Are you ready to transition from TCFD to IFRS S2?

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We continue to have conversations with our clients about "readiness" to transition to the new IFRS Sustainability Disclosure Standards from the International Sustainability Standards Board (ISSB). The ISSB has stated that companies may focus on climate-only disclosures the first year of transitioning to the new standards. That means companies can use *IFRS S2 Climate-related Disclosures Standard (IFRS S2)* and only the general reporting principles and climate-applicable requirements of *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1)* for a year before moving to full use of both.

To help clients decide if they are ready to move to IFRS S2, we've summarized the key differences between IFRS S2 and the recommendations of the former Task Force on Climate-related Financial Disclosures (TCFD) below. We've also provided some useful links to additional resources.

We note that readiness to move to IFRS S2 does not necessarily mean that companies are able to meet all disclosure requirements. Similar to early TCFD reporting, we expect companies to report gaps and to indicate where certain efforts are in process. Some companies may also decide to stick with TCFD for another year.

New or Additional Requirements in IFRS S2 Compared to TCFD Recommendations

Governance	• How the body with ultimate oversight over climate ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities • Climate-related remuneration for executives and management
Strategy	• Current and anticipated adaptation and mitigation efforts, including how companies are currently resourcing or plan to resource responses to climate-related risks and opportunities: e.g., effects on financial position and performance and cash flows for reporting period and over short, medium and long-term; changes to production processes, products, and workforce; etc. • Climate resilience details, including information on significant areas of uncertainty for strategy resilience • Financial information on carbon prices and capital deployment, including the amount of capital expenditure, financing or investment deployed toward climate-related risks and opportunities • Climate transition plans (if applicable), including plans to achieve climate-related targets and the use of carbon offsets

Risk Management	• More detail on climate scenario analyses conducted, including: o How the scenario analysis was carried out, including data sources, scope of operations covered, which climate-related scenarios were used and why (including which align with the latest international agreement on climate change), time horizons, and key assumption details (climate-related policies in jurisdictions in which a company operates, macroeconomic trends, national or regional variables, energy usage and mix, and technology developments) o Detail on how risks (physical and transition) and opportunities are integrated into overall risk management processes and structures • Amount and % of assets or business activities vulnerable to physical risks • Amount and % of assets or business activities vulnerable to transition risks • Amount and % of assets or business aligned with climate-related opportunities • Amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities • *Note*: IFRS S2 requires that companies at a minimum update their climate-related scenario analysis in line with their strategic planning cycle. However, an assessment of the company's resilience is required to be carried out annually to reflect updated insight into the implications of climate uncertainty for the company's business model and strategy.
Metrics and Targets	• Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions for the reporting period following the GHG Protocol. Companies should include: o Approach used (i.e., equity share or control approach) and the consolidated account group to which the emissions pertain (e.g., parent and consolidated subsidiaries or other boundaries) o Absolute and intensity-based emission metrics expressed as metric tons of carbon dioxide equivalents ($MTCO_2e$) o Separate disclosure of Scope 1 and Scope 2 for (1) the consolidated accounting group, and for (2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group o Scope 2 emissions as reported on a location-based approach o Scope 3 emissions, including information on the measurement approach, inputs and assumptions. Companies must consider all 15 categories of Scope 3 emissions and disclose disaggregated emissions if material • Companies with activities in asset management, commercial banking or insurance required to disclose financed emissions, including absolute gross financed emissions disaggregated by Scope 1, Scope 2 and Scope 3 (in some cases for each industry by asset class) if applicable following the GHG Protocol and Partnership for Carbon Accounting Financials (PCAF) Standard or comparable methodology • Details on targets, including: o If gross or net with gross is required o How each was set, including how latest international agreements and their conclusions, including jurisdictional commitments, have informed targets o Whether targets have been verified o How targets and performance against each are reviewed and monitored over time • The use of carbon credits and the reporting of gross (excluding the impact of carbon credits) and net (including the effect of these credits) emissions

Other Useful Links

- **CSRD**: Nearly all the climate-related disclosures in IFRS S2 are included in the European Sustainability Reporting Standards (ESRS) under the EU's Corporate Sustainability Reporting Directive (CSRD). See ESRS-ISSB Standards Interoperability Guidance for more information.
  NOTE: *Alignment could change if the EU's Omnibus is approved, which aims to streamline requirements for applicable companies.*
- **GRI**: In January 2024, the IFRS Foundation and GRI published *"Interoperability considerations for GHG emissions when applying GRI Standards and ISSB Standards,"* which discusses areas of interoperability between GRI 305: Emissions and IFRS S2. GRI is updating its energy and climate topic standards now with new guidance anticipated sometime this year.
- **CDP**: CDP's climate questions align with IFRS S2.

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