



The Institute of  
Chartered Accountants  
of Pakistan

CA  
PAKISTAN

# Overview of the IFRS Sustainability Disclosure Standards [IFRS S1 & IFRS S2]

Muhammad Imran Khan

A hand is shown holding a green, leafy globe of the Earth. The globe is covered in vibrant green leaves with water droplets. The background is a soft-focus green landscape with sunlight filtering through the trees.

# IFRS S1, GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION

# OBJECTIVE

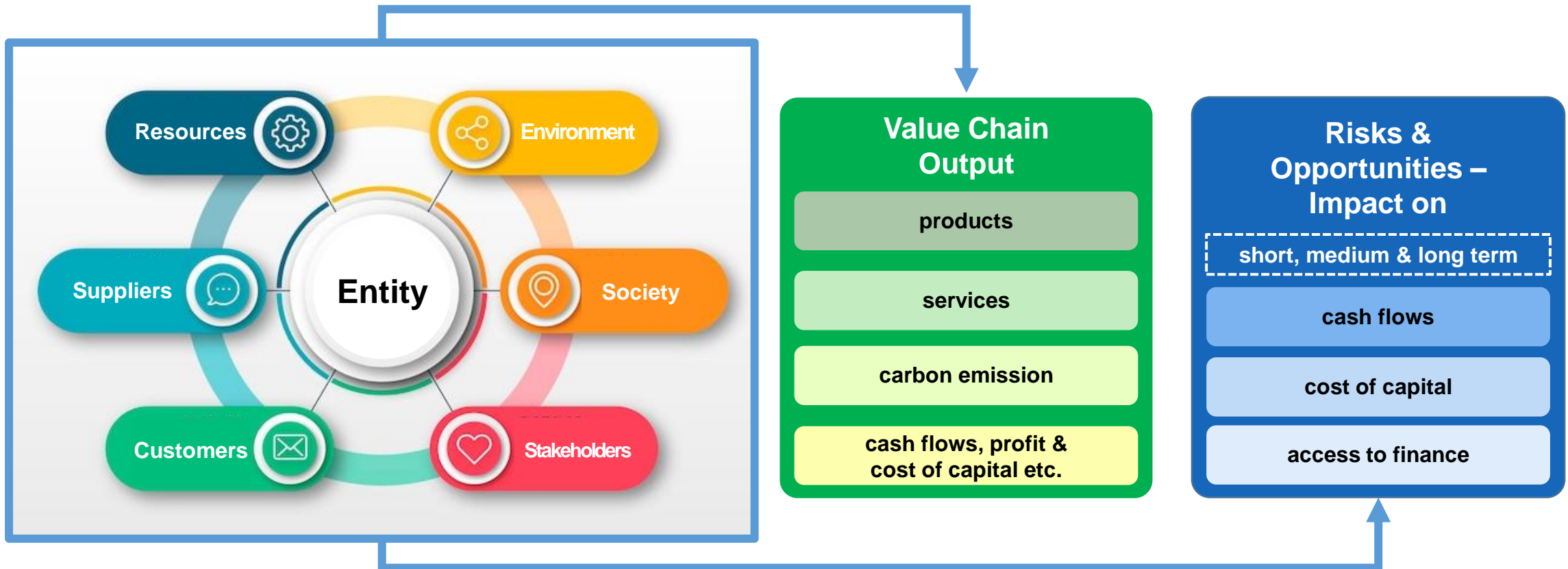
It requires an entity to disclose **information about its sustainability-related risks and opportunities** that is useful to the primary users of general purpose financial reports in making decisions relating to providing resources to the entity.

**Why is this information required by primary users and investors?**



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.

# VALUE CHAIN



# SUSTAINABILITY-RELATED RISK & OPPORTUNITIES

## Risks & Opportunities – Impact on

short, medium & long term

cash flows

access to finance

cost of capital

IFRS S1 requires an entity to disclose information about **all** sustainability-related risks and opportunities that could reasonably be expected to affect the entity's **cash flows**, its **access to finance** or **cost of capital** over the short, medium or long term.

## CORE CONTENT

- a** **governance**  
the governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities
- b** **strategy**  
the approach the entity uses to manage sustainability-related risks and opportunities
- c** **risk management**  
the processes the entity uses to identify, assess, prioritize and monitor sustainability-related risks and opportunities
- d** **metrics and targets**  
the entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set, or is required to meet by law or regulation

# IFRS S1 – DISCLOSURE & OTHER REQUIREMENTS – HIGHLIGHTS

## Materiality

- ✓ Materiality - Disclose material information about sustainability related risks and opportunities expected to affect the entity's prospects
- ✓ Material information definition is same as that given in IFRSs
- ✓ Disclose sustainability-related information required by regulation or law even immaterial

## Disclosure Topics and information

- ✓ Only climate related disclosures topics in first year of application
- ✓ From second year respective companies shall disclose information on their industry related topics along-with climate-related disclosures
- ✓ Disclosure should cover governance process, strategy, risk management, and metrics and targets in relation to SR risks and opportunities

## Comparative information

- ✓ Unless otherwise allowed in IFRS SDS, disclose comparative information in respect of preceding period for all amounts disclosed in current period
- ✓ If useful for understanding, disclose comparative information for narrative and descriptive sustainability related financial information
- ✓ No comparatives in first year of application

## Reporting Entity & connected information

- ✓ Sustainability-related financial information for same entity of which are financial statements
- ✓ Connection amongst items of SR Financial information
- ✓ Connection between governance, strategy, risk management and metrics and targets
- ✓ Connection between SR FI and information disclosed in financial statements

## Timing & Location

- ✓ Clearly identifiable and part of general purpose financial report; in management report or operating and financial review, integrated report or strategic report
- ✓ To be presented at the same time when financial statements are issued, covering same reporting period
- ✓ May be presented in a separate report or may be presented alongside financial statements in same report

## HOW TO IDENTIFY SUSTAINABILITY-RELATED RISKS AND OPPORTUNITIES



Required to apply IFRS Sustainability Disclosure Standards



Required to refer to and consider the applicability of the disclosure topics in the SASB Standards



may refer to and consider applicability of CDSB Framework Application Guidance for Water- and Biodiversity-related Disclosures



may refer to and consider applicability of most recent pronouncements of other **standard-setting bodies** designed to meet information needs of users of general purpose financial statements



may refer to sustainability-related risks and opportunities identified by entities in **same industry or geographical region**



# HOW TO IDENTIFY MATERIAL INFORMATION (INCLUDING METRICS) ABOUT SUSTAINABILITY-RELATED RISKS AND OPPORTUNITIES – SOURCES OF GUIDANCE



Apply **specific** IFRS Sustainability Disclosure Standards that applies to that sustainability-related risk or opportunity



In the absence of **specific IFRS SDS** applicable to a risk or opportunity, **Required to refer to and consider** the applicability of the **metrics** associated with the disclosure topics included in the **SASB Standards**



may refer to and consider applicability of **CDSB Framework Application Guidance for Water- and Biodiversity-related Disclosures**



may refer to and consider applicability of most recent pronouncements of other **standard-setting bodies** designed to meet information needs of users of general purpose financial statements



may refer to information, including metrics, disclosed by entities that operate in **same industry or geographical region**



may refer to and consider applicability of the Global Reporting Initiative Standards and the European Sustainability Reporting Standards.



# IFRS S2, CLIMATE-RELATED DISCLOSURES

## OBJECTIVE – IFRS S2

IFRS S2 sets out the requirements for **identifying, measuring and disclosing** information about climate-related **risks and opportunities** that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.

### What information is required by primary users and investors?

Information about climate-related risks and opportunities:

- Exposure to climate-related risks
- Plans to mitigate these risks
- Opportunities to benefit from climate change

# RISK MANAGEMENT-CLIMATE RELATED RISKS AND OPPORTUNITIES

## Transition risks



**Policy & legal risk:** Compliance costs; stranded assets; asset impairment; restrictions & limitations on carbon intensive assets; and asset depreciation.



**Market & economic risk:** Company or securities valuations; asset impairment; viability of certain business models; and credit rating implications.



**Technology risk:** Write-offs for investments in disrupted technologies; required investment in new technologies; and process change costs to accommodate new technologies.



**Reputation risk:** Damage to brand value or reputation resulting in lost revenue and additional expenditures e.g. corporate affairs, litigation etc.

## Physical risks



**Acute physical risk:** Short lived extreme weather impacts, e.g. flood, wildfire, cyclones, heatwaves, drought



**Chronic physical risk:** Impacts due to slow insidious change, e.g. rising mean temperatures, long-term water stress

## Opportunities



**Resource efficiency:** Use of more efficient modes of transport; efficient buildings; reduced water usage; use of recycling.



**Energy source:** Use of lower-emission sources of energy; use of supportive policy incentives; use of new technologies; participation in carbon market.



**Products & services:** Development of low emission goods and services; climate adaptation and risk solutions; R&D and innovation.

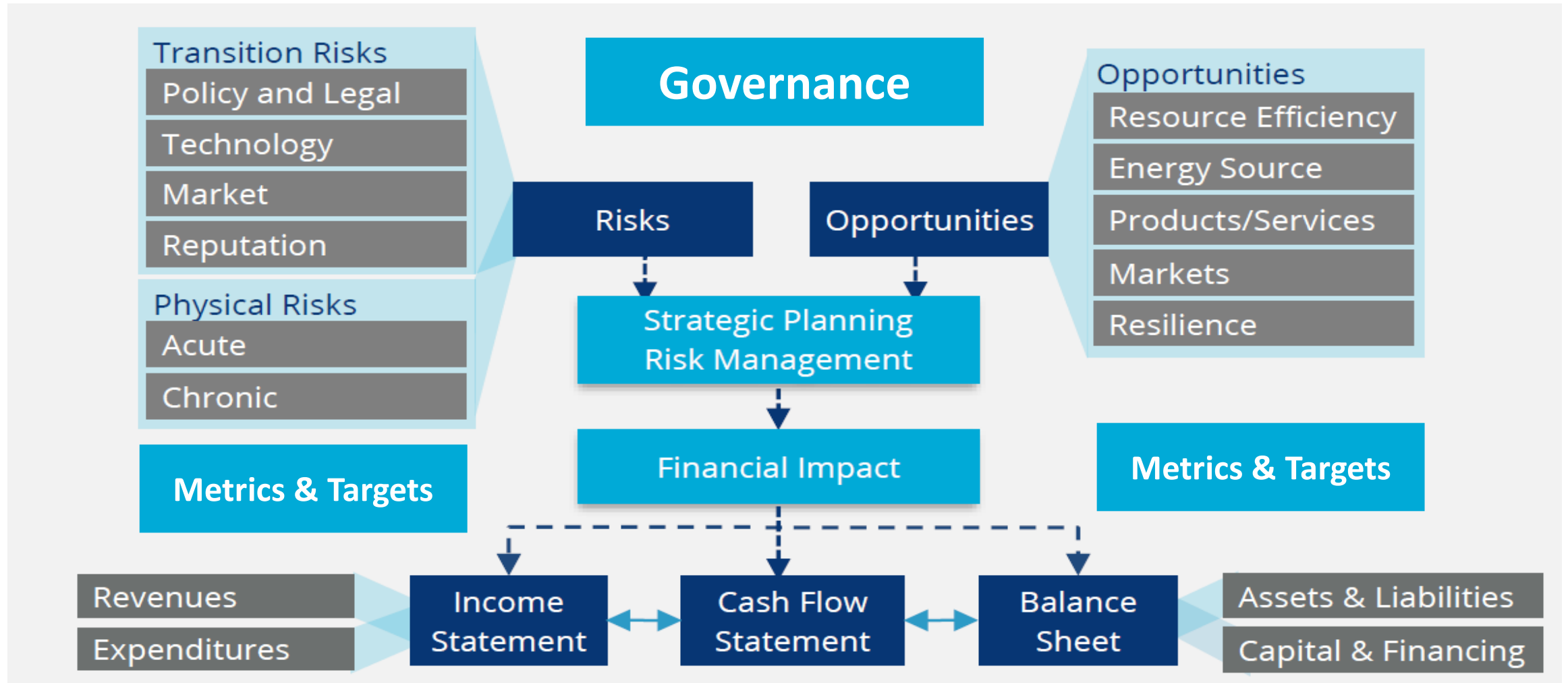


**Market opportunity:** Exploring new markets or types of assets in order to diversify activities.

## CORE CONTENT

- a** **governance**  
the governance processes, controls and procedures the entity uses to monitor and manage **climate-related risks and opportunities**
- b** **strategy**  
the approach the entity uses to manage **climate-related risks and opportunities**
- c** **risk management**  
the processes the entity uses to identify, assess, prioritize and monitor **climate-related risks and opportunities**
- d** **metrics and targets**  
the entity's performance in relation to **climate-related risks and opportunities**, including progress towards any targets the entity has set, or is required to meet by law or regulation

# CLIMATE-RELATED RISKS, OPPORTUNITIES AND FINANCIAL IMPACT

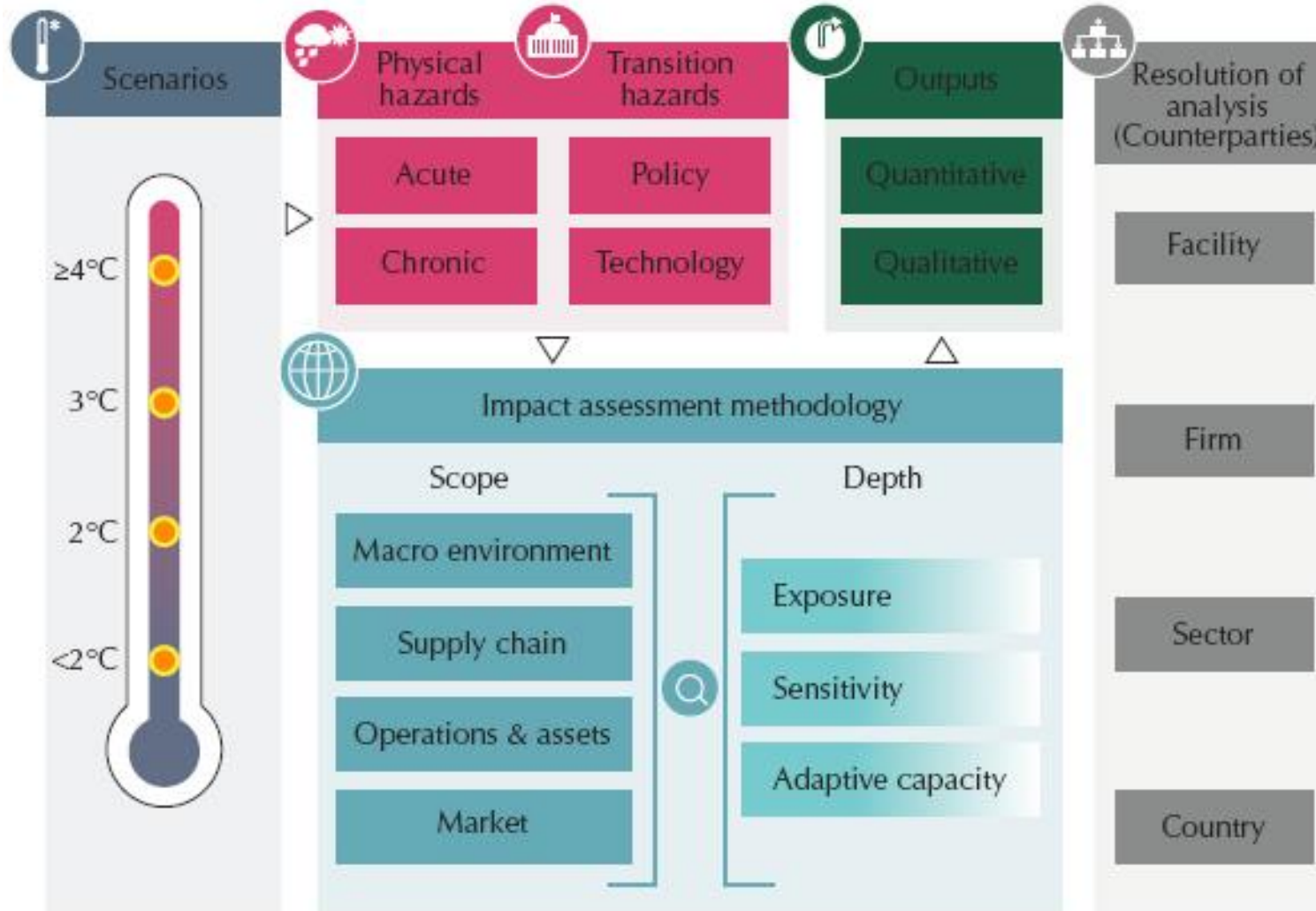


# CLIMATE RESILIENCE



- Capacity to manage climate-related risks and opportunities
- Ability to respond and adopt to climate-related transition risks and climate-related physical risks.
- Strategic resilience, operational resilience to climate-related changes, developments and uncertainties.

# CLIMATE SCENARIO ANALYSIS





# IFRS S2 – DISCLOSURE REQUIREMENTS – HIGHLIGHTS

Information on governance processes, controls and procedures.

Information on strategy for managing climate-related risks and opportunities.

Information on metrics and targets to assess and manage climate related risks and opportunities.

Information on scenario analysis of climate-related risks and opportunities

Information on impact assessment of climate change on its strategy and business model.

Information on transition risks entity faces, such as the costs of adapting to a low-carbon economy.

information about the physical risks it faces, such as the risks of extreme weather events or sea level rise.

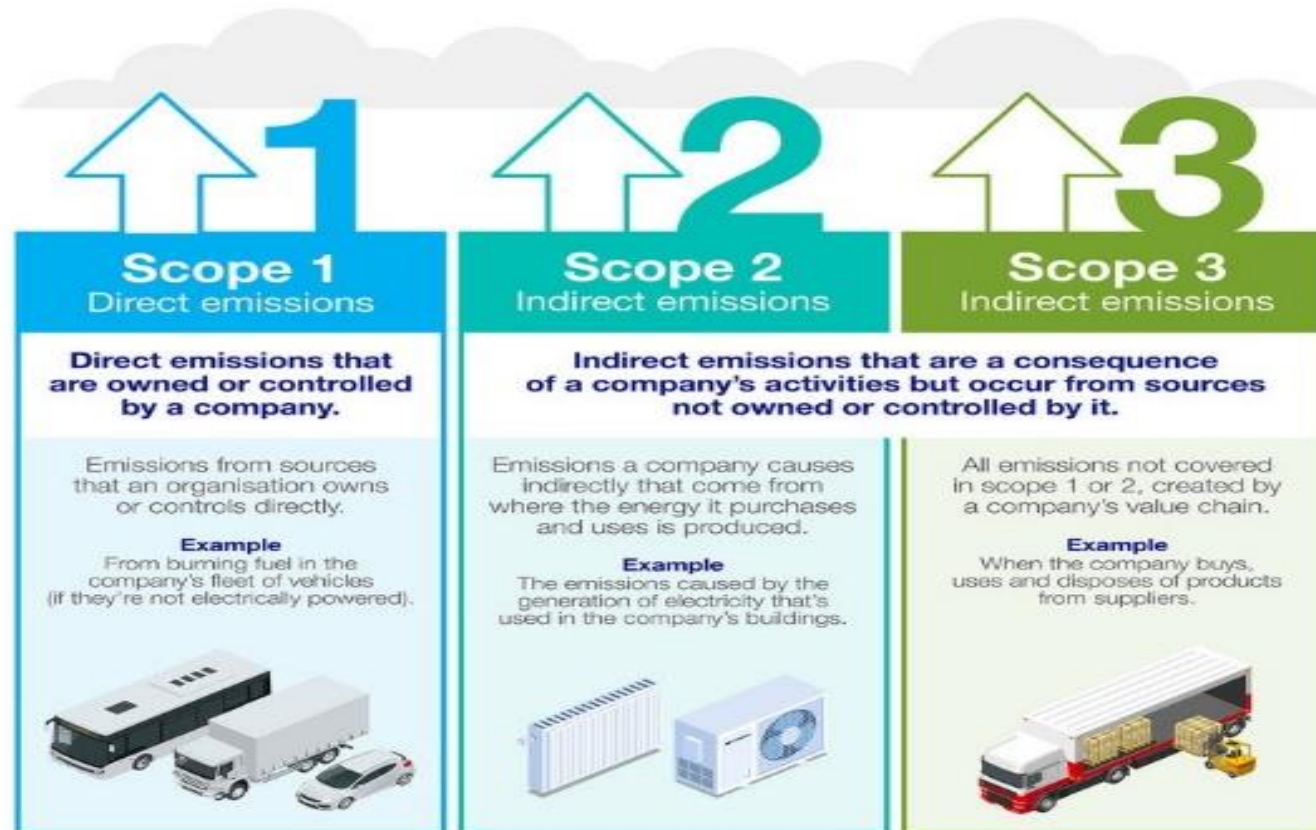
Disclosures on Scope 1, 2 and 3 Greenhouse Gas Emissions (GHG)

Information about the resilience of the entity's strategy and business model to climate-related changes, developments and uncertainties

Information on steps being taken to mitigate the impact of climate change on its strategy and business model.

# IFRS S2 – DISCLOSURE REQUIREMENTS – HIGHLIGHTS

The three scopes are a way of categorising the different types of greenhouse gas emissions created by a company, its suppliers and its customers.



## Relief for first year of application

- Scope 3 Greenhouse Gas Emissions (GHG) disclosures not required
- Do not need to apply Greenhouse Gas Protocol if already using a different measurement approach

## Scope 3 GHG emissions

- Engagement with stakeholders across entire value chain **required** (i) to ensure proper systems and controls are in place to support disclosures (ii) to achieve Scope 3 emission targets in future.

# **Preliminary Structure of Illustrative Sustainability Report**

**XYZ Company**  
**Sustainability-Related Financial Information**  
**For the year ended December 31, 202X**

## Preliminary Structure of Illustrative Sustainability Report

### XYZ Company Statement of Sustainability-related Risks and Opportunities – Climate-related For the year ended December 31, 202X

| Disclosure topic   | Note | (Current year)                    | (Prior year)                      | Company's target (current year)   | Company's target (prior year)     |
|--|------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| <b>Water Management</b>  |      |                                   |                                   |                                   |                                   |
| Total water withdrawn Thousand cubic metres (m3)   |      |                                   |                                   |                                   |                                   |
| Total water consumed, Thousand cubic metres (m3)   |      |                                   |                                   |                                   |                                   |
| Percentage total water withdrawn of each in regions in High or extremely High Baseline Water Stress (%)    |      |                                   |                                   |                                   |                                   |
| Percentage of total water consumed each in regions in High or extremely High Baseline Water Stress (%)     |      |                                   |                                   |                                   |                                   |
| Description of water management, risks, and discussion of strategies and practices to mitigate those risks | Xxx  | Details are provided in note XXX. | Details are provided in note XXX. | Details are provided in note XXX. | Details are provided in note XXX. |
| <b>Environmental &amp; Social Impacts of Palm Oil Supply Chain</b>   |      |                                   |                                   |                                   |                                   |
| Amount of palm oil sourced [Metric tons (t)]   |      |                                   |                                   |                                   |                                   |
| Percentage certified through the Roundtable on Sustainable Palm Oil (RPSO) supply chains as                |      |                                   |                                   |                                   |                                   |
| - Indemnity reserved,  |      |                                   |                                   |                                   |                                   |
| - Segregated,  |      |                                   |                                   |                                   |                                   |
| - Mass Balance   |      |                                   |                                   |                                   |                                   |
| - Book & Claim   |      |                                   |                                   |                                   |                                   |
| <b>GHG Emissions</b>   |      |                                   |                                   |                                   |                                   |
| - Scope 1  |      |                                   |                                   |                                   |                                   |
| - Scope 2  |      |                                   |                                   |                                   |                                   |
| - Scope 3  |      |                                   |                                   |                                   |                                   |

#### Activity metrics

| Activity Metric                             | Note | Current year | Prior year |
|---|------|--------------|------------|
| Units of products sold (number)             |      |              |            |
| Weight of products sold (metric tons)       |      |              |            |
| Number of manufacturing facilities (number) |      |              |            |

## Preliminary Structure of Illustrative Sustainability Report

XYZ Company

Statement of Sustainability-related Risks and Opportunities – Other than Climate-related

For the year ended December 31, 202X

| Disclosure topic   | Note | (Current year)                    | (Prior year)                      | Company's target (current year)   | Company's target (prior year) |
|--|------|-----------------------------------|-----------------------------------|-----------------------------------|-------------------------------|
| <b>Product Environmental, Health and Safety Performance</b>  |      |                                   |                                   |                                   |                               |
| Revenue from products that contain REACH substances of very high concern (SVHC) [Rs'000]               |      |                                   |                                   |                                   |                               |
| Revenue from products that contain substances on the California DTSC Candidate Chemicals List [Rs'000] |      |                                   |                                   |                                   |                               |
| Revenue from products designed with green chemistry principles [Rs'000]                                |      |                                   |                                   |                                   |                               |
| Discussion of process to identify and manage emerging materials and chemicals of concern               | Xxx  | Details are provided in note XXX. | Details are provided in note XXX. | Details are provided in note XXX. | Xxx                           |
| <b>Packaging Lifecycle Management</b>  |      |                                   |                                   |                                   |                               |
| Total weight of packaging [Metric tons (t)]  |      |                                   |                                   |                                   |                               |
| Percentage made from recycled and/or renewable materials (%)   |      |                                   |                                   |                                   |                               |
| Percentage that is recyclable, reusable, and/or compostable (%)  |      |                                   |                                   |                                   |                               |
| Discussion of strategies to reduce the environmental impact of packaging throughout its lifecycle      | Xxx  | Details are provided in note XXX. | Details are provided in note XXX. | Details are provided in note XXX. | Xxx                           |

### XYZ Company

#### Notes to the sustainability-related financial information for the year ended December 31, 2024

#### 1. The Company and its operations

#### 2. Statement of compliance

The Sustainability report has been prepared in accordance with requirements of IFRS Sustainability Disclosure Standards. While applying these standards, the Company has also considered and referred to disclosure topics contained in SASB Standards.

The information contained in following notes, which XYZ Company believes is consistent with the IFRS Sustainability Disclosure Standards, details the risks and opportunities arising from climate change and other areas of sustainability, the potential impact on our business and the actions we're taking to respond.

#### 3. Governance

| Disclosure requirement   | Company's response |
|--|--------------------|
| Information on governance body, and processes, controls and procedures followed to monitor, manage and oversee sustainability-related risks and opportunities, including governance body entrusted with the responsibility for oversight |                    |
| Management's role in the governance processes, controls, and procedures used to monitor, manage and oversee sustainability-related risks and opportunities   |                    |

#### 4. Strategy

| Disclosure requirement   | Company's response |
|--|--------------------|
| The approach entity uses to manage sustainability-related risks and opportunities  |                    |
| Information on sustainability-related risks and opportunities expected to affect Company's prospects   |                    |
| Current and anticipated effects of those sustainability-related risks and opportunities on the entity's business model and value chain   |                    |
| The effects of the sustainability-related risks and opportunities on the entity's strategy and decision-making including information about its climate-related transition plan |                    |

| Disclosure requirement  | Company's response |
|---|--------------------|
| The effects of the sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period   |                    |
| The anticipated effects of the sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows over short, medium and long term and how these have been considered into entity's financial planning |                    |
| Resilience of the entity's strategy and its business model to climate-related changes, development and uncertainties – taking into consideration the entity's identified climate-related risks and opportunities  |                    |

**5. Risk management**

| Disclosure requirement   | Company's response |
|--|--------------------|
| Details of processes and related policies to identify, assess, prioritize and monitor climate-related/sustainability-related risks including   |                    |
| (i) The inputs and parameters the entity uses (information about data sources and the scope of operations covered in the processes)  |                    |
| (ii) Whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related risks   |                    |
| (iii) How the entity uses assesses the nature, likelihood and magnitude of the effects of those risks (for example, whether the entity considers qualitative factors, quantitative thresholds or other criteria) |                    |
| (iv) Whether and how the entity prioritizes climate-related risks relative to other types of risks   |                    |
| (v) How the entity monitors climate-related risks; and   |                    |



## Preliminary Structure of Illustrative Sustainability Report

| Disclosure requirement   | Company's response |
|--|--------------------|
| (vi) Whether and how the entity has changed the processes it uses compared with the previous reporting period.   |                    |
| Details of process followed to identify, assess, prioritize and monitor climate & sustainability-related opportunities including information about whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related opportunities |                    |
| Extent to which and how the processes for identifying, assessing, prioritizing and monitoring climate & sustainability-related risks and opportunities are integrated into and inform the entity's overall risk management process.  |                    |

| Regulatory risks |                    |
|------------------|--------------------|
| Risk             | Management of risk |

| Market risks |                    |
|--------------|--------------------|
| Risk         | Management of risk |

| Physical environmental risks |                    |
|------------------------------|--------------------|
| Risk                         | Management of risk |

| Innovative products and service opportunities |                               |
|---|-------------------------------|
| Opportunity                                   | Capitalization of opportunity |

| Resource efficiency, resilience and market opportunities |                               |
|--|-------------------------------|
| Opportunity  | Capitalization of opportunity |

### Summary of high-level quantitative assessment

| Financial quantification of assessed risks and opportunities |                 |             |      | Potential financial impact on cash flow/ profit in year |      |      |      |
|--|-----------------|-------------|------|---|------|------|------|
| Regulatory and market risks                                  | Key assumptions | Sensitivity | Year | 2024  | 2025 | 2026 | 2027 |

## Preliminary Structure of Illustrative Sustainability Report

| Financial quantification of assessed risks and opportunities |                 |             |      | Potential financial impact on cash flow / profit in year |      |      |      |
|--|-----------------|-------------|------|--|------|------|------|
| Physical environmental risks                                 | Key assumptions | Sensitivity | Year | 2024   | 2025 | 2026 | 2027 |

### 6. Metrics and targets

| Disclosure requirement   | Company's response |
|--|--------------------|
| Sustainability related risk or opportunity and related metric as per requirement of applicable IFRS sustainability disclosure standard   |                    |
| Metrics entity uses to measure and monitor sustainability-related risk or opportunity and its performance in relation to that sustainability-related risk or opportunity; including progress towards targets set by entity, and targets required to meet by law or regulation.                   |                    |
| Information relevant to cross-industry metric categories   |                    |
| Industry-based metrics that are associated with particular business models, activities or other common features that characterize participation in an industry; and  |                    |
| Targets set by the entity, and any targets it is required to meet by law or regulation, to mitigate or adapt to climate-related risks or take advantage of climate-related opportunities, including metrics used by the governance body or management to measure progress towards these targets. |                    |

### 7. Climate-related metrics and targets

| Disclosure requirement   | Company's response |
|--|--------------------|
| <b>Greenhouse Gas (GHG) Emissions</b>  |                    |
| Absolute greenhouse gas emission generated during the reporting period (CO <sub>2</sub> metric tonnes) calculated in accordance with GSP (2004) or a local prescribed method |                    |
| Scope 1 emissions disaggregated into (i) Overall group, (ii) Parent and (iii)  |                    |

## Preliminary Structure of Illustrative Sustainability Report

| Disclosure requirement   | Company's response |
|--|--------------------|
| subsidiaries and (iv) other investees excluded from consolidated accounting group  |                    |
| Scope 2 emissions disaggregated into (i) Overall group, (ii) Parent and (iii) subsidiaries and (iv) other investees excluded from consolidated accounting group, their locations and information about contractual instruments necessary to build understanding of users       |                    |
| Scope 3 emissions – disclose categories included within entity's measure of Scope 3 GHG emissions in accordance with Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011)  |                    |
| Additional information about the entity's Category 15 GHG emissions or those associated with its investments (financed emissions) for entities in asset management, commercial banking or insurance.   |                    |
| Measurement approach, inputs and assumptions used, and its reason for use, and any change in measurement approach, inputs and assumptions during the reporting period along-with reason for change.  |                    |
| Metrics entity uses to measure and monitor sustainability-related risk or opportunity and its performance in relation to that sustainability-related risk or opportunity; including progress towards targets set by entity, and targets required to meet by law or regulation. |                    |
| Information relevant to cross-industry metric categories   |                    |
| Industry-based metrics that are associated with particular business models, activities or other common features that characterize participation in an industry; and  |                    |
| Targets set by the entity, and any targets it is required to meet by law or regulation, to mitigate or adapt to climate-related risks or   |                    |

## Preliminary Structure of Illustrative Sustainability Report

| Disclosure requirement   | Company's response |
|--|--------------------|
| take advantage of climate-related opportunities, including metrics used by the governance body or management to measure progress towards these targets.                |                    |
| Climate-related transition risks- the amount and percentage of assets or business activities vulnerable to climate-related transition risks                            |                    |
| Climate-related physical risks- the amount and percentage of assets or business activities vulnerable to climate-related physical risks                                |                    |
| Climate-related opportunities- the amount and percentage of assets or business activities aligned with climate-related opportunities                                   |                    |
| Capital deployment – the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities                               |                    |
| <b>Internal carbon prices</b>  |                    |
| an explanation of whether and how the entity is applying a carbon price in decision-making (for example investment decisions, transfer pricing, and scenario analysis) |                    |
| The price for each metric tonne of greenhouse gas emissions the entity uses to assess the costs of its greenhouse gas emission; and                                    |                    |
| <b>Remuneration</b>  |                    |
| A description of whether and how climate-related considerations are factored into executive remuneration;  |                    |
| The percentage of executive management remuneration recognized in the current period that is linked to the climate-related considerations.                             |                    |
| <b>Additional information on targets</b>   |                    |
| Metric used to set the target  |                    |
| Objective of the target (adaptation, mitigation, science-based initiative)   |                    |

## Preliminary Structure of Illustrative Sustainability Report

---

| Disclosure requirement  | Company's response |
|---|--------------------|
| Part of the entity to which it applies (e.g. entire entity, or part of entity such as specific business unit etc.)                                      |                    |
| The period over which the target applies  |                    |
| The base period from which progress is measured   |                    |
| Any milestones and interim targets  |                    |
| If target is quantitative (whether it is absolute target or an intensity target)  |                    |
| How the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement, has informed the target. |                    |

### 8. Date of authorization for issue:

The sustainability-related financial information was approved by Board of Directors of XYZ Company and authorized for issue on -----.

**Chief Executive Officer**

**Director**

**Chief Financial Officer**

# **Proposed Criteria for Applicability**

# PROPOSED CRITERIA FOR APPLICABILITY

## Companies-in-scope

All companies, subject to fulfillment of criteria given below, shall publish sustainability reports in accordance with IFRS Sustainability Disclosure Standards.

### Phase I - period beginning on or after January 1, 2024

- (i) Turnover greater than Rs. 25 billion in last two consecutive financial years as per their financial statements; or
- (ii) employees (permanent and contractual) greater than 1000 in number; or
- (iii) Total assets greater than Rs. 12.5 billion

### Phase II - period beginning on or after January 1, 2025

- (i) Turnover greater than Rs. 12.5 billion in last two consecutive financial years as per their financial statements; or
- (ii) employees (permanent and contractual) greater than 500 (in number); or
- (iii) Total assets greater than Rs. 6.25 billion

# CRITERIA FOR APPLICABILITY

## Phase III - period beginning on or after January 1, 2026

Only Listed Companies (other than those falling in Phase I and Phase II above).

### Note:

1. Reporting in first year of application of IFRS S1 and S2 will comprise of only climate-related disclosures. The first reporting may be made within 9 months from the close of financial year.
2. Climate-related Disclosures- Scope 3 emissions shall be applicable from second year of reporting by respective companies.
3. Requirement of providing assurance in accordance with International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements, shall be applicable from second year of reporting by respective companies.





**CA**  
**PAKISTAN**

**Thank you**