Preparing for the ISSB's sustainability disclosure standards

Getting started: Connection to finance

This series of guides covers key aspects of the IFRS Sustainability Standards[1] (the Standards) issued by the International Sustainability Standards Board's (ISSB). It is aimed at assisting finance professionals and finance teams to prepare for the reporting and disclosure requirements aligned with the Standards.

The Standards IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* catalyse the integration of sustainability with financial reporting. They respond to expectations from capital markets participants for more meaningful and comparable sustainability and climate change disclosures. They will enable investors and other stakeholders to understand an entity's sustainability-related risks and opportunities, the connection between them, and potential financial impacts now and into the future.

IFRS S1 and IFRS S2 were issued in June 2023 and are applicable for annual reporting periods beginning on or after 1 January 2024. There are provisions in place to help entities to scale up their approach to disclosures over time[2]. New Zealand's *eX*ternal Reporting Board (XRB) is closely following the ISSB developments, and the Standards will pave the way for mandatory reporting in Australia. The Australian Treasury has signalled that mandatory climate disclosures, aligned with IFRS S2, will be phased in for large Australian companies from the 2024-2025 financial year.

1 This guide has been prepared based on IFRS S1 and S2 issued in June 2023.
2 Relief in IFRS S1 allows an entity to report only on climate-related risks and opportunities in the first year it applies IFRS S1 and IFRS S2.

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Getting started: Connection to finance

This guide summarises the connection of the sustainability-related financial disclosures and financial reporting. It outlines key implications and highlights key considerations finance professionals and entities should consider now, in preparation for reporting under the Standards.

What is the objective of connecting general purpose financial reporting to sustainability-related disclosures?

The objective of general-purpose financial reporting is to inform decision making by investors and providers of capital by giving them a comprehensive and comprehendible view of a company's health.

General-purpose financial reporting requirements may be interoperable with other sustainability reporting requirements aimed at meeting the information needs of broader stakeholders. The IFRS Foundation notes that general-purpose financial reports include financial statements and sustainability-related financial disclosures.

Financial information and assumptions within the sustainability-related disclosures must be consistent with corresponding financial information and assumptions used in the entity's financial statements, to the extent possible.

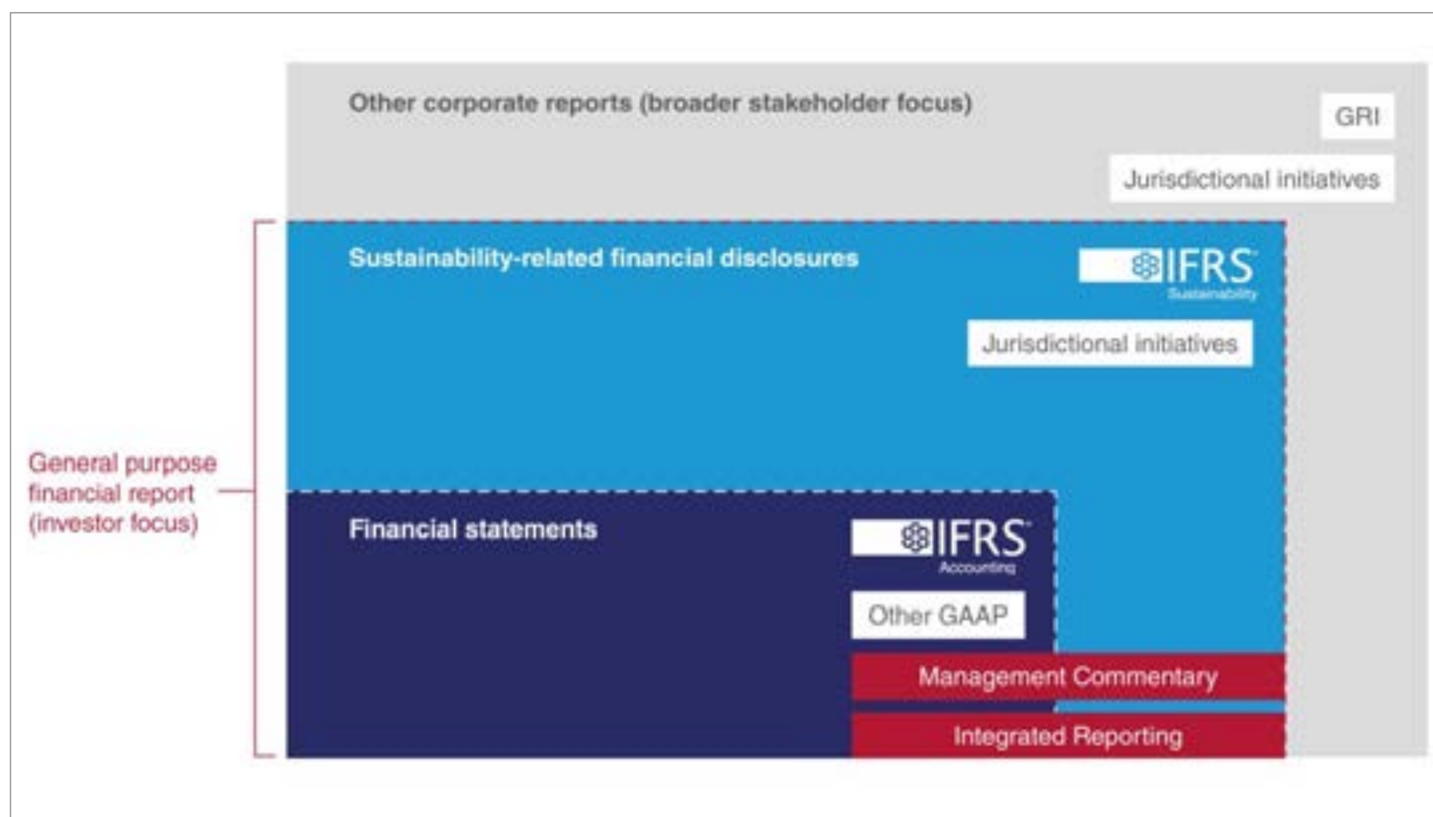

Diagram retrieved from IFRS website

What information does ISSB provide about connecting sustainability related disclosures to general-purpose financial reporting?

The Standards require an entity to clearly explain connections between sustainability-related risks and opportunities and their financial impacts over short, medium, and long-term, in the entity's general-purpose financial reporting. Key requirements are noted below.

Quantitative and qualitative information:

An entity is required to provide both quantitative and qualitative information about the current and anticipated effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows. The assessment of anticipated financial effects is required to be based on reasonable and supportable information that is available at the reporting date without undue cost or effort. If an entity is unable to provide quantitative information about the financial effects of a particular sustainability-related risk or opportunity, the entity is required to:

1. explain why it is unable to provide quantitative information;
2. provide qualitative information about financial effects of that sustainability-related risk or opportunity, including identifying line items, totals and subtotals within financial statements that are likely to be affected or have been affected by that sustainability-related risk or opportunity; and
3. provide quantitative information about the combined financial effects of sustainability-related risks and opportunities – including that particular sustainability-related risk or opportunity unless the entity determines that quantitative information would not be useful.

Boundaries, timelines, and reporting periods:

The Standards require that an entity's sustainability-related financial disclosures shall be for the same reporting entity as the related general purpose financial statements. For example, if the reporting entity is a group, the consolidated financial statements are for the parent and subsidiaries; hence, that entity's sustainability-related financial disclosures should enable users of its general-purpose financial reporting to assess the parent and its subsidiaries. Entities are also required to disclose material information about sustainability-related risks and opportunities across their value chain, using reasonable and supportable information that is available at the reporting date without undue cost or effort.

The relevant sustainability-related disclosures must be released at the same time and for the same reporting entity as the financial statements and must identify the financial statements to which they relate[3]. ISSB does provide certain reliefs in the Standard, including allowing entities to measure their greenhouse gas (GHG) emissions using information for reporting periods that are different from the entity's reporting period, when that information arises from entities in its value chain with reporting periods that are different from its own, as long as:

- the entity uses the most recent data;
- the length of reporting periods is the same; and
- the entity discloses the effects of significant events and changes in circumstances relevant to its GHG emissions information.

The relief is for all entities in the value chain—including but not limited to consolidated and unconsolidated subsidiaries, joint ventures, and associates. Other reliefs are also available within IFRS S1 and IFRS S2.

Current and anticipated financial effects and resilience assessment:

The Standards require sustainability-related financial disclosures that enable users of general-purpose financial reporting to understand any relationships between the resilience assessment and the current and anticipated financial effects of sustainability-related risks and opportunities. The resilience assessment requirements, including the requirements for scenario analysis for climate-related risks, focus on an entity's strategy (including its business model). While there is a connection between resilience assessments and the current and anticipated financial effects on cashflow and financial position of an entity,

3 ISSB permits transitional relief for a limited period of time to permit an entity to report sustainability related financial disclosures after the publication of its financial statements.

ISSB notes that they are both distinct requirements, as a resilience assessment is not always required to determine the current and anticipated financial effects of sustainability-related risks and opportunities.

What does this mean for an entity's finance team:

To report against the Standards, an entity needs to understand its material topics[4], narrow in on a roadmap to improve data and systems needed for reporting[5], and understand how to best align that data and disclose relevant sustainability-related information. The finance function has a fundamental role in supporting this outcome. Some considerations in relation to internal processes and controls are noted below:

- **Definitions and horizons:** The finance team will likely need to lead the charge for the entity to agree on and align definitions of short, medium, and long-term horizons used in strategic and operational plans across the entity, including targets and public commitments. This will help investors better understand and compare disclosures.
- **Organisational boundaries and reporting timelines:** A mapping exercise will need to be undertaken to understand if the entity's current sustainability and climate related reporting boundaries are the same as the boundaries for its financial reporting. Value chain reporting timelines will also need to be understood and aligned where possible. Reviewing the emissions reporting boundaries and timelines, would be a good place to start.

  Obtaining accurate Information on consistency of boundaries is likely to be a challenging and resource intensive task if a similar exercise has not already been undertaken. The Standards expect disclosure on the implications of differences in reporting timelines and boundaries across the value chain
- **Financial planning, resilience assessment and strategy:** An update will likely be required to the financial planning procedures and resilience assessments - including scenario analysis - conducted by the entity. It is important entities prepare well in advance as they will need to disclose their methodology, including inputs and assumptions used for scenario analysis.
- **Capital allocation and investment decisions:** Modelling and assumptions around an entity's investment decisions and capital allocations will likely need to expand to include sustainability and climate-related risks, and opportunities-related considerations. This might include assessing implications for mergers and acquisition related due diligence processes. The Standards expect disclosure around how sustainability and climate are explicitly considered in capital allocation and decision making.
- **Targeted training and upskilling:** The finance team will have to assess the need for additional internal subject matter training and resources necessary to enable the required disclosures under the Standards. Consequently, a review of relevant upskilling needs for finance team members and for subject matter experts from functions including risk, strategy, and sustainability will be required to ensure the quality of information required for sustainability-related financial disclosures, is on par with financial reporting.
- **Uplifting overall control environment:** Leveraging the finance team's experience with financial disclosures and reporting-related processes and controls, finance can support the business to assess and enhance controls around ISSB disclosures and overall control environment for sustainability and climate related data where relevant.

To find out more

- Practical guidance on preparing for the ISSB's sustainability disclosure standards
- Making Sense of ISSB: A Guide for organisations on navigating climate regulation, compliance and reporting
- ISSB standards will change reporting: Practical insights for Audit & Risk committees
- Climate: climate resources and information on climate-related disclosures and action

4 Getting started: Materiality
5 Getting started: Data and systems

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Deloitte Climate & Sustainability is a team of over 300 dedicated experts in Australia supporting our clients in business, government and our communities to take practical action to decarbonise, become climate resilient and invest in the economic opportunity of Australia's transition to a net zero economy. Deloitte has been a leader in identifying a coordinated climate transition as an enormous economic opportunity for Australia. Our recent The Turning Point report estimated this opportunity at $890b over 50 years. To help businesses seize that opportunity, we helped establish the Climate Leader's Coalition and provided the economic modelling for the Business Council of Australia's Net Zero 2050 commitment.

Our track record of helping our clients tackle climate transformation and our data-driven research, modelling assets and technology capabilities underpin our practical guidance to Executives, Non-Executive Directors, and Audit and Risk Committees – and their ability to prepare for the ISSB and this significant sustainability reporting change (whether that be strategic review, compliance advisory or assurance). We have been supporting clients over many years with the evolving sustainability reporting landscape from greenhouse gas reporting, GRI to TCFD and now the emerging TNFD framework. It's now time to get ISSB ready.

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