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Navigating the Future of Climate Disclosures: IFRS S2 and Its Impact on Businesses



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As climate change continues to disrupt economies worldwide, the financial implications are becoming impossible to ignore.

Businesses, investors and regulators increasingly recognise the need for transparent, comparable and standardised climate-related disclosures to better assess and mitigate any risks.

In response to this growing demand, the International Sustainability Standards Board (ISSB) published IFRS S2 – Climate-related Disclosures in June 2023. This landmark standard establishes clear and consistent requirements for companies to disclose material climate-related risks and opportunities, ensuring that financial markets can better evaluate climate-related financial exposures.

A Shift Towards Standardised Climate Reporting

IFRS S2 is built upon the structure and principles of the Task Force on Climate-related Financial Disclosures (TCFD). Following the release of IFRS S2, the TCFD was formally disbanded in October 2023, marking a significant step in the evolution of global climate-related financial reporting.

The standard is effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted, provided that companies also implement IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Information.

Key IFRS S2 Disclosure Requirements:

1. **Climate-Related Risks and Opportunities:** Companies must disclose information about how climate-related risks and opportunities could affect their business, including potential impacts on cash flow, access to finance and costs over the short, medium, and long term.
2. **Core Content Areas:**
 - **Governance:** Companies need to explain how their governance structures manage climate-related risks and opportunities.
 - **Strategy:** Businesses must assess the actual and potential impacts of climate-related risks and opportunities on their strategy and financial planning.

- Risk Management: Companies should outline their processes for identifying, assessing and managing climate-related risks.
 - Metrics and Targets: Companies need to disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities.
3. Consistency and Comparability:
IFRS S2 aims to ensure disclosures are aligned across companies, making it easier for stakeholders to compare and evaluate climate-related financial exposures.

With regulators and investors worldwide rallying behind IFRS S2, climate-related financial disclosures are no longer a recommendation but an expectation. Companies must proactively align with this new standard to build investor confidence, enhance corporate transparency and future-proof their business strategies ensuring they provide robust, decision-useful climate-related information to stakeholders.

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