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IFRS S1 and S2 Explained: A Practical Handbook for ESG Compliance

Learn IFRS S1 & S2 standards for sustainability reporting, climate disclosures, and ESG compliance in this practical handbook.



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Introduction

The Future of ESG Reporting

This handbook provides a comprehensive introduction to IFRS S1 and S2, essential standards for sustainability and climate-related financial disclosures, helping businesses comply with the latest ESG reporting guidelines.

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1.1 Overview of IFRS Standards: The Foundation of Global Reporting

For decades, the **International Financial Reporting Standards (IFRS)** have provided a universal framework for financial reporting, ensuring transparency, comparability, and consistency across global markets. Recognizing the growing importance of sustainability in the corporate agenda, the **IFRS Foundation** established the **International Sustainability Standards Board (ISSB)** in 2021.

The ISSB's mission is clear: to create a **global baseline for sustainability reporting**. This initiative builds on existing frameworks like the TCFD (Task Force on Climate-Related Financial Disclosures), SASB (Sustainability Accounting Standards Board), and GRI (Global Reporting Initiative). The result? Two groundbreaking standards:

- **IFRS S1:** General Requirements for Disclosure of Sustainability-Related Financial Information.
- **IFRS S2:** Climate-Related Disclosures.

These standards represent a significant leap forward, integrating sustainability into the fabric of corporate reporting and ensuring that organizations disclose not just their financial performance but also the sustainability risks and opportunities shaping their future.

1.2 Key Objectives of IFRS S1 and S2: Why These Standards Matter

Sustainability is no longer optional—it's a strategic imperative. IFRS S1 and S2 aim to address critical challenges faced by organizations, investors, and regulators:

1. **Enhance Decision-Making:** Provide stakeholders with consistent, comparable, and reliable data to make informed decisions.
2. **Integrate Sustainability with Financial Performance:** Link environmental, social, and governance (ESG) factors with traditional financial metrics.
3. **Global Alignment:** Harmonize sustainability reporting practices across jurisdictions to reduce regulatory complexity and ensure consistency.
4. **Combat Greenwashing:** Establish clear guidelines for disclosures to promote accountability and transparency.

1.3 The Growing Importance of Sustainability Disclosure Standards

1. Rising Stakeholder Expectations

- Investors, consumers, and regulators increasingly demand clarity on how companies manage ESG risks and opportunities. From climate resilience to social equity, organizations are expected to provide credible, actionable disclosures.
- Failing to meet these expectations can lead to reputational damage, regulatory penalties, and loss of investor confidence. IFRS S1 and S2 directly address these demands, offering a structured framework for organizations to build trust and credibility.

2. Bridging Fragmented Reporting Practices

- Prior to IFRS S1 and S2, sustainability reporting was fragmented, with companies adopting different frameworks and methodologies. This lack of standardization made it difficult for stakeholders to compare performance across organizations.



- The IFRS standards aim to unify reporting practices, providing a global language for sustainability disclosures. This consistency not only simplifies reporting but also enhances comparability across industries and markets.

3. Driving Long-Term Value Creation

- Sustainability isn't just about mitigating risks; it's about identifying opportunities. Proper disclosures can unlock insights into how a company creates long-term value, ensuring resilience in a rapidly evolving world.

1.4 The Relationship Between IFRS S1 and S2: A Unified Framework

A key strength of the IFRS standards is their interconnectivity:

- **IFRS S1** lays the **foundational framework** for sustainability reporting, covering all relevant ESG topics. It provides a **general structure** for organizations to disclose how sustainability factors impact their financial position, performance, and prospects.
- **IFRS S2** builds on this by providing **topic-specific guidance** on climate-related disclosures, aligning closely with the TCFD recommendations.

This complementary relationship ensures that organizations provide both breadth and depth in their disclosures:

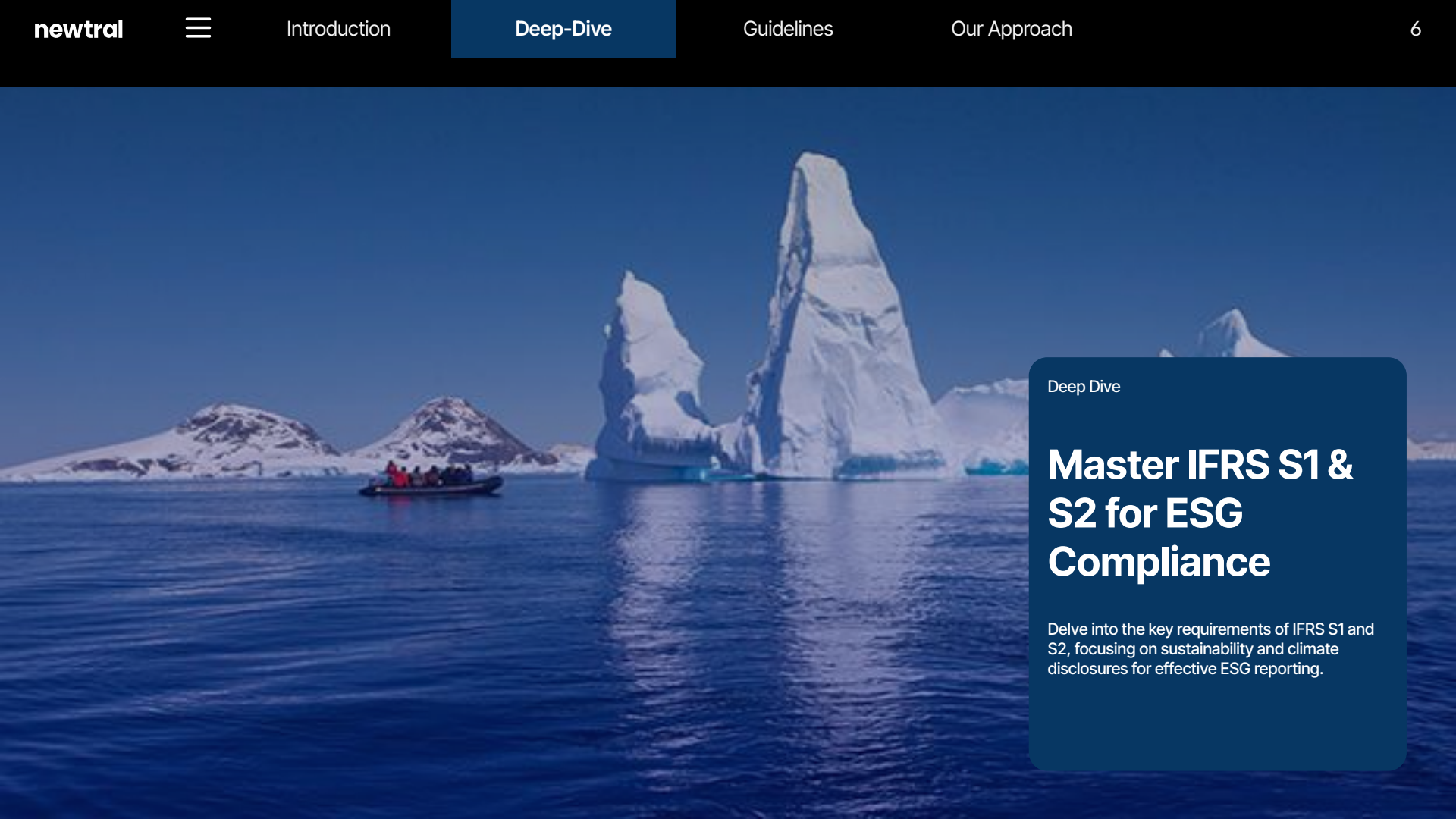
- **Breadth (via IFRS S1):** A holistic view of all sustainability-related risks and opportunities.
- **Depth (via IFRS S2):** A focused analysis of climate-related impacts and actions.

1.5 Why This Handbook Matters

The **IFRS S1 and S2 Handbook** is designed to demystify these standards and provide actionable insights for organizations navigating the sustainability landscape. Whether you're a corporate decision-maker, sustainability professional, or a young entrepreneur aiming to integrate ESG principles into your business, this guide will:

- Break down the complexities of IFRS S1 and S2.
- Provide real-world examples and practical tips for compliance.
- Highlight the regulatory implications and global adoption trends.

With sustainability disclosure rapidly becoming a regulatory and market expectation, understanding IFRS S1 and S2 is critical for staying competitive and resilient in today's business environment.

A large, jagged iceberg floats in the middle of a deep blue ocean under a clear sky. In the background, two snow-capped mountains rise from the water. A small boat with several people is visible in the distance to the left of the iceberg.

Deep Dive

Master IFRS S1 & S2 for ESG Compliance

Delve into the key requirements of IFRS S1 and S2, focusing on sustainability and climate disclosures for effective ESG reporting.

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As sustainability becomes a cornerstone of global business strategy, organizations are under increasing pressure to demonstrate their commitment to responsible environmental, social, and governance (ESG) practices. The IFRS S1 and IFRS S2 standards by the International Financial Reporting Standards Foundation (ISSB) provide a comprehensive and structured framework to help businesses meet the growing demand for transparency, accountability, and consistency in their sustainability reporting. Let's explore these standards in greater detail, focusing on their core objectives, content, compliance requirements, and their impact on the global reporting landscape.

2.1 IFRS S1: General Requirements for Sustainability-Related Disclosures

1.Objective of IFRS S1

The primary goal of IFRS S1 is to establish a robust foundation for sustainability-related financial disclosures that align with financial reporting. By standardizing the disclosure of sustainability risks, opportunities, and their financial implications, IFRS S1 ensures that organizations provide consistent, comparable, and reliable information to stakeholders, particularly investors. This alignment enables stakeholders to make informed decisions based on an organization's long-term sustainability strategy.

2.Core Content of IFRS S1

IFRS S1 requires organizations to structure their sustainability-related disclosures around four key pillars. These pillars provide a holistic view of how sustainability factors influence financial performance and the long-term viability of the business.

1. Governance

- How an organization's governance structures manage sustainability-related risks and opportunities.
- A detailed explanation of board and management accountability in sustainability-related decision-making processes, particularly as they pertain to ESG factors.

2. Strategy

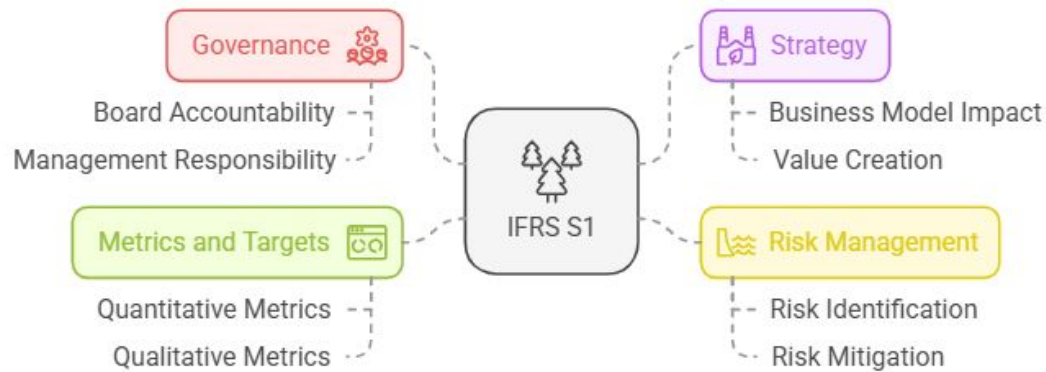
- Insight into how sustainability-related risks and opportunities impact the organization's business model and its value creation across short, medium, and long-term time horizons.
- The integration of sustainability objectives into the company's overall strategy, ensuring alignment with core business goals.

3. Risk Management

- A clear process for identifying, assessing, and mitigating sustainability-related risks, including both operational and strategic risks.
- An explanation of how sustainability-related risks are integrated into the company's broader risk management framework to ensure resilience in a volatile market.

4. Metrics and Targets

- The use of quantitative and qualitative metrics to track sustainability performance.
- Clear, measurable sustainability targets based on widely recognized frameworks and methodologies, with a focus on progress and outcomes.



2.2 Materiality and Fair Presentation

IFRS S1 stresses the importance of Materiality and Fair Presentation in reporting:

- 1. Materiality:** Organizations must disclose information that is material to their sustainability-related financial position and performance. Materiality is assessed from the perspective of investors, meaning that only relevant information that impacts financial decision-making should be disclosed.
- 2. Fair Presentation:** All information presented must be free from material misstatements and reflect a true and fair view of the organization's sustainability performance. This ensures that the disclosures are credible and build trust with stakeholders.

2.3 Reporting and Compliance

IFRS S1 provides clear guidance on how sustainability disclosures should be integrated into financial reports:

- **Timing:** Sustainability disclosures must be reported on the same timeline as financial statements, ensuring consistency and comparability across reporting periods.
- **Location:** These disclosures can either be embedded within the financial statements or published separately in sustainability reports, with a clear reference between the two to ensure alignment.
- **Integration:** Sustainability-related disclosures must complement and align with financial disclosures to offer a complete picture of an organization's overall performance and prospects.



2.4 IFRS S2: Climate-Related Disclosures

Objective of IFRS S2

While IFRS S1 provides a broad framework for sustainability disclosures, IFRS S2 focuses specifically on climate-related risks and opportunities. This standard is directly aligned with the Task Force on Climate-related Financial Disclosures (TCFD), providing specific guidelines for the financial implications of climate change. IFRS S2 aims to enhance transparency regarding climate risks and opportunities and how they impact an organization's financial position and performance.

Core Content of IFRS S2

IFRS S2 is structured around the same four core pillars but with a focus on climate-related issues:

1. Governance:

- Detailed disclosures about the organization's governance processes for overseeing climate-related risks and opportunities.
- Information on board-level oversight and the involvement of management in handling climate-related challenges and opportunities.

2. Strategy

- A discussion of how climate-related risks and opportunities influence the organization's business model, operations, and financial planning.
- An analysis of resilience to climate change, including the potential for the organization to transition to a low-carbon economy.

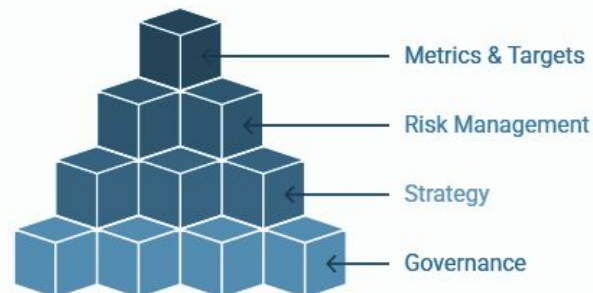
3. Risk Management

- A comprehensive approach to identifying, assessing, and managing climate-related risks, including both physical risks (e.g., extreme weather) and transition risks (e.g., regulatory changes related to carbon emissions).
- How climate risks are integrated into broader enterprise risk management processes.

4. Metrics and Targets

- Detailed metrics to track climate-related performance, including **Scope 1, 2, and 3 greenhouse gas (GHG) emissions**.
- The setting and tracking of emissions reduction targets and other climate adaptation strategies, with clear timelines and benchmarks for progress.

IFRS S2 Climate Framework





2.5 Key Differences Between IFRS S1 and IFRS S2

Understanding the distinction between IFRS S1 and IFRS S2 is essential for organizations to navigate the different aspects of sustainability reporting:

Aspect	IFRS S1	IFRS S2
Scope	General requirements for all sustainability topics.	Specific to climate-related risks and opportunities.
Focus	Broad sustainability-related financial disclosures.	Climate-specific disclosures aligned with TCFD.
Applicability	Applicable to all ESG factors (environmental, social, governance).	Focused on climate-related impacts.
Pillars	Governance, Strategy, Risk Management, Metrics/Targets.	Governance, Strategy, Risk Management, Metrics/Targets (climate-specific).

2.6 Why IFRS S1 and S2 Matter for Businesses

The alignment of IFRS S1 and IFRS S2 establishes a comprehensive reporting framework that empowers organizations to provide clear, accurate, and standardized information about their sustainability performance.

1. Enhanced Transparency

These standards ensure that businesses offer stakeholders a transparent view of both general sustainability impacts and climate-specific issues. This transparency helps build trust with investors, regulators, and consumers alike.

Improved Decision-Making

With access to standardized, reliable sustainability disclosures, investors can make informed decisions based on an organization's long-term resilience and commitment to sustainability.

Regulatory Preparedness

Adopting IFRS S1 and S2 ensures compliance with the evolving global regulatory landscape. As climate-related regulations and sustainability reporting frameworks continue to tighten, businesses that embrace these standards will be better positioned to meet regulatory requirements and avoid potential penalties.



Guidelines

Navigating Regulations for IFRS S1 & S2 Compliance

Understand the regulatory framework, global alignments, and implementation timelines for IFRS S1 and S2, ensuring smooth compliance and reporting.

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Understand the regulatory framework, global alignments, and implementation timelines for IFRS S1 and S2, ensuring smooth compliance and reporting.

As organizations around the world begin to adopt IFRS S1 and IFRS S2, understanding the regulatory framework and implementation guidelines is crucial to ensure successful compliance. This section explores key aspects of the regulations and guidelines related to these standards, along with their alignment with global frameworks and jurisdiction-specific regulations.

3.1 Implementation Timeline: Effective Date and Transitional Relief Provisions

The effective date of IFRS S1 and IFRS S2 marks a significant milestone in sustainability reporting. However, the ISSB recognizes the challenges organizations may face when transitioning to these new standards.

- **Effective Date:** Both IFRS S1 and IFRS S2 will come into effect on January 1, 2025, with the first disclosures expected in the annual reporting cycle following this date. Companies will need to ensure that their reporting practices align with the requirements outlined in the standards by this time.
- **Transitional Relief Provisions:** To ease the transition, the ISSB has provided transitional relief for organizations, including the flexibility to report against the new disclosure requirements in phases. Early adoption of the standards is encouraged, but organizations can choose to delay full compliance until they are better equipped to meet the disclosure demands. This phased approach gives companies time to integrate sustainability reporting into their existing processes, with full alignment required by 2026.

3.2 Interoperability with Global Standards: Aligning with TCFD, GRI, and Jurisdiction-Specific Regulations

One of the key strengths of IFRS S1 and IFRS S2 is their interoperability with existing global sustainability frameworks, making it easier for companies to comply with multiple standards simultaneously.

1. TCFD (Task Force on Climate-related Financial Disclosures):

IFRS S2 closely aligns with TCFD recommendations, which have already been widely adopted by organizations globally. Both frameworks emphasize governance, strategy, risk management, and metrics/targets as core pillars of climate-related disclosures. The alignment ensures a smoother transition for companies that are already reporting based on TCFD guidelines, while also providing greater consistency for investors assessing climate-related financial risks.

2. GRI (Global Reporting Initiative): IFRS S1 and GRI share common objectives of improving sustainability reporting transparency. While GRI offers a broad framework for ESG disclosures, IFRS S1 provides specific guidelines on how these disclosures should integrate with financial statements. Companies adopting both standards can report with consistency and avoid duplication by aligning their sustainability reporting with the material issues highlighted in the GRI standards.

3. Jurisdiction-Specific Regulations: Different countries and regions may have specific regulations related to sustainability disclosures (e.g., EU Taxonomy, SEC's climate risk disclosure rules in the U.S.). The IFRS S1 and IFRS S2 standards are designed to be adaptable and can be integrated with jurisdiction-specific reporting requirements. Companies must review local regulations to ensure compliance and align their disclosures accordingly.

3.3 Key Appendices and Illustrative Guidance: Summary of Appendices from IFRS S1 & S2

Both **IFRS S1** and **IFRS S2** contain appendices and illustrative guidance that help organizations navigate the disclosure requirements. Some of the key appendices include:

- **Appendix A:** Detailed disclosure examples for each of the four core pillars (Governance, Strategy, Risk Management, Metrics/Targets).
- **Appendix B:** Guidance on determining materiality, helping organizations assess which sustainability-related risks and opportunities are significant enough to warrant disclosure.
- **Appendix C:** A glossary of key terms, providing definitions for technical terminology used within the standards, ensuring consistent interpretation across organizations and jurisdictions.

These appendices serve as practical tools to help businesses interpret the standards, streamline the reporting process, and maintain accuracy in their disclosures.

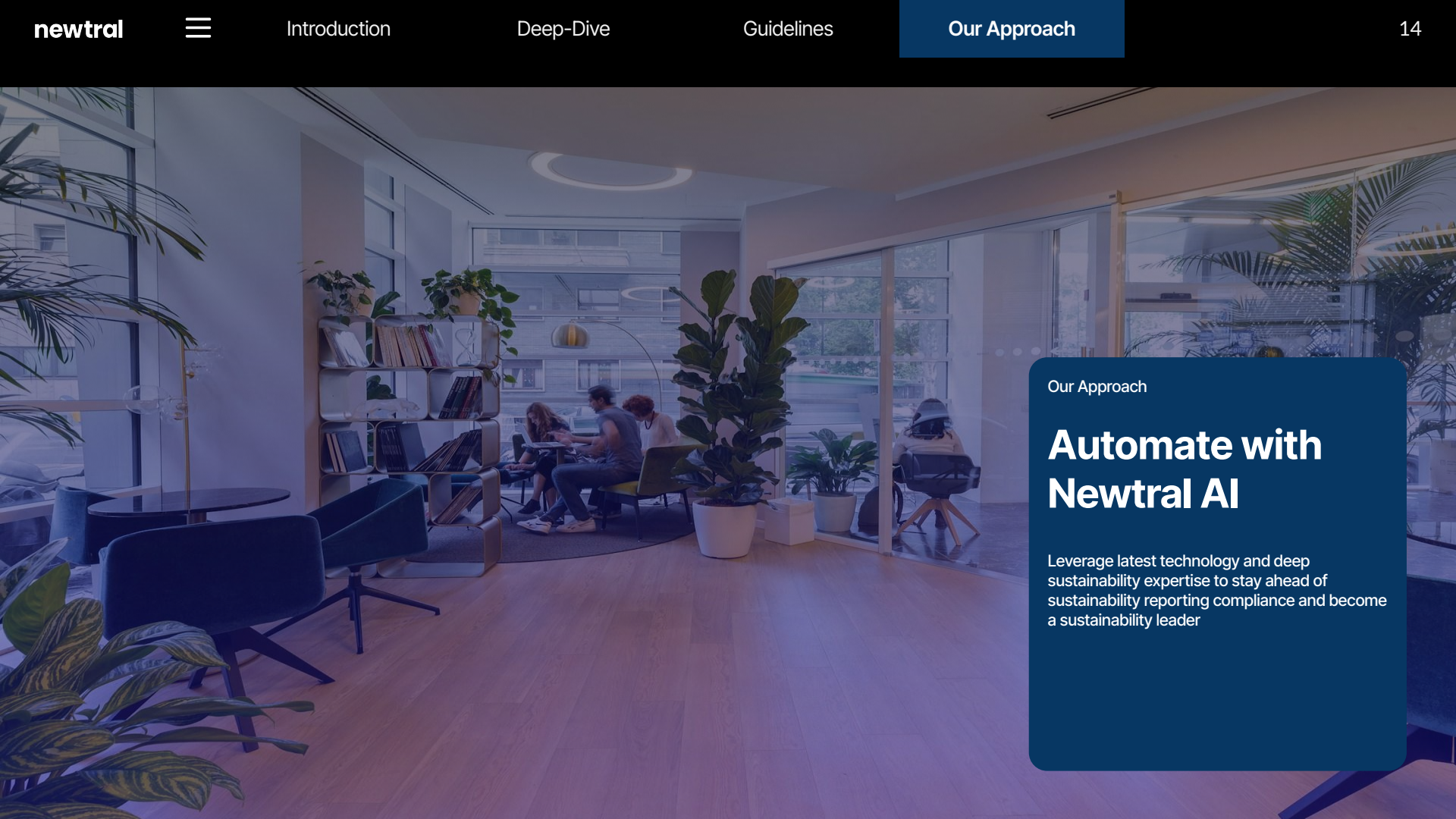
3.4 Integration with Financial Reporting: Harmonizing with IFRS Accounting Standards

A key feature of IFRS S1 and IFRS S2 is the integration of sustainability disclosures with IFRS accounting standards, ensuring that non-financial information is harmonized with financial reporting. This alignment improves the consistency and reliability of sustainability disclosures, allowing investors and other stakeholders to make more informed decisions.

- **Harmonization with IFRS:** Organizations must integrate sustainability-related disclosures into their regular financial statements. For example, when reporting on material sustainability risks, companies must demonstrate how these risks influence their financial performance, including potential financial impacts of climate-related risks (e.g., asset impairments, insurance liabilities).
- **Audit and Assurance:** Just like financial reporting, sustainability disclosures under IFRS S1 and IFRS S2 will require audit and assurance processes to verify the accuracy and completeness of reported data. This ensures that sustainability information is as reliable as financial data, providing stakeholders with the confidence that the disclosed information reflects the true sustainability performance of the organization.

3.5 Conclusion: Key Takeaways

- **IFRS S1** and **IFRS S2** represent a significant step forward in creating a global standard for sustainability reporting, aligning ESG and financial reporting to provide stakeholders with comprehensive, reliable, and comparable data.
- **IFRS S1** focuses on general sustainability-related disclosures, while **IFRS S2** specifically addresses climate-related risks, providing clear guidance on how businesses should report on climate change-related challenges and opportunities.
- The standards enhance transparency, improve decision-making, and ensure regulatory preparedness, enabling companies to meet emerging global regulations and stakeholder expectations.

A modern office interior with large windows, indoor plants, and people working at desks. The scene is bright and airy, with a focus on sustainability and technology.

Our Approach

Automate with Newtral AI

Leverage latest technology and deep sustainability expertise to stay ahead of sustainability reporting compliance and become a sustainability leader

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Leverage latest technology and deep sustainability expertise to stay ahead of sustainability reporting compliance and become a sustainability leader

At Newtral, we understand the challenges businesses face in navigating the complex landscape of sustainability reporting and ESG integration. That's why we've developed a cutting-edge, AI-powered sustainability platform that streamlines your entire sustainability workflow, ensuring compliance, transparency, and value creation for all stakeholders.

Key Features and Benefits:

Automated Sustainability Workflow:

- Our AI-driven platform automates data collection, analysis, and reporting, saving time and resources
- Seamless integration with existing systems for efficient data management
- Ensures accuracy and consistency in sustainability reporting

Comprehensive Concierge Services:

- Dedicated sustainability experts to guide you through every step of your sustainability journey
- Tailored strategies and actionable insights based on your unique business needs
- Continuous support and expertise to help you achieve your sustainability goals

ESG Supply Chain Innovation:

- Advanced tools to assess and manage ESG risks and opportunities within your supply chain
- Collaborate with suppliers to improve sustainability performance and transparency
- Gain a competitive edge by demonstrating responsible supply chain practices

Scope 3 Emissions Management:

- Accurately measure and report your Scope 3 emissions with our AI-powered platform
- Identify hotspots and implement targeted reduction strategies
- Demonstrate leadership in addressing indirect emissions and climate change

Regulatory Compliance and Transparency:

- Stay ahead of evolving sustainability regulations and disclosure requirements
- Communicate your sustainability performance effectively to investors, customers, and other stakeholders
- Build trust and credibility through transparent and reliable sustainability reporting

Take the first step towards a more sustainable future with Newtral. Our AI-powered platform and expert concierge services provide the tools and guidance you need to integrate sustainability seamlessly into your business operations. Contact us today to schedule a demo and discover how Newtral can help you create lasting value for your stakeholders while contributing to a greener, more resilient world.



Newtral AI Platform- Enterprise ESG Platform for Corporates and Supply Chain

We help organizations automate their ESG metric measurements, tracking and reporting across company as well as their supply chain. Our platform solves for all corporate sustainability reporting and carbon accounting needs, visit newtral.io for more information.

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