.

[1] Notwithstanding that one of the proportionality mechanisms applied to anticipated financial effects requirements adjust the information required to be disclosed (refer to Slide 22)

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