

Technical Update TU006/2024

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This article covers “IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 – Climate-related Disclosures”.

The new standards are intended to help improve trust and confidence in corporate disclosures about sustainability and to make better investment decision.

The coverage of this newsletter are on the following areas:

- I. IFRS S1 – GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION
- II. IFRS 2 – CLIMATE-RELATED DISCLOSURES
- III. EFFECTIVE DATE
- IV. TRANSITIONAL PROVISIONS

The International Sustainability Standards Board (“ISSB”) has published its first two standards, bringing a new era of sustainability-related disclosures to corporate reporting. The ISSB is an independent standard-setting body within the IFRS Foundation.

The new standards are intended to help improve trust and confidence in corporate disclosures about sustainability and to inform investment decisions. In this regard, Cambodia fully adopted IFRS S1 and S2 representing a significant milestone in the country's financial reporting landscape. By embracing these comprehensive international standards, Cambodia is aligning its financial reporting practices with global best practices, enhancing transparency and comparability for both domestic and international stakeholders.

I. IFRS S1 – GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION

Overview

The objective of IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information is to require an entity to disclose information about its sustainability-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. [IFRS S1 para 1].

IFRS S1 requires an entity to disclose information about its 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 (collectively referred to as ‘sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects’). [IFRS S1 para 3].

Core Content

The standard prescribes how an entity prepares and reports its sustainability-related financial disclosures, setting out requirements for the content and presentation of those disclosures. Particular disclosure matters include [IFRS S1 para 25]:

- a. Governance - the governance processes, controls, and procedures the entity uses to monitor, manage, and oversee sustainability-related risks and opportunities;
- b. Strategy - the entity's strategy for managing sustainability-related risks and opportunities;
- c. Risk Management - the processes the entity uses to identify, assess, prioritise, and monitor sustainability-related risks and opportunities; and
- 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.

Location of Disclosures

An entity is required to provide disclosures required by IFRS Sustainability Disclosure Standards as part of its general purpose financial reports. [IFRS S1 para 60].

Timing of Reporting

An entity shall report its sustainability-related financial disclosures at the same time as its related financial statements. The entity's sustainability-related financial disclosures shall cover the same reporting period as the related financial statements. [IFRS S1 para 64].

IFRS S1 does not mandate which entities would be required to provide interim sustainability-related financial disclosures, how frequently, or how soon after the end of an interim period. However, governments, securities regulators, stock exchanges, and accountancy bodies may require entities whose debt or equity securities are publicly traded to publish interim general purpose financial reports. [IFRS S1 para 69].

Comparative Information

IFRS S1 requires an entity to disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period. If such information would be useful for an understanding of the sustainability-related financial disclosures for the reporting period, the entity shall also disclose comparative information for narrative and descriptive sustainability-related financial information. [IFRS S1 para 70].

II. IFRS S2 CLIMATE-RELATED DISCLOSURES

Overview

IFRS S2 requires an entity to disclose information about its 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. [IFRS S2 para 1].

IFRS S2 requires an entity to disclose information about climate-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 (collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'). [IFRS S2 para 2].

Scope

IFRS S2 applies to: [IFRS S2 para 3]

- a. climate-related risks to which the entity is exposed, which are:
 - I. climate-related physical risks; and
 - II. climate-related transition risks; and
- b. climate-related opportunities available to the entity.

Core Content

The disclosures in IFRS S2 follow the same structure as that for IFRS S1.

III. EFFECTIVE DATE

IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after 1 January 2024, with early adoption permitted. If an entity applies IFRS S1 earlier, it shall disclose that fact and apply IFRS S2 Climate-related Disclosures at the same time. [IFRS S1 Appendix E para E1]. Or, if an entity applies IFRS S2 earlier, it shall disclose that fact and apply IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information at the same time. [IFRS S2 Appendix C para C1].

Based on Notification No. 023/23 issued on 27 June 2023, the Accounting and Auditing Regulator of Cambodia (“ACAR”) follows the IFRS timeline for the adoption of these new standards. To date, there has been no additional notification issued yet by ACAR.

IV. TRANSITIONAL PROVISIONS

The ISSB has provided multiple transitional reliefs to assist entities in applying IFRS Sustainability Disclosure Standards:

- Comparative information – an entity is not required to report comparative information in the first annual reporting period in which it applies IFRS Sustainability Disclosure Standards. [IFRS S1 Appendix E para E3]. [IFRS S2 Appendix C para C3].
- Timing of reporting – an entity is permitted to publish its first sustainability-related reporting within nine months of the end of the annual reporting period, the entity is permitted to continue to use that other measurement method in the first year of application if the entity is not required to and does not voluntarily provide an interim general purpose financial report. [IFRS S1 Appendix E para E4(c)].
- Greenhouse Gas (GHG) emissions measurement – where an entity has been using a GHG emissions measurement method that is different from the GHG Protocol Corporate Standard, the entity is permitted to continue using that other method. [IFRS S2 Appendix C para C4(a)].
- Scope 3 GHG emissions – in the first year of applying, an entity is not required to disclose Scope 3 GHG emissions which includes, if the entity participates in asset management, commercial banking, or insurance activities, the additional information about its financed emissions. [IFRS S2 Appendix C para C4(b)].

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This article is not comprehensive and was prepared based on information available generally and is not intended to be relied upon as professional advice. The views expressed in this article represent our perspectives as of the date of this article. We may identify additional issues as we analyse the standard and the entities, and our views may evolve during that process.

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Let us be of assistance to you.

For further information about how Baker Tilly Cambodia can assist you and your organisation, please contact us via below.

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