Understanding IFRS S1 and IFRS S2: A Brief Overview

DR. RUSLAINA YUSOFF &
SHARIFUL AMRAN ABD RAHMAN
ruslaina@uitm.edu.my

Introduction

Sustainability reporting is becoming an important issue for every company in communicating information to all stakeholders regarding their involvement in environmental, social and governance practices (Manley, 2024). To gain better standardization and harmonization of reporting, the International Sustainability Standards Board (ISSB) was established in 2021 by IFRS Foundation. The aim is to develop global sustainability disclosure standards. In June 2023, the International Sustainability Standards Board (ISSB) officially released two key standards, IFRS S1, General Requirements for Sustainability-Related Financial Information, a framework for companies to disclose sustainability-related risks and opportunities that could impact their financial performance, and IFRS S2, Climate-Related Disclosures, which focuses on climate-related risks and opportunities. Both IFRS S1 and IFRS S2 promotes consistency, comparability, and reliability in sustainability reporting. Thus, helping stakeholders especially investors in making informed decisions (Deloitte, 2023; MIA, 2023; PwC, 2023; Grant Thornton & MICPA, 2024). These Standards are based on recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Overview of IFRS S1

IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information*, sets out the general requirements for a complete set of sustainability-related financial disclosures. According to the standard, companies must report all sustainability-related risks and opportunities that can have an immediate, medium, or long-term impact on their cash flows, ability to get financing, or cost of capital (Deloitte, 2023; MIA, 2023; PwC, 2023; Grant Thornton & MICPA, 2024).

Grant Thornton & MICPA (2024) wrote that the Standard:

- Requires the disclosure of material sustainability-related risks and opportunities alongside financial statements to meet investor information needs.
- Mandates industry-specific disclosures and refers to the Sustainability Accounting Standards Board (SASB) standards as a guide for identifying relevant sustainability-related risks and opportunities.
- Identifies sources for identifying sustainability risks, opportunities, and information (except IFRS S2).
- Requires disclosures that help investors understand the link between sustainability-related risks and opportunities, financial disclosures, and financial statements.
- Is independent of any specific GAAP framework.

To comply with IFRS S1, companies should collect relevant ESG data, apply the standard's principles to structure their disclosures, and integrate this information into their general-purpose financial reports, ensuring a comprehensive view of their sustainability-related financial information.

Overview of IFRS S2

IFRS S2, Climate-related Disclosures, focuses specifically on climate-related risks and opportunities (IFRS.org, 2023). The standard requires companies to disclose information about their exposure to climate-related risks and opportunities, including physical and transition risks, that could affect their financial performance.

According to Grant Thornton and MICPA (2024), IFRS S2 has been developed to capture climate-specific requirements which includes:

- Strategy disclosures that distinguish between physical and transitional risks.
- Disclosure of their plans to respond to climate-related risks and opportunities, including how climate-related.
- targets are set and any targets it is required to meet by law or regulation.
- Companies should perform scenario analysis to explain how various climate-related events may impact the business in the future.
- Climate-related metrics and target disclosures should include:
- Cross-industry metrics that are relevant to all companies e.g. greenhouse gas emissions,
- Industry-based metrics relevant to companies within the related industries and
- Company specific metrics considered by the board or management when measuring progress towards set targets.

By adhering to IFRS S2, companies enhance transparency regarding their climate risk management strategies, providing investors and stakeholders with critical information for decision-making.

Timeline & Developments in Malaysia

In Malaysia, the adoption of IFRS S1 and S2 will follow a phased approach based on company classification as follows:

The various stages of implementation datelines given to different classifications of companies provides them with flexibility in adopting the standards during the initial years. Thus, companies will have time to fully understand the new requirements especially sustainability-related risks and opportunities that impact their financial performance and integrate them into their business operations.

By adhering to the new requirements of IFRS S1 and IFRS S2, companies in Malaysia can enhance their sustainability reporting, improve transparency, and strengthen investor confidence. These promotes better corporate governance and the long-term sustainability of the companies.

Conclusion

The introduction of IFRS S1 and IFRS S2 in guiding the sustainability reporting, promotes the harmonization of the reporting globally. These standards enhance transparency, consistency, comparability, and reliability in sustainability reporting, that will improve decision making of the investors. A study by Wahyuni (2025) suggests that IFRS S1 and S2 have the potential to improve the quality of sustainability reporting by providing clear and standardized guidance. The implementation of these standards can assist companies in disclosing relevant information regarding ESG policies and strategies, as well as related impacts and risks that may affect long-term business sustainability.

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