"Challenges and Benefits in Adopting IFRS S1 & S2 "

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Benefits and Challenges of Implementing IFRS S1 and S2

The adoption of the standards IFRS S1 and S2 bring with them both significant benefits but also unique challenges for organisations. These standards represent a big step forward in the standardisation of sustainability and climate disclosures, but their implementation requires careful and strategic consideration.

Benefits of IFRS S1 and S2 Adoption

- If investors have an improved understanding of the sustainability-related risks and opportunities of a company and its peers, it will be easier for them to predict future cash flows and the uncertainties associated with future cash flows, leading to lower risk of owning the company, and, as a result, lower cost of capital.
- improves interoperability among other sustainability reporting frameworks, helping companies streamline their sustainability reporting processes; and
- enables greater transparency of information, resulting in improved access to capital, governance and strategy for companies.
- Improve the transparency and comparability of sustainability information, which permits investors and other stakeholders to make more informed decisions.
- Help companies to identify and manage risks related with sustainability and the climate, improving in this way long term resilience.
- Strengthen their reputation and credibility within the market, demonstrating a genuine commitment to sustainable and responsible practices.

Some potential implementation challenges faced by the entities, local regulators, and all related stakeholders regarding the IFRS Sustainability Disclosure Standards

- One of the main challenges is the need to adapt existing information and reporting systems to the new requirements. This can require significant investment in technology and labour.
- Furthermore, companies should navigate the complexity of integrating sustainability and climate considerations into their commercial strategies and operations, which can be a time and resource consuming process.
- the medium and long term effects will be difficult to assess quantitatively, given that there is not always a direct relationship between a significant climate-related risk or opportunity and the financial position, and it may be challenging to clearly distinguish the climate-related effect(s) from all other effects on an entity's financial position, which could impact the reliability of information and the ability to verify future-oriented information.
- need further guidance – on the measurement and disclosure of information from associates, joint ventures and other non-consolidated investments – is needed to operationalise that principle.
- investors are most interested in sensitivity analysis on key parameters developed using scenarios rather than the scenario itself. This sensitivity analysis is even more valuable if it is comparable between companies. However, unless scenarios to be used are specified, the scenarios chosen for this analysis by an entity may not be consistent or comparable between entities. In order to provide comparability between entities is for the ISSB to require entities to use specified, globally recognised external scenarios. Specifying globally recognised scenarios for analysis will provide consistent and comparable disclosures and reduce the subjectivity of judgements needed.
- sustainability-related risks and opportunities may impact the valuation of an asset, affect the entity's accounting policies in the financial statements or the entity's assessment of their ability to continue as a going concern

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