ibgc instituto brasileiro de governança corporativa

Chapter Zero Brazil
The IBGC Climate Forum

Guide for board members: IFRS S1 and S2 sustainability standards

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Founded on November 27, 1995, the Brazilian Institute of Corporate Governance (Instituto Brasileiro de Governança Corporativa – IBGC), a civil society organization, is a national reference and one of the world's leading organizations in corporate governance. Its objective is to generate and disseminate knowledge about best practices in corporate governance and to influence a diverse range of stakeholders in their adoption, contributing to the sustainable performance of organizations and, consequently, to a better society.

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Chapter Zero Brazil
The IBGC Climate Forum

The Climate Governance Initiative (CGI) is an initiative of the World Economic Forum that aims to mobilize boards of directors to address the challenges of climate change within their organizations.

Created in 2019 as an offshoot of a World Economic Forum working group, the movement has a growing number of supporters around the world, forming a global network of independent organizations.

IBGC is Chapter Zero Brazil, CGI's Brazilian chapter, and is committed to promoting content and events to inform, exchange ideas, and share experiences on actions that help mitigate climate change for the benefit of the planet.

The objective is to offer training and raise awareness among board members and business leaders to identify the risks and opportunities that the climate emergency presents. For more information about Chapter Zero Brazil, please visit the website https://ibgc.org.br/destaques/chapterzerobrazil

Credits

This publication is authored by the Working Group (WG) composed of Adriana Caetano, Daniela Manole (WG Coordinator), Edilson Paulo, Edna Holanda, Gabriela Blanchet (Chapter Zero Brazil Coordinator), Gustavo Lucena, Kieran McManus, and Lucia Casasanta.

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Disclaimer

This publication is not intended to be exhaustive. It is the responsibility of board members to seek up-to-date sources of knowledge on the application of the standards mentioned in this document and other interoperable standards.

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List of Acronyms

CBPS – Comitê Brasileiro de Pronunciamentos de Sustentabilidade (Brazilian Sustainability Pronouncements Committee)

CDSB – Climate Disclosure Standards Board

CFC – Conselho Federal de Contabilidade (Federal Accounting Council of Brazil)

COSO – Committee of Sponsoring

Organizations of the Treadway Commission

CPC – Comitê de Pronunciamentos Contábeis (Accounting Pronouncements Committee of Brazil)

CSRD – Corporate Sustainability Reporting Directive

CVM – Comissão de Valores Mobiliários (Securities and Exchange Commission of Brazil)

EFRAG – European Financial Reporting Advisory Group

ERM – Enterprise Risk Management

ESG – Environmental, Social, and Governance

ESRS – European Sustainability Reporting Standards

FSB – Financial Stability Board

GHG – Greenhouse Gases

GRI – Global Reporting Initiative

IAASB – International Auditing and Assurance Standards Board

IASB – International Accounting Standards Board

IFAC – International Federation of Accountants

IFC – International Finance Corporation

IFRS – International Financial Reporting Standards

IIRC – International Integrated Reporting Council

IOSCO – International Organization of Securities Commissions

IPO – Initial Public Offering

IRCC – Integrated Reporting and Connectivity Council

ISAE – International Standard on Assurance Engagements

ISSB – International Sustainability Standards Board

ISSA – International Standard on Sustainability Assurance

KPI – Key Performance Indicators

BR GAAP – Brazilian Generally Accepted Accounting Practices

UN – United Nations

SASB – Sustainability Accounting Standards Board

SEC – Securities and Exchange Commission

TCFD – Task Force on Climate-related Financial Disclosures

VRF – Value Reporting Foundation

WBCSD – World Business Council for Sustainable Development

Introduction

This **Guide for board members: IFRS S1 and S2 sustainability standards** was jointly prepared by IBGC and Chapter Zero Brazil to provide a useful support tool for directors and other governance agents. It aims to facilitate the production of accurate and reliable short-, medium-, and long-term financial and pre-financial information. The focus is on the environmental, social, and climate risks and opportunities managed by the organization, which can reasonably be expected to impact its cash flow, access to finance, and cost of capital.

The approach to running and operating the business has evolved in recent years to reflect a contemporary vision that demands the generation of shared value and recognizes the organization's interdependence and interconnectedness with all its stakeholders, including both people and the planet. It is undeniable that we live in an era in which a holistic and systemic view by the board, including for non-financial issues, is fundamental to the long-term resilience and survival of the business, in a period of climatic, social, and environmental turbulence.

Investors, lenders, regulators, and other stakeholders consistently challenge organizations to take an integrated strategic approach to addressing environmental, social, and climate issues.

Despite modest progress, climate governance has not yet been prioritized by boards, and financial information linked to climate, social, and environmental issues does not yet permeate all areas of the organization, often remaining limited to the sustainability department or a specific area within the company.

In this sense, the World Economic Forum's Climate Governance Initiative aims to raise awareness, mobilize, and engage boards and senior leadership to address the challenges of climate, social, and environmental change in their businesses, providing content, data, and tools, such as this Chapter Zero Brazil publication, to address the issue with the urgency that the current scenario requires.

Organizations are important economic actors and, more than ever, they need to position themselves, make commitments to people and the planet, communicate with complete transparency to the market, and act with coherence.

IFRS S1 and S2, which in Brazil will be called CBPS 01 and 02, aim to standardize the disclosure of financial and non-financial information related to sustainability, making it clear, comparable, and consistent in the pursuit of a more transparent and reliable global market. The board has a crucial role in ensuring the proper treatment of the issue within the organization, reinforcing the importance of assessing the climate, environmental, and social risks and opportunities identified as material to the business.

IFRS S1 and S2, incorporated into Brazilian regulation by the Brazilian Securities and Exchange Commission (CVM), are likely the first in a series of future regulations that could cover issues related to biodiversity and human rights.

The undisputed fact is that extreme weather events are occurring and will directly or indirectly impact business operations worldwide. Given this, organizations need to be prepared to address them.

We hope that this publication serves as a beacon and that boards and other corporate governance agents can use it in the sustainability and regeneration journey of the organizations they serve.

Gabriela Blanchet (Chapter Zero Brazil Coordinator) and
e **Valéria Café** (IBGC CEO)

Preface

Brazil is at the forefront of the green economy and sustainable finance. The issuance of CVM Resolution 193, in addition to enhancing the transparency and reliability of information presented to society, has elevated our country to a pioneering position in the adoption of sustainability reporting rules, following international IFRS standards, such as those endorsed by the IOSCO. This standard is part of CVM's Sustainable Finance Action Plan, which includes goals, objectives, and deadlines for compliance based on the guidelines contained in the organization's Sustainable Finance Policy.

CVM has continually worked to improve the existing framework and develop, in a non-invasive way, rules that encourage the adoption of sustainable practices in the Brazilian capital market. For example, CVM Resolution 59 introduced an innovation by highlighting the importance of providing information on Environmental, Social, and Governance criteria in the Reference Forms. It also requires justifications, through the "comply or explain" model, regarding the adoption of actions in this regard. In CVM Resolution 175, the CVM recognized the possibility of funds investing in environmental assets as financial assets and made recommendations regarding the use of "ESG" and "green" terminologies to avoid greenwashing.

The moment is indeed one of significant transformation. The relationship between sustainable finance and the capital market involves the search for investments aligned with the creation of specific financial instruments for sustainable projects, as well as the influence of investors on the practices and disclosures made available by companies and other issuers. This relationship contributes to the promotion of a more sustainable and responsible economy. It also reinforces the idea that the “future is green and digital.”

In the **Guide for board members: IFRS S1 and S2 sustainability standards**, readers will recognize how relevant the theme of the green economy is. Furthermore, they will come to understand that we are facing a path of no return. After all, climate change control, environmental preservation, and a sustainable agenda are cross-cutting themes in the capital market – and they generate business opportunities for all those who understand the central objectives of these agendas.

João Pedro Nascimento (President of CVM)

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Objective

This guide provides useful content on IFRS S1 and S2 to board members to help them:

- Monitor, provide active input, and validate the various stages of preparing reports related to non-financial and financial information on sustainability, aligned with the financial statements.
- Raise awareness of the importance of fiduciary responsibility over published non-financial information.
- Develop and enhance strategic climate transition plans in terms of risks and opportunities.
- Understand the broader environmental, social, and governance impacts, as recommended by IFRS S1.
- Recommend voluntary adoption of the standards to prepare companies for mandatory adoption.

1. The context behind IFRS S1 and S2

The growing demand for sustainable and responsible business practices has driven the need for sustainability standards that allow greater comparability across companies. Since the 1980s, with the definition of the concept of sustainable development by the UN World Commission on Environment and Development, up until the creation of indices such as the Dow Jones Sustainability Index (DJSI) in the 1990s, there has been a continuous effort to integrate environmental, social, and governance (ESG) aspects into corporate strategies.

The Global Reporting Initiative (GRI), founded in 1997, pioneered the creation of sustainability reporting standards, promoting corporate transparency and responsibility. To establish an international standard for the dissemination of sustainability reports that enhances transparency, increases investor confidence, and provides benchmarking among companies operating in the same sector, the International Sustainability Standards Board (ISSB) was created under the International Financial Reporting Standards (IFRS) Foundation. This movement is essential to meet the expectations of institutional investors and other stakeholders, who seek to ensure that investments generate positive and sustainable social and environmental impacts.

In October 2023, the first standards were launched as part of a planned series. IFRS S1, which covers the general principles of sustainability-related risks and opportunities, and IFRS S2, which addresses climate-related disclosures[1].

1. IFRS, "IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information", 2023; IFRS, "IFRS S2 Climate-related Disclosures", 2023.

With the purpose of leveraging existing frameworks, the IFRS Foundation has been consolidating several structures since 2021. In this sense, the IFRS Foundation incorporated the Value Reporting Foundation (VRF), which was created from the consolidation of the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB).

There was also the incorporation of the Climate Disclosure Standards Board (CDSB). More recently, the Task Force on Climate-Related Financial Disclosures (TCFD) transferred the responsibility for the framework's applicability to IFRS. The TCFD framework is incorporated into IFRS S1 and S2, just as the SASB standards are incorporated into IFRS S2. The Integrated Reporting and Integrated Thinking Framework reinforces the fundamentals necessary to demonstrate the principles adopted by IFRS S1 and S2.

The importance of board members and other governance agents actively monitoring the application of these frameworks is tied to their fiduciary responsibilities, such as ensuring that the financial statements are closely aligned with IFRS S1 and S2.

Of the **eight principles of climate governance** established by the World Economic Forum, described in the publication "How to Set Up Effective Climate Governance on Corporate Boards" which was translated and published in Portuguese by Chapter Zero Brazil and IBGC, the first principle deals specifically with **climate accountability in boards**, establishing that:

> *"The board ultimately has a fiduciary duty to be accountable to shareholders for the company's long-term results. Thus, the board should be responsible for the company's long-term resilience to potential changes in the business landscape arising from climate change. Failure to comply with this responsibility may constitute a breach of the duties of board members[2]."*

Incorporating climate, environmental, and social issues into the board agenda and business strategy is part of the board members' fiduciary duties. This becomes evident when we consider recent cases of climate litigation, which indicate how investors, creditors, regulators, society, and other stakeholders are attentive to board performance and are increasingly demanding the presentation of robust plans for transition and emissions neutralization.

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2. IBGC and Chapter Zero Brazil, "Como estabelecer uma governança climática efetiva nos conselhos de administração - Perguntas e princípios norteadores" 2022, p. 19.

In Brazil, IFRS S1 and S2 are called CBPS 01 and 02. The publication is overseen by the Brazilian Sustainability Pronouncements Committee (CBPS). CBPS 01 standard, in Item 27, Paragraph ii, defines among the responsibilities of governance: “how the body(ies) or individual(s) determines whether adequate skills and competencies exist or will be developed to oversee strategies aimed at responding to sustainability-related risks and opportunities”.[3]

Similarly, CBPS 02, entitled “Climate-related Disclosures” (name adopted in Brazil for IFRS S2), in its main content on governance, establishes in Item 6, Paragraph (a)(ii), the same need for capacity-building among governance agents.[4] The corporate governance structure ensures and supports the implementation process, guided by ethics, principles, purpose, and a culture of accountability. The construction of this framework, based on principles and content elements, has the primary function of gaining the trust of investors.

This guide, therefore, is timely in clarifying for board members the need to acquire knowledge so that the board and various advisory committees can actively monitor all stages of compliance with the rules.

In 2023, with the publication of CVM Resolution 193/23[5] (see details in Chapter 3), Brazil became the first country to adopt IFRS S1 and S2 standards in its regulations. Such standards require companies to comply with several requirements related to the transparency of risks and opportunities, with a long-term view rather than solely past performance.

3. CBPS, "Pronunciamento técnico CBPS 01: Requisitos Gerais para Divulgação de Informações Financeiras Relacionadas à Sustentabilidade", 2024.
4. CBPS, "Pronunciamento técnico CBPS 02: Divulgações Relacionadas ao Clima", 2024.

5. CVM, "CVM Resolution 193", 2023.

Figure 1. IFRS S1 and S2 Standards

Source: IFRS, 2023

Today, it is no longer enough to monitor the company's financial performance by analyzing the results quarterly. Investors and creditors need to know if the company will be resilient enough to adapt to the climate emergency, withstand catastrophes, and if it is prepared to face the threat of a potential competitor not currently present in the market. They also need to know if the company offers alternatives to global supply chains, to name just a few examples of risks connected to ESG aspects.

This guide aims to provide elements to equip board members with knowledge bases to understand, monitor, and participate in the planning and decision-making stages of the process of incorporating the new regulations.

2. The global framework of reporting norms and standards

This chapter presents the main global standards and norms and explains how Brazilian regulation has incorporated them for publicly held companies. In addition, it highlights the importance of its influence on the value chain, both in supply and distribution. Finally, it addresses how to differentiate the requirements across the various jurisdictions to which the organization is subject.

The main purpose of IFRS S1 and S2 standards is to meet investors' desire for information that is reliable, comparable, and connected to the financial statements, and that is strictly material from a financial perspective. However, if the company generates environmental, social, and economic impacts and manages them effectively, it will benefit from minimizing risks, as required by IFRS S1 and S2, and will also have a positive impact on sustainability.

On the global stage, there are several institutions that, for many years, have been publishing sustainability reporting frameworks and standards, such as the GRI. The GRI is voluntary, although some jurisdictions have incorporated it into regulation. It appears, for example, in CVM Resolution 59/2021, which also includes the "comply or explain" mechanism.[6]

The IIRC (now IRCC), currently under the IFRS umbrella, was created in 2010 and had the first international framework translated into Portuguese in 2013. In 2024, the most recent version in Portuguese was launched, as part of an initiative to encourage greater adoption by publicly held companies to prepare them for the new regulations. The Integrated Reporting Framework is one of the foundations of IFRS S1.

6. CVM, "CVM Resolution 59", 2021.

SASB, created in 2011, is a non-profit organization that was established to meet the financial market's demand for the reporting of standardized indicators by sector. Currently, there are 77 industry sectors that define the content to be reported. SASB is a foundational component of IFRS S1 and S2 standards. In 2021, SASB and the IIRC merged to create the VRF. In 2022, the VRF was merged into the IFRS Foundation, ceasing to exist independently.

The TCFD, created in 2015 by the FSB with the objective of providing climate-related financial information, delegated supervision of its framework's application to the ISSB starting in 2024. The TCFD is the basis of IFRS S2, the climate-related standard. The TCFD requires transparency from the company based on four pillars: governance, strategy, risk management, and metrics and targets, considering climate-related risks and opportunities. The four pillars of the TCFD are also the foundations of the IFRS S1 standard, which has been expanded to cover all risks and opportunities related to sustainability, in addition to climate.

The CDSB, created in 2007 by the World Economic Forum, launched its framework in 2010 to address the lack of climate content reporting standards. In 2015, it expanded the criteria to include broader information, and in 2018, it aligned with the TCFD. In 2022, the CDSB was consolidated into the IFRS Foundation and is also a basis for the new standards.

In addition to the main frameworks and standards briefly described above, there are recent jurisdictional regulations, such as those from Europe and the United States, both with impacts on global trade chains.

The CSRD came into effect in January 2023, affecting thousands of publicly traded and listed companies in Europe. Small and medium-sized non-European companies, provided they manage more than 150 million euros in the European market, are also subject to this regulation[7]. The standard to be applied is the ESRS, created by the multi-stakeholder technical body EFRAG. The European standard aimed for harmonization with IFRS and GRI.

Finally, it is worth mentioning the SEC regulation in the United States, implemented in March 2024, which requires transparency from publicly held companies, those registered for IPOs, and all companies trading shares on the American stock exchange. The requirements focus on material climate risks for the company, while leaving opportunities as optional.[8]

7. EFRAG, "Voluntary ESRS for non–listed small–and medium–sized enterprises", 2024.
8. SEC, "The Enhancement and Standardization of Climate–Related Disclosures for Investors", 2024.

Figure 2 shows the various norms, standards, regulations, and consolidations over time:

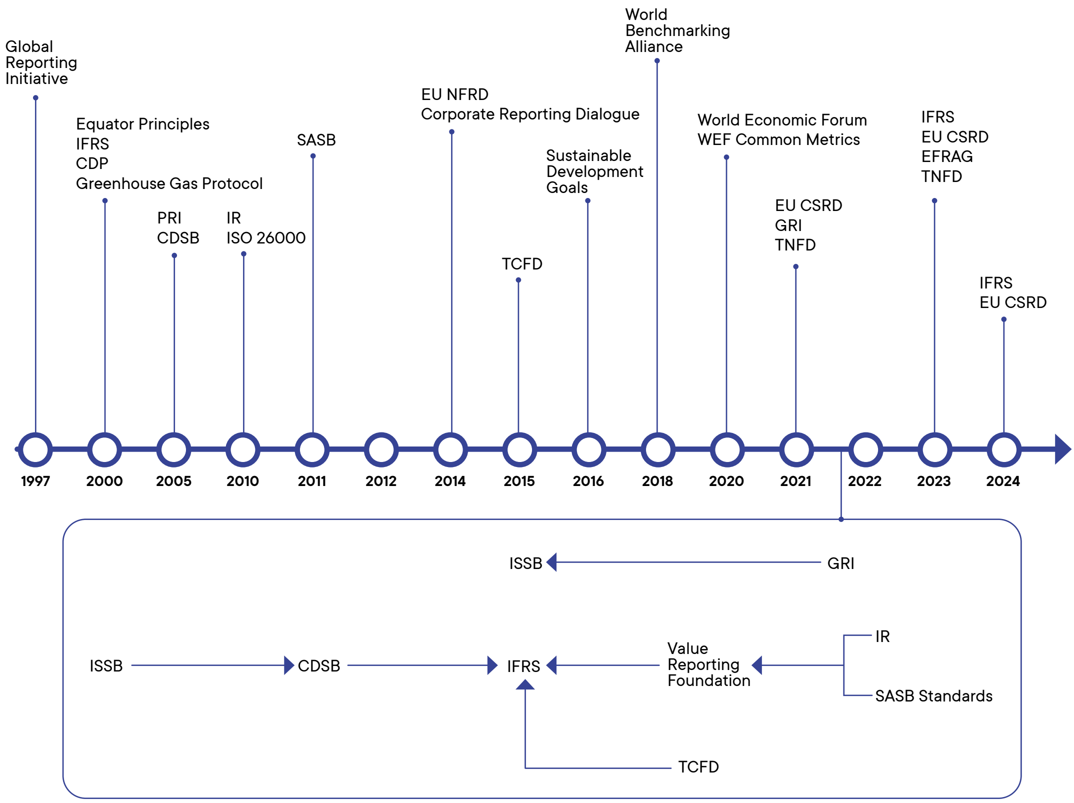

Figure 2. The path taken for ESG disclosure to become central

(Source: IFC, 2023)

The main characteristics of each standard and reporting structure will guide the company's decision-making process on the reporting format to be adopted, taking into account compliance with regulations, the needs of the investor market, and the demands of stakeholders in general. The purpose of this chapter was to:

- Explain to board members the main fundamentals of IFRS S1 and S2;
- Provide an overview to help board members assess the current stage of their company's compliance with the new requirements; and
- Prepare board members for voluntary adoption starting in 2025, emphasizing the importance of identifying which frameworks are already part of the company's report and incorporating those that are still missing. Thus, by the financial year 2026, the necessary historical data will already be built, as required by CVM Resolution 193.

3. Adoption of IFRS S1 and S2 standards in Brazil: CVM Resolution 193/2023

Adherence to the ISSB standard, as well as to International Accounting Standards (IFRS), is optional and depends on the regulations of each country. However, IOSCO recommends the adoption of IFRS standards and encourages its members to consider implementing them.

In January 2023, CVM launched the Sustainable Finance Policy, a document that defines guidelines, governance, and an action plan for the agency. The policy aims to "assist in strengthening the responsibilities, consolidation, organization, and structuring of CVM's sustainable finance work”[9], improving the dissemination and communication of the results of activities related to environmental, social, and governance (ESG) aspects.

The guidelines of this policy are based on promoting sustainable finance and strengthening the transparency of environmental, social, and governance information, which is essential for making more informed investment decisions. The CVM will seek the collaboration of market agents in building a sustainable finance taxonomy and will direct its supervisory actions to combat greenwashing practices, ensuring market integrity.

9. CVM, "Ordinance CVM/PTE No. 10/2023", 2023, p. 1.

In addition to these measures, CVM intends to promote technical cooperation and the exchange of experiences in sustainable finance among various agents of the capital market, increasing understanding and providing continuous updates to the market. It will also continue to encourage financial education and innovation, both of which are key tools for engaging and disseminating sustainable best practices, contributing to a more responsible and transparent capital market. These guidelines reflect CVM's commitment to integrating sustainability into the core of capital market operations, benefiting investors and society as a whole.

To implement the Sustainable Finance Policy, the CVM launched the Sustainable Finance Action Plan for 2023–2024 in October 2023[10]. This plan defines goals, objectives, and deadlines in line with the policy guidelines. The first action was the publication of CVM Resolution 193, which requires publicly held companies, investment funds, and securitization companies to prepare and disclose financial information reports on sustainability, following the international standards IFRS S1 and S2, issued by the ISSB[11]. This disclosure is voluntary for fiscal years 2024 and 2025 (with publication in 2025 and 2026) and becomes mandatory starting in 2026 (with publication in 2027).

Effective since January 1, 2024, CVM Resolution 193 establishes new guidelines for the sustainability reporting of publicly held companies registered with the CVM in categories A and B. Until 2025, adoption will be voluntary, giving companies the opportunity to gradually adapt to the new requirements. As of January 1, 2026, adoption will become mandatory for publicly held companies.

According to the resolution, companies that opt to adopt the ISSB standards in advance (in 2025 and 2026) will benefit from some flexibility. One of these flexibilities includes an exemption from presenting comparative information in the first mandatory year. This measure aims to facilitate the transition and allow companies to focus on implementing the new standards without an immediate need for comparison with previous years.

10. CVM, "Finanças Sustentáveis – Plano de Ação da CVM", 2023.
11. CVM, "Resolução n° 193", 2023.

The resolution also requires that sustainability reports be assured by an independent auditor registered with the CVM. During early adoption, **limited assurance** will be required, and as of January 1, 2026, **reasonable assurance** will be required (see Chapter 8 of this publication).

Regarding the deadline for publication of the sustainability report, by 2026, companies must file it in the CVM system within five months after the end of the fiscal year, typically in May. From the second year of mandatory adoption, reports must be published within three months after the end of the fiscal year, or on the same date as the submission of the financial statements (whichever occurs first). This ensures that sustainability reports are presented in a timely manner and aligned with other financial information from publicly held companies.

Limited Assurance: The limited assurance engagement is a process of verifying information by the auditor, with an acceptable level of risk, but higher than in a reasonable assurance engagement. In this type of engagement, the procedures are less extensive and detailed. The auditor's conclusion is based on the verification of the available information and the evidence obtained to determine whether there is any material misstatement in the information.

Reasonable Assurance: The reasonable assurance engagement is a process of verifying information by the auditor, considering an acceptably low level of risk. Based on this verification, the auditor issues a conclusion that expresses their opinion on whether the information evaluated is in accordance with the established criteria.

4. Governance advancements for the implementation of IFRS S1 and S2 standards

The integration of IFRS S1 and S2 standards and TCFD recommendations into the corporate governance structure is essential for the board of directors to incorporate material aspects into the business strategy and ensure that resources are allocated effectively. In addition, it provides a foundation for decisions to be based on relevant and accurate information, integrated with the company's strategy.

The governance of the implementation should focus on the timeline, training, supervision, responsibilities, report format, data sources, estimates, and judgments, among other factors. The knowledge and expertise of board members are essential for directors to contribute with guidelines and make informed decisions. In addition to board members, members of advisory committees, especially the finance and ESG committees (or others that address related topics, such as risk, sustainability, etc.), also need to undergo training related to the topic. The implementation process requires various definitions, decisions, benchmarking, judgments, and estimates, in accordance with IFRS standards. A lack of focus on these aspects can lead to inadequate information, errors, or challenging discussions with the independent auditor.

As previously discussed, the IFRS S1 and S2 standards fully incorporate the TCFD recommendations and broaden the requirements for sustainability reporting. Therefore, it is important for the board of directors to review and approve the company's sustainability strategy, ensuring that it is aligned with long-term objectives and stakeholder expectations.

4.1. Strengthening of the governance structure

The board of directors and advisory committees need to ensure that sustainability information is collected and reported with the same quality and accuracy as conventional financial information. This requires the integration of robust processes and controls that enable the capture, verification, and reporting of ESG data accurately and reliably.

Figure 3. Board responsibilities for the disclosure of sustainability information

It is important to note that it is not just about the flow of information, but also the selection of information sources, which is a relevant point. Another concern should be the length of the reports. Dense, lengthy, and complex reports should give way to documents with good editorial quality, written by those who know how to write for laypeople, with clarity and objectivity, promoting more effective literacy. The routine, periodicity, timeliness, and real-time connection with the circumstances surrounding the project are fundamental.

IFRS S1 addresses general disclosures on financial information related to sustainability, providing a comprehensive view of the company's performance and strategy. Companies that already adopt Integrated Reporting[12], a framework developed by the IIRC, have a head start, as they are accustomed to combining financial and non-financial information.

12. IIRC, "The International Framework for Integrated Reporting," 2014.

However, IFRS S1 requires an even closer connection between sustainability and financial performance, highlighting how ESG practices are expected to reasonably affect a company's cash flows, access to finance, or cost of capital in the short, medium, or long term. This may involve reviewing and adapting the current standard frameworks (IFRS). Therefore, such financial aspects must undergo a more rigorous and comprehensive assessment of the environmental, climate, social, and governance issues that may impact them[13]. For companies using Integrated Reporting, this means they must broaden their scope to include new types of data and analysis, which may require the implementation of new data collection processes and systems.

IFRS S2, on the other hand, focuses specifically on climate-related risk and opportunity disclosures based on TCFD recommendations. The standard requires companies to perform scenario analyses to assess the resilience of their strategies under different climatic conditions. The board should ensure that the company conducts these reviews appropriately by using information that is[14]:

- **Reasonable:** The data used should make sense within the specific context of the organization and the market in which it operates. Reasonableness ensures that the estimates and assumptions made are appropriate and defensible; and
- **Verifiable:** Information must be supported by evidence that can be verified or audited. This means that the data used must be documented and verifiable by third parties, ensuring transparency and reliability of the information.

In addition, it is also important to consider and test scenarios of global warming along with other physical and transition risks. For example, the collection and disclosure of greenhouse gas (GHG) emissions is a critical component of IFRS S2. The board should oversee the accuracy and completeness of emissions data, including Scope 1, Scope 2, and, where relevant, Scope 3. Ensuring the verification of this data by an independent audit will be necessary (and required for publicly held companies) to ensure the reliability of the information disclosed.

13. IFRS, "IFRS S1 General Requirements for Disclosure of Sustainability–related Financial Information", 2023.
14. IFRS, "IFRS S2 Climate–related Disclosures", 2023.

The board should monitor and ensure that the firm identifies and reports only those sustainability risks and opportunities that are material to investors and other stakeholders. This can be challenging, as it requires a deep understanding of stakeholder expectations and careful analysis to determine what is truly material in terms of long-term financial impact and business continuity.

To effectively comply with IFRS S1 and S2, the board of directors must focus on robust and integrated governance, ensuring that sustainability processes, strategies, and disclosures are accurate, relevant, and transparent. This not only ensures compliance but also promotes long-term, sustainable value creation for the company and its stakeholders.

5. Strategic implementation and transition plans integrated with the financial statements

The participation of the board in the adoption of IFRS S1 and S2 standards is essential, as these standards aim to provide investors with sustainability and climate change-related information that can impact their decisions.

The adoption of these standards requires cross-functional efforts involving multiple areas and leadership within companies, necessitating support from the board due to its broad, strategic vision and decision-making authority.

In this sense, these issues can no longer be treated as separate from the business strategy and its overall development.

It is therefore essential to have a strong connection between sustainability and climate-related financial disclosures and financial statements, as an inseparable part of business and company performance.

The main steps for the implementation of IFRS S1 and S2, to be adopted by management and supervised by the board of directors, are:

1. Familiarize management and board members with the concepts of IFRS S1 and S2. It is important for the board to be aware that, to achieve regulatory objectives, a change in the organization's management culture is required. Strategic planning will have to address material sustainability and climate risks and opportunities, as well as integrate them into strategic guidelines, projects, capital budget, systems structure, and controls.

2. Establish a cross-functional committee. To evaluate the effort to implement disclosure standards, it is important that cross-functional competencies in finance, sustainability, strategic planning, risk management, compliance, internal controls, information technology, and other related areas are engaged and work together within a single working group. The board of directors' assessment of these professionals' capabilities is essential, with the support of one or more advisory committees.

3. Define materiality. The risks and opportunities to be mapped, monitored, and disclosed, according to IFRS S1 and S2, are those considered material from the point of view of investors (see Chapter 6 for the definition of materiality, according to the ISSB). The definition of what is relevant to be disclosed must go through the evaluation and approval of the board.

4. Assess gaps. The cross-functional committee should evaluate the gaps in the implementation of IFRS S1 and S2 standards by comparing the requirements of the standards with existing disclosures and conducting benchmarking research with other entities in the same business segment, both in Brazil and abroad.

5. Analyze the connectivity of the reports. The cross-functional committee should also analyze the connectivity between sustainability and climate-related financial information and the financial statements to identify inconsistencies and areas for improvement. Unlike the adoption of IFRS standards, where Brazil had European countries as examples that had already adopted such accounting standards, our country will be one of the pioneers in adopting IFRS standards S1 and S2. In this context, all management should be aware that it will be a collaborative learning journey. In addition, there is a risk that, in the future, there may be a need to resubmit financial information related to sustainability if improvements in the classification and data extraction process during the journey indicate inconsistencies in the disclosed information.

6. Assess the compliance framework and internal controls. Based on the surveys presented in items 4 and 5, the cross-functional committee must identify the structure of processes and internal controls that support the information currently disclosed, if applicable, to determine the adaptations necessary to meet the new requirements of IFRS S1 and S2, including the need to produce evidence for assurance purposes. The board, supported by committees, if appointed (particularly the audit committee), will need to oversee this process, as the information will be subject to limited assurance during the early adoption period, and, after a few years, reasonable assurance from 2026[15]. This implies data control, especially regarding traceability.

15. CVM, "Resolution No. 193", 2023.

7. Develop an action plan. The cross-functional committee should develop an action plan for implementing and improving internal controls for disclosing risks and opportunities related to sustainability and climate change. Such a plan must also define responsibilities and deadlines, which will be crucial for management's decision regarding the timing of adopting these disclosures. The organization will be required to adopt IFRS S1 and S2 starting in fiscal year 2026 and may voluntarily opt for early adoption[16].

8. Practice. For the effective adoption of IFRS S1 and S2 standards, it is necessary to prepare the organization for a cultural shift in business management. Sustainability and climate aspects that are material to investors should permeate the strategy, budget, internal control environment, compliance, goals, and metrics. Therefore, the implementation of the standards requires engagement, awareness, and training at all corporate levels.

9. Monitor. Establish monitoring mechanisms to track progress in the implementation of the new rules, as well as the incorporation of data in decision-making, thereby ensuring integrated management of the strategy and accurate risk assessment. Regularly review and update sustainability and climate change disclosures to ensure compliance with evolving standards. The board of directors shall exercise monitoring through the engagement of the audit committee, in conjunction with the sustainability committee, if applicable.

10. Communicate. Processes of adoption and transition of laws, regulations, and standards can generate various uncertainties in the market and among stakeholders. In this sense, the company must communicate internally, clearly and objectively, the process, timeline, people involved, focal points, and the member of senior management responsible for supervising the project. Communication with investors, creditors, and other stakeholders is also very important. In a succinct and assertive way, the goals, the process, the schedule, and, periodically, the status must be communicated.

16. *Ibid.*

6. Materiality, risks, and opportunities

IFRS S1 considers information to be material if its omission or distortion could reasonably influence the decisions of the primary users of financial reports, especially investors and creditors[17]. This means that companies must identify the sustainability themes most relevant to their business and disclose the risks and opportunities related to these themes in their reports.

According to IFRS: "The ISSB noted that information on risks and opportunities related to sustainability is not limited by the definitions of assets and liabilities or the criteria for recognizing them." Also, "the ISSB expects that, in preparing sustainability-related financial information disclosures, organizations will consider the financial impacts over longer time periods than those traditionally considered for the preparation of financial statements."[18]

In this sense, for the preparation of financial reports, including the financial statements and their explanatory notes, the organization will have to consider the risks and opportunities related to sustainability and climate, highlighting the respective material financial impacts in the short, medium, and long term for interactions throughout its value chain.

Therefore, the materiality defined in IFRS S1 and S2 is directly related to the relevance of sustainability and climate issues for decision-making by investors and other stakeholders, considering the impact they may have on the business's cash flow and future prospects. Companies should focus on

17. IFRS, "IFRS S1 General Requirements for Disclosure of Sustainability–related Financial Information", 2023.

18. IFRS, "IFRS S1 Basis for Conclusions on General Requirements for Disclosure of Sustainability–related Financial Information", 2023, p. 24 (own translation).

disclosing the most important topics for their business, paying attention to reasonableness regarding the costs or efforts involved in identifying related risks and opportunities, to enhance transparency and market confidence.

For an adequate identification of materiality, it is necessary to determine the severity of the risk in terms of its probability of occurrence and its financial impact on the organization and its value chain. Similarly, opportunities can also be mapped using these terms. The company should not be limited to risks with a medium or high probability of occurrence but should also pay special attention to risks with a low probability and high impact, which often have catastrophic consequences.

According to IFRS S1 and S2, a company must consider the following aspects when defining materiality for the disclosure of sustainability and climate financial information:

- the relationships between the impacts of its activities on the environment and society, and the impacts of the environment and society on the company's cash flows, cost of capital, and access to financing;
- changes in assumptions and conditions over time; and
- potential changes in the information that has been and will be disclosed.

COSO, in partnership with WBCSD, developed a framework for applying the Enterprise Risk Management (ERM) concept to ESG risks[19] This framework proposes a governance approach focused on risks and materiality and involves:

1. Establish a governance structure for effective risk management;
2. Identify ESG risks throughout its value chain;
3. Assess and prioritize material ESG risks;
4. Design actions to address prioritized material ESG risks;
5. Monitor the indicators of prioritized risks for changes in strategy; and
6. Communicate material risks and opportunities to all stakeholders.

19. COSO, "Enterprise Risk Management Applying enterprise risk management to environmental, social and governance-related risks", 2018.

Here are some examples of sustainability risks and opportunities that may impact the business:

- Potentially material sustainability risks:
    - **Climate:** climate change, shifts in consumption patterns, adjustments in inventories, and production processes.
    - **Governance:** lack of transparency, lack of ESG literacy among directors, lack of accountability.
    - **Loss of resources:** directly related to the risk of environmental degradation due to the unsustainable use of natural resources, pollution caused by inadequate waste management, scarcity of natural resources, loss of production capacity, and loss of competitiveness.
    - **Compliance:** risks related to non-compliance with regulatory or voluntary protocols, changes in safety standards, and changes in licensing requirements.
    - **Geopolitical risks:** political instability, changes in international trade policies, climate migration, and impacts on global supply chains.
- Potentially Material Sustainability Opportunities:
    - **Innovation:** exploration of new geographic areas, customer segments, or market niches; creation of products and services; process improvement; and cost reduction.
    - **Efficiency:** technology applied to sustainability for, for example, waste reduction, logistics improvement, and resource optimization and/or reuse. Other efficiencies should also be explored.
    - **Governance:** improvement of transparency toward stakeholders in information disclosure and accountability.
    - **Resources:** reducing costs, improving efficiency, and attracting investments, possibly with lower interest rates.
    - **Resilience:** opportunities to increase organizational resilience in the face of crises, such as pandemics, natural disasters, or economic instabilities, based on robust contingency plans and risk management strategies.

IFRS S2, which deals specifically with climate-related disclosures, is also based on the concept of financial materiality, advocating the disclosure of financial information about the business's climate risks and opportunities that may affect cash flow, access to financing, or the cost of capital, as well as performance in the short, medium, and long term[20]. This includes data on greenhouse gas emissions, exposure to climate risks, and climate mitigation strategies. The standard also establishes that the company needs to assess its climate risks and opportunities from a future perspective, not only in the short or medium term.

Here are some examples:

- **Physical climate risks:** climate change that affects the availability of natural resources, alters consumption patterns, and impacts inventories and production processes.
- **Transition risks:** changes necessary to adapt the company to new laws, regulations, policies, technologies, and market shifts aimed at a low-carbon economy, including direct risks arising from the company's activities and the value chain.

In this context, it is recommended to conduct a single assessment and disclosure and to present governance and risk management information in an integrated manner, avoiding duplicate information. IFRS S2 requires companies to disclose metrics on the percentages of assets or activities vulnerable to physical and transition risks related to climate change. The following are examples of such risks, according to IFRS S2:

Physical risks

IFRS S2 defines physical risks as "risks resulting from climate change that may be driven by events (acute physical risks) or by long-term changes in weather patterns (chronic physical risks)". The standard provides some examples of acute physical risks related to extreme weather events, such as hurricanes, floods, droughts, and heat waves. Chronic physical risks, on the other hand, are related to gradual, long-term changes in weather patterns, such as sea level rise, global warming, water scarcity, and loss of biodiversity[21].

IFRS S1 and S2, when using the term "prospects," are primarily referring to the organization's cash flows, access to financing, or cost of capital in the short, medium, or long term. Organizations should disclose how these physical

20. IFRS, "IFRS S2 Climate–related Disclosures", 2023.

21. *Ibid.*, p. 19 (own translation).

risks may impact them, as well as their supply chain.

Transition risks

IFRS S2 defines transition risks as "risks associated with the transition to a low-carbon economy". These are regulatory, technological, market, reputational, cost, and price variation risks due to the regulation of carbon markets and payments for environmental and other services related to adjustments for a greener economy.[22]

Companies must disclose how transition risks can impact their businesses, strategies, and operating models as governments, markets, and technologies evolve to reduce emissions. Here are some examples:

- **Charges in general:** the charges involved can increase production and distribution costs, even if temporarily, affecting the company's competitiveness and profitability.
- **Renewable and efficient energy sources:** The transition to renewable and efficient energy sources may require significant investments in infrastructure and technology, affecting the company's capital structure and its investment capacity.
- **Greenhouse gas emissions reduction targets:** the implementation of these targets may require changes in production and logistics processes, affecting the company's efficiency and productivity.
- **Reputation:** Lack of transparency or failure to take effective action to mitigate climate impacts can damage the company's image and prestige, negatively affecting its ability to attract investments and customers.
- **Indirect impacts on finance:** Climate change can affect a company's portfolio of assets and counterparties, generating indirect financial losses that need to be properly managed.
- **Development of innovative technologies:** The transition to a low-carbon economy may require significant investments in innovative technologies, affecting the company's capital structure and its investment capacity.
- **Business model review:** The climate transition may require a review of the company's business model, including changes in production, logistics, and marketing processes, to adapt to new circumstances.

22. *Ibid.*, p. 20 (own translation).

- **Risk management:** Effective management of climate risks is critical to minimizing negative impacts and capturing the business opportunities that arise from the climate transition.

IFRS S2 does not require organizations to have a specific climate transition plan. But if organizations do have one, they must disclose it to investors. Disclosure of transition plans should include objectives, specific actions, critical assumptions, and resources allocated to manage risks and capture opportunities in the transition. Comprehensive disclosures must also be made about how climate-related physical and transition risks can materially and financially affect companies in the short, medium, and long term[23].

23. *Ibid.*

Identification of material themes: IFRS S1 and S2 require companies to consider the applicability of metrics associated with the disclosure topics of the SASB Standards to identify climate-related risks and opportunities that could reasonably be expected to affect the organization's financial performance. The guidelines on the implementation of IFRS S2 include the industry-specific topics of the SASB standards.

As of June 2023, the SASB standards have been amended to achieve greater alignment with the sectoral guidelines accompanying IFRS S2. In December 2023, the ISSB amended the standards in connection with the International Applicability of SASB Standards[24], project, as studies of companies disclosing climate issues indicated concerns with the alignment between the SASB Standards Taxonomy and the IFRS Sustainability Disclosure. The companies consulted in the study then asked the ISSB to provide illustrative examples to accompany the SASB standards, supporting them in creating comparable and useful disclosures.

24. SASB Standards, "Under the stewardship of the International Sustainability Standards Board", 2023.

The illustrative example recommended for the agribusiness sector by SASB is presented in Table 1[25].

Table 1. Materiality of the SASB Standard for the agribusiness sector.

Environment	Social capital	Human capital	Business model and innovation	Leadership and governance
Greenhouse gas emission	Human rights and community relations	Labor practices	Product design and life-cycle management	Business ethics
Air quality	Customer privacy	**Employee health and safety**	Business model resilience	Competitive behavior
Energy management	Data security	Employee engagement, diversity, and inclusion	**Supply chain management**	Management of the legal and regulatory environment
Water and wastewater management	Access and Affordability		**Material sourcing and efficiency**	Critical incident risk management
Waste and hazardous materials management	**Product quality and safety**		Physical impacts of climate change	Systemic risk management
Ecological impacts	Customer wellfare			
	Selling practices and product labelling			

Source: SASB Standards, 2024
Note: The topics in bold represent the most relevant topics for the agribusiness sector, while those in gray are common across all industries.

25. SASB Standards, "Materiality Finder: Agricultural Products", 2024.

7. Consistency with financial statements

IFRS S1 and S2 require companies to disclose material information to investors about sustainability-related risks and opportunities that could reasonably be expected to affect their financial prospects, such as cash flow, access to financing, and cost of capital. The definition of materiality is aligned with the concept of investor perspective, used in the preparation of financial statements according to IFRS accounting standards. Considering that the IASB and ISSB standards require the reporting of relevant information to investors, and that the sustainability report is presented together with the financial statements, both documents must provide consistent information.

Entities are required to carry out financial planning for future scenarios and their likelihood, considering that climate change generates relevant uncertainties about the future. CPC 26 (R1) – Presentation of Financial Statements requires that, if the assumptions used in the measurement of assets and liabilities carry significant risks of generating material adjustments in the following year, they must be disclosed along with the nature and recorded amounts of these assets and liabilities[26].

Companies are also required to disclose the sensitivities of carrying values to assumptions and estimates. For example, assumptions about climate change used in asset recovery calculations that carry a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year should be disclosed.

26. CPC, "Pronunciamento Técnico CPC 26 (R1). Apresentação das Demonstrações Contábeis", 2011.

Fundamentally, the assumptions underpinning the financial statements must align with the assumptions and analyses described in other reports, such as the company's sustainability disclosures. CPC 26 (R1) also includes a general disclosure requirement to ensure that accounts capture all information that would be considered material, in accordance with paragraph 112. This requires companies to provide information that is not presented elsewhere in the financial statements but is necessary for their understanding. Such general requirements of CPC 26 (R1) may be especially relevant for companies whose financial position or financial performance is particularly affected by climate-related issues.

The example below illustrates a potential disclosure of the effect of climate change:

> A pharmaceutical company's main product is derived from a plant component located in a region that has been experiencing extreme droughts consistently. This situation has resulted in a reduction in the availability of this plant over the years. In this sense, in the medium and long term, there is a possibility of extinction, which could affect the resilience of the business. The entity's perspective is that, if global warming continues or intensifies, the plant is at risk of total extinction by 2070. However, production may already be extremely reduced by 2030, which would result in a 20% reduction in drug production every 10 years.
>
> The estimated financial impacts would reduce profitability by 5% in 2030, 10% in 2040, 13% in 2050, 17% in 2060, and up to 20% in 2070. This would also result in a 10% reduction in cash generation starting in 2030, potentially reaching up to 30% by 2070. There is a multidisciplinary team monitoring the impact of global warming, droughts in the region where this plant is grown, plant behavior, and estimates related to current and future financial impacts. Based on these analyses, management assesses the risk of extinction of this plant by evaluating irrigation processes and the effectiveness of these controls, along with the connectivity of sustainability-related information, including financial statements and other forms of communication of these risks and/or financial information to the market.
>
> On the other hand, the opportunity to synthetically produce the chemical component extracted from the plant was identified. The company's executives presented a feasibility study for this production to the board of directors, which analyzed and defined strategies for

the development of the component. The project is expected to take 10 years and is estimated at R$100 million, of which R$50 million will be spent on the acquisition of machinery, R$10 million on the acquisition of chemicals, and the remainder on hiring specialized labor. Of the estimated expenditure, 80% will be invested in the first five years. Project development metrics were established, such as the correct mixtures of compounds in the first two years, attempts at chemical synthesis in the following two years, and prototype production by the chemist in the fifth year. In the sixth year, production for testing the drug will begin, followed by tests on populations, which will be conducted between the eighth and ninth years. The final adjustments will take place in the tenth year, preparing the project for the start of large-scale production in 2034. The progress of the project, along with the monitoring of metrics, related risks, and impacts on financial information, will be the responsibility of the Strategy and Innovation Committee, together with the Sustainability Committee and the Audit Committee. The results will be presented to the board of directors.

Other aspects of financial statements affected by climate change include:

- Measurement and classification of loans considering the impacts of the covenant clauses linked to ESG indices, in accordance with CPC 48.[27]
- Climate impacts on customers reflected in the calculation of the allowance for doubtful accounts, according to CPC 48.
- Risk disclosures on the measurement of financial assets and liabilities linked to climate scenarios, according to CPC 40 (R1).[28]
- Climate impacts on the fair value measurement of assets and liabilities in accordance with CPC 46.[29]
- Recoverability of other non-financial assets such as fixed assets, according to CPC 01 (R01)[30], and deferred tax assets, according to CPC 32.[31]

27. CPC, "Technical Pronouncement CPC 48. Financial Instruments", 2016.
28. CPC, “Technical Pronouncement CPC 40 (R1). Financial Instruments (Disclosure)”, 2012.
29. CPC, “Technical Pronouncement CPC 46. Fair Value Measurement”, 2012.
30. CPC, “Technical Pronouncement CPC 40 (R1). Reduction to the Recoverable Value of Assets”, 2010.
31. CPC, “Technical Pronouncement CPC 32. Taxes on Profit”, 2009.

8. Sustainability report assurance

A sustainability strategy that involves reporting has several phases, including multiple definitions as companies collect, manage, and publish ESG information. The sustainability report requires information that is relevant to investors, using the same concept of materiality as that used in the financial statements. Such reports should focus on material information for the investor (investment grade), which requires it to be plausible and well-founded in order to be reliable for investors and other stakeholders. While publishing relevant sustainability information should be an integral part of a business strategy, it is a process that many organizations are implementing for the first time.

Assurance brings many benefits in order to generate trust among users of ESG data by ensuring the veracity, reliability, and consistency of the information. Management and boards gain an independent perspective on the process of preparing and the quality of sustainability reports. Investors and other stakeholders receive assurances regarding the company's long-term value creation strategy, as well as information regarding the reliability of management's assertions, data, and disclosures.

A CVM Resolution 193 requires independent auditors registered with the CVM to issue an assurance report alongside the company's sustainability report. This will inevitably increase the reliability of ESG data reported by companies. The independent auditor registered with the CVM must issue their report in accordance with the standards issued by the Federal Accounting Council (CFC). Currently, the applicable standard is NBC TO 3000 “Assurance Engagements Other than Audits or Reviews[32]”. This standard was created through the

32. NBC, "NBC TO 3000", 2015.

convergence of Brazilian Generally Accepted Accounting Principles to international standards. An agreement signed with IFAC authorized the preparation of this standard in Brazil, in accordance with its equivalent, ISAE 3000[33], issued by the IAASB.

In conducting the assurance engagement, the objective of the independent auditors is to obtain reasonable assurance or limited assurance, as appropriate, that the subject matter information is free from material misstatement. After completing the detailed work, a report will be issued on the results of the assessment of the company's sustainability report, which conveys a reasonable assurance opinion or a limited assurance conclusion (review engagement).

When an auditor provides reasonable assurance, users can have a high degree of confidence that ESG information is free from material misstatement. Where an auditor provides limited assurance, users should be aware that there is a significantly greater risk that material misstatements may exist in such information. Therefore, even if the transition rules allow the use of limited assurance in the first year of submitting the report on a voluntary basis, it is always better to request reasonable assurance due to the greater degree of confidence and the anticipation of potential problems that may arise when the more detailed work of reasonable assurance becomes mandatory. For example, detailed testing of the data source used in calculating emissions may be required only in the case of reasonable assurance.

In order to increase confidence in sustainability information, the IAASB has developed a global sustainability assurance standard. The international standard on sustainability assurance, ISSA 5000: General Requirements for Sustainability Assurance Engagements, is an independent and comprehensive standard for ensuring sustainability aspects[34]. Its application covers any information related to sustainability prepared in accordance with different frameworks, including IFRS S1 and S2. The expectation is that, when ISSA 5000 is finalized, the CFC will issue an equivalent standard to replace the current NBC TO 3000 standards. The ISSA 5000 standard is expected to be issued in final form in 2024, with mandatory application starting January 2026.

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33. ISAE, "ISAE 3000", 2013.

34. According to the IAASB, the final version of the standard will be issued before the end of 2024.

Considering the requirement to publish the sustainability report annually, at the same time as the financial statements, it must be evaluated whether there will be a single independent auditor for both or whether the company will hire two auditors. If the second option is chosen, it will be necessary to align the work between the two professionals due to the links between the sustainability report and the financial statements.

In this sense, when presented together with the financial statements (in the same way that the management report is presented in the CVM system), the sustainability report would be covered by Audit Standard NBC TA 720 – “Auditor’s Responsibilities in Relation to Other Information”[35]. This standard deals with the auditor's responsibilities in relation to other information, whether financial or non-financial (other than the financial statements and the independent auditor's report on the financial statements), included in the entity's annual report.

NBC TA 720 requires the auditor to read and evaluate the sustainability report, as any inconsistent information in relation to the financial statements or to the auditor's knowledge obtained during the audit may indicate material misstatements. Such misstatements may refer to the financial statements themselves or to other information that may impair the credibility of the statements and the independent auditor’s report. Thus, distortions may also inappropriately influence the decisions of investors and other users of the reports. Although NBC TA 720 is not applicable, the independent auditor may still request access to the sustainability report before its publication to assess the consistency with their audit report and the financial statements.

35. NBC, "NBC TA 720", 2016.

Involvement of independent auditors in limited and reasonable assurance

For a limited assurance engagement, the practitioner collects significantly less evidence than for a reasonable assurance engagement; however, such evidence is sufficient to support a negatively expressed conclusion. The practitioner typically achieves this by performing tests that are different from, or fewer than, those required for reasonable assurance, or by using smaller samples for the tests performed.

The conclusion in a limited assurance engagement is therefore framed in a negative sense: "Based on the procedures performed and the evidence obtained, we are not aware of any material changes that need to be made in the presentation of the sustainability report to ensure that it is in accordance with the criteria defined by the ISSB." In contrast, the conclusion of reasonable assurance would be framed in a positive sense: "In our opinion, the entity's sustainability report is properly prepared, in all material respects, based on the criteria defined by the ISSB."

For reasonable assurance, the practitioner needs to reduce the risk of the assurance engagement (the risk that an inadequate conclusion is expressed when the information is materially misstated) to an acceptably low level, which serves as a basis for a positive form of expression of the conclusion. This risk is never reduced to zero; therefore, there can never be absolute certainty.

For both types of engagement, sufficient evidence is required to substantiate the independent auditor's conclusion and the assurance report. They are cumulative in nature and are primarily obtained through the procedures performed during the course of the work. They may also include information obtained from other sources, such as previous work or the organization's quality control procedures for customer acceptance and retention. Evidence may come from sources that are internal or external to the appropriate parties. Also, the information that can be used as evidence may have been prepared by an expert who supports and corroborates aspects of the subject matter information, as well as any information that contradicts aspects of the subject matter information. In addition, in some cases, the absence of information (e.g., refusal by the appropriate parties to provide the requested representation) is used by the independent auditor and therefore also constitutes evidence. Most of the independent auditor's work in forming the assurance conclusion consists of obtaining and evaluating evidence.

From a practical point of view, there are several areas that the independent auditor should focus on to conduct a careful assessment, according to the requirements of reasonable assurance. Some examples are presented below:

- **Interpretations of alternative treatments allowed by the standards**
    - Have regulators' interpretations and publications on standards interoperability (including ISSB/IFRS, CVM, EFRAG, and SEC) been applied?
    - Have the auditors' published interpretations been evaluated?
    - Is there clear disclosure of the policies and interpretations used?
    - Should changes in the information reported from the previous year be identified as corrections?
    - Are estimates and judgments adequately identified and reported?
    - Was standardized terminology consistent with the taxonomy defined by the ISSB used?
    - Has an assessment of reporting obligations been made for other jurisdictions (e.g., CSRD or by virtue of securities listed in Europe)?
    - Has it been aligned with the auditor regarding where and how the sustainability report will be published?
- **Sustainability report content**
    - Does the format follow the content of the taxonomy published by the ISSB?
    - Is the definition of materiality consistent with that used in the financial statements?
    - How was the list of organizations in the value chain covered by the scope of the standard defined?
    - Will all information not required by the standard be removed?
    - Were the organizations defined for the collection of information to be reported within the Reporting Boundary?
    - Should the information reported for the previous year be corrected in light of the latest available information?
    - Is there a clear description of the policies used in preparing the information?
    - What are the company's policies for reporting unusual items, such as the acquisition of companies or the discontinuation/sale of companies?

- **Targets and use of carbon credits.** The organization does not need to disclose information, but if it chooses to disclose, it must follow the standard and reflect on the following issues:
  - What is considered a carbon credit?
  - When would the carbon credit be recognized and written off?
  - What would the policies on carbon credits look like, and what are the linked targets?
  - What are climate change goals and their key performance indicators (or KPIs)?
  - If you have a goal, is it aligned with Net Zero by 2050 and the Paris Agreement?
  - Which annual emission reduction plan is in place to reach Net Zero (with a reduction of at least 17.2% per year)?
- **Processes and controls on the generation of information**
  - Does data from third parties (for example, scope 3 emissions information from supplier companies) require the assurance of another auditor?
  - Are all available sources of information evaluated to identify the best source of the information to be reported?
  - Do contracts with third parties (e.g., suppliers) provide for the delivery of emissions information?
  - Is the preparation of information done on a consistent basis (using the same source of information)?
  - Will data from associates (e.g., issuances) and joint operations (joint ventures) be reported based on the equity interests held in these companies?
  - Is there an internal process in place defining how information is prepared and reviewed?
  - Do processes and controls ensure the quality of information through a standardized system for capturing and consolidating data?
  - Is there a formal training program on IFRS S1 and S2?
- **Consistency of information**
  - Is there a process for verifying the consistency of disclosures in the financial statements and the sustainability report?
  - When there is a difference between the basis of preparation of the sustainability report and the financial

    statements, is there disclosure and reconciliation of the differences in the sustainability report compared to the financial statements?

  - Is there a schedule for publication in conjunction with the financial statements after the first year?
  - Is there a schedule for the involvement of the independent auditor to verify critical decisions, databases, and judgments?
  - Is there a decision-making process in place for defining the sustainability report policies?
  - If reporting according to more than one standard (ISSB/IFRS, CSRD, and SEC), is there a reconciliation of differences in the information reported on the same topic (e.g., climate information)?

- **Governance of the preparation of the sustainability report**
  - Has alignment been achieved with the governance of the financial statements?
  - Has the responsibility and expectation of performance for the board and committees been defined in the statutes and/or internal regulations of the governance body?
  - Is the description of plans and goals consistent with the mission, governance, and performance?
  - Is there robust governance over the implementation process of the initial sustainability report?
  - Is there a schedule, responsibilities, and follow-up plan for the implementation process of the initial sustainability report?
  - Will reasonable assurance be provided for data from previous years to avoid surprises?
  - Is there involvement and alignment of key implementation decisions and steps with the external auditor?
  - Is an assessment made of the reasonableness of the long-, medium-, and short-term plans and KPIs to be published?
  - What is the process for tracking new standards and interpretations?
  - What is the process for identifying, analyzing, and formalizing critical decisions?

9. IFRS S1: content summary

The IFRS S1 standard, internalized in Brazil as Technical Pronouncement CBPS 01: “General Requirements for Disclosure of Financial Information Related to Sustainability,” constitutes a conceptual framework for the disclosure of information on risks and opportunities related to sustainability that companies face in the short, medium, and long term. Such requirements meet the information needs of resource providers, primarily investors and lenders[36]. It is observed that the focus is on the investor, but this does not mean that other stakeholders are disregarded, as all contribute to the generation of value, both for investors and for society and the environment.

The risks and opportunities related to sustainability that may materially affect the company's prospects should be considered, taking into account their impact on cash flow generation, results, dividend distribution, access to capital, and, consequently, on business continuity.

The conceptual foundations are related to the usefulness of the information, similar to the IFRS standards. Therefore, its fundamental characteristics include relevance and reliable representation. However, the disclosures will be even more useful if they are comparable, understandable, verifiable, and provided in a timely manner. The main content is the dissemination of risks and opportunities related to sustainability with regard to:

- **Governance:** governance processes, controls, and procedures used by the organization to monitor and manage risks and opportunities;

36. CBPS, "CBPS Technical Pronouncement 01: General Requirements for Disclosure of Financial Information Related to Sustainability", 2024.

- **Strategy:** the organization's approach to managing risks and opportunities that pertain to sustainability issues;
- **Risk management:** the process used to identify, assess, prioritize, and monitor these risks and opportunities;
- **Metrics and targets:** the organization's performance, including progress against the goals established or required by laws and regulations.

Chapters 4, 6, and 8 of this publication highlight the need for disclosures of risks and opportunities, especially related to climate. However, it is important to remember that the conceptual framework for disclosing financial information related to sustainability presented in IFRS S1 also applies to sustainability matters other than climate.

ISSB/IFRS is evaluating new research projects in order to issue specific pronouncements on disclosures relating to biodiversity, ecosystems, and human capital in the future[37]. The current absence of standards, however, does not exempt organizations from the responsibility of disclosing information on risks and opportunities related to these or other sustainability-related issues. For this, they must follow the provisions of IFRS S1.

For example, if the organization's business model relies heavily on human capital, as in the provision of services, the organization may be affected by the quality and availability of labor. Therefore, the need to disclose risks and opportunities related to this topic must be evaluated in accordance with IFRS S1.

37. IFRS, "Feedback Statement. IFRS Sustainability Disclosure Standards. Consultation on Agenda Priorities", 2024.

10. IFRS S2: content summary

The IFRS S2 Standard, internalized in Brazil as Technical Pronouncement CBPS 02 – Climate Related Disclosures[38], aims to ensure that entities disclose information about risks and opportunities related to climate change that is useful to the primary users of financial reports.

Risk information should be disclosed along with climate opportunities that could reasonably affect the organization's cash flows, access to financing, or cost of capital in the short, medium, or long term. .

Regarding scope, IFRS S2 should be applied to climate risks, including physical and transition risks, as well as to climate opportunities. Risks and opportunities that have no reasonable expectation of impacting the organization are excluded from the scope of the standard.

38. CBPS, "CBPS Technical Pronouncement 02. Climate-related Disclosures. Correlation to the IFRS S2 Sustainability Standard", 2024.

The following is a summary of the content of IFRS S2 in relation to the four pillars for which information must be disclosed: governance, strategy, risk management, and metrics and targets.

Governance

The purpose of financial reporting disclosures is to enable users of financial reports to understand the governance processes, controls, and procedures used to monitor, manage, and oversee climate-related risks and opportunities. This disclosure includes information on responsible governance bodies, such as boards and committees, detailing their responsibilities and how they oversee climate risks and opportunities, as well as the role of management.

Strategy

The purpose of disclosing climate financial information is to enable users to understand the organization's strategy for managing climate-related risks and opportunities. Disclosures should allow users to understand:

- Risks and opportunities related to climate change that may affect the organization;
- Current and anticipated effects of these risks on the business model and value chain;
- Effects on the organization's strategy, decisions, and transition plan;
- Effects of such risks and opportunities on the financial statements (balance sheet, income statement, and cash flows);
- Resilience of the strategy and business model to climate change, using scenario analysis.

Risk management

The purpose of risk management disclosures is to enable users to understand the processes of identifying, assessing, prioritizing, and monitoring climate risks and opportunities.

Disclosures should comprise information in which the user can identify processes and policies for managing climate risks, the use of scenario analysis to identify risks, and the integration of climate management processes with the organization's overall risk management.

Metrics and targets

The organization must disclose the metrics and targets in a way that allows the user to understand their performance in relation to climate-related risks and opportunities. Such performance includes progress against any goals set by the organization itself, or the achievement of which is required by law or regulation.

The disclosed information should encompass: a) cross-sectoral metrics – such as Scope 1, Scope 2, and 3 GHG emissions; b) sector-based metrics; and c) quantitative and qualitative climate targets, including GHG targets and progress against these targets.

The standard has two appendices: defined terms (appendix A) and application guidance (Appendix B). In addition, the standard presents the “Industry-based disclosure requirements”, which includes a specific guide for different economic sectors, offering detailed guidance on the application of the requirements of IFRS S2, according to the characteristics and needs of each sector.

Reflections and final considerations

The losses of the companies, the negative impacts on their infrastructures and workers, the limitations in mobility, and the logistical difficulties—sometimes caused by storms and sometimes by extreme droughts—reveal the dimension and the certainty of the scenarios experienced and those that are still to come in the near future.

For many years, growth and profit went hand in hand, without due concern for the environment, people, the planet, or human rights. However, the increased intensity and frequency with which extreme weather events have occurred on the planet will, in some way, directly or indirectly, impact the operation of businesses worldwide.

The agenda of governance bodies should address not only the impact of organizations in potentiating the effects of climate change on the planet and people, but also how they are prepared or preparing for the impacts of climate, environmental, and social change on their business. This awareness is important, as it leads to the incorporation of the theme in the business strategy, in addition to the performance of the sustainability department.

As the President of CVM, João Pedro Nascimento, points out in the preface, "the future is green and digital." The leaders of global organizations need to be attentive and to anticipate the contemporary demands of society and the planet.

Therefore, it is crucial that the topic is approached strategically, and not only from the risk bias and that it is connected to the materiality of the organization, with a short-, medium-, and long-term vision. That's a key point. The awareness-raising work begins with the discussion of the topic and the training of board members.

The authors hope that this “Guide for Board Members: IFRS S1 and S2 Sustainability Standards,” divided into 10 chapters that deal with relevant aspects of IFRS S1 and S2, will serve as a useful tool for board members and governance agents in their decision-making, in the sustainability journey, and corporate regeneration.

From the reading of this guide, the board member, or governance agent, will have the opportunity to be equipped with the main concepts of IFRS S1 and S2. You will briefly understand the global landscape of key global norms and standards, including those that are the foundation for IFRS S1 and S2 standards. This aspect will be fundamental to determine the steps to be taken in the organization to prepare now to create the necessary history and robustness to meet the regulation in a timely manner.

Increasingly, the fiduciary responsibility of the director has incorporated non-financial aspects. When publicizing long-term goals and strategies, it is necessary to reflect on the real steps incorporated into management. IFRS S2 also requires the incorporation of physical and transition risks into the financial statements. Another crucial role of board members is to encourage the integration of all levels of management. There are global companies forming committees and multidisciplinary teams to understand and put into practice the new regulations. These are relatively simple actions, but they require an internal culture of great collaboration.

We hope that this guide has inspired each reader to put into practice the concepts brought forth here along the journey of sustainability and regeneration.

Time is short, the need to act is urgent and the performance of the board is essential for the transformation and longevity of organizations.

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The **Guide for Board Members: IFRS S1 and S2 Sustainability Standards** allows directors to understand the main concepts for adopting the new IFRS sustainability standards. At the same time, it promotes reflection on the importance of directors' fiduciary responsibility regarding the subject.

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