

Exposure Drafts

IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2

The adoption of sustainability reporting practices is rapidly becoming the new standard for companies worldwide. In response to this growing demand, the International Financial Reporting Standards (IFRS) Foundation has proposed two Exposure Drafts Sustainability Disclosure Standards IFRS S1 & IFRS S2. These standards aim to provide a comprehensive global baseline for sustainability disclosure, enabling investors to assess enterprise value effectively.

The proposed Exposure Draft IFRS Sustainability Disclosure Standard IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Reporting focuses on disclosing information relevant to significant sustainability-related risks and opportunities. It goes beyond climate-related risks and opportunities. It incorporates the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The proposed Exposure Draft IFRS Sustainability Disclosure Standard IFRS S2 – Climate-related Disclosures specifically addresses climate-related risks and opportunities. It also includes recommendations from TCFD and the Greenhouse Gas Protocol, along with industry-specific disclosure requirements from the Sustainability Accounting Standards Board (SASB) standards. The aim is to provide users of financial information with a clear understanding of an entity's exposure to climate-related risks and opportunities.

The International Sustainability Standards Board (ISSB), under the IFRS Foundation, has been established to develop and implement these proposed Exposure Drafts IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2. The ISSB is actively collaborating with international organizations and jurisdictions to ensure the global baseline is incorporated into domestic requirements and aligns with broader stakeholder expectations.

The adoption of sustainability reporting and adherence to the proposed Exposure Drafts IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2 can bring various benefits to organizations. By managing sustainability performance with the same rigor as financial performance, companies can enhance their reputation, attract capital, improve profitability, retain employees, and have a positive impact on the environment, society, and governance.

The need for change is driven by various factors, including the increasing significance of sustainability-related risks and opportunities in determining business value. Sustainability reporting promotes consistency, comparability, transparency and enables stakeholders to make informed decisions.

The proposed Exposure Drafts IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2 outline key disclosures in the areas of governance, strategy, risk management, metrics, and targets. These disclosures provide information on an entity's policies, targets, response to risks, opportunities, and the financial effects of sustainability-related factors. They aim to enable users of financial reports to assess an entity's resilience, future cash flows, and enterprise value.

RSM Kuwait can help companies establish a sustainability reporting and framework, ensuring compliance with industry-specific standards and providing support in data collection, validation, and reporting.

As the proposed Exposure Drafts IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2 are expected to become effective on or after January 1, 2024, entities need to act promptly to meet the requirements and ensure their sustainability disclosures meet the expectations of regulators and stakeholders.