IFRS S2: Pillar I – : TCFD Recommendations vs. IFRS S2 Requirements

The International Financial Reporting Standards (IFRS) have long played a crucial role in establishing a common financial reporting framework that ensures transparency, consistency, and accountability across the global financial landscape. As sustainability and environmental, social, and governance (ESG) factors continue to gain prominence in corporate reporting, IFRS S2 has emerged as a pivotal standard designed to guide companies in disclosing climate-related financial information. Among the key components of this new standard, Pillar 1 — Governance — stands at the forefront, emphasizing the importance of robust governance structures in driving climate-related risk management and sustainable practices.

Pillar 1 of IFRS S2 focuses on the governance mechanisms that organisations must put in place to oversee and integrate climate-related matters into their operations. This pillar underlines the need for clear accountability, effective board oversight, and the allocation of roles and responsibilities at all levels of the organisation to ensure that climate-related risks and opportunities are properly addressed. As businesses navigate the evolving landscape of climate disclosures, a strong governance framework is not only vital for compliance but is also critical for fostering long-term resilience and value creation.

This article explores the key principles and requirements under Pillar 1 of IFRS S2, offering insights into how organisations can establish and maintain effective governance structures that support their climate-related objectives.

Investors and other stakeholders rely on climate-related financial disclosures to assess how effectively a company manages climate-related risks and opportunities. A crucial element of these disclosures is understanding the roles of both the board of directors and management in overseeing and addressing climate-related matters. Clear insights into how climate-related issues are integrated into governance structures help investors evaluate whether these issues receive the necessary attention at the highest levels of decision-making.

In this context, the 2020 survey conducted by the Task Force on Climate-related Financial Disclosures (TCFD) highlighted the types of governance information that users find most valuable when making financial decisions. The survey revealed that the following aspects of governance are particularly useful for evaluating a company's climate strategy and risk management:

- How the board incorporates climate-related considerations when overseeing major capital expenditures, acquisitions, and divestitures, ensuring that these critical decisions align with sustainability objectives.
- How the board integrates climate-related issues into the overall strategy, guiding the company toward long-term climate resilience and value creation.
- A clear description of management's role in assessing, implementing, and reporting on climate-related risks and opportunities, demonstrating accountability and commitment at all levels of the organisation.

These governance insights are essential for investors and other users of climate-related disclosures to assess the effectiveness of a company's climate strategy and its capacity to adapt to an increasingly climate-conscious business environment.

The insights from the 2020 Task Force on Climate-related Financial Disclosures (TCFD) survey, which identified key governance information that users find most useful for making financial decisions, align closely with the governance-related disclosure requirements outlined in IFRS S2. Both emphasise the critical role of effective governance in managing climate-related risks and opportunities. Specifically, the TCFD survey highlighted the importance of understanding how the board oversees climate-related issues and how management contributes to addressing these challenges. These governance-related aspects directly influence how well a company's climate strategy is integrated into its overall business objectives and risk management frameworks.

In this context, the table below summarises the TCFD's recommended disclosures—developed from the survey results—and how they correlate with IFRS S2's specific requirements regarding governance. By linking these two frameworks, organisations can better align their climate-related financial disclosures with investor expectations and regulatory standards. This alignment ensures transparency and fosters trust in how companies are addressing climate-related governance issues at both the board and management levels.

Governance	**TCFD's recommended disclosures for all sectors**	**IFRS S2's disclosure requirements**
a) Describe the board's oversight of climate-related risks and opportunities	In describing the board's oversight of climate-related issues, organisations should consider including a discussion of the following: - Processes and frequency by which the board and/or board committees are informed about climate-related issues - Whether the board and/or board committees consider climate-related issues when	An entity <u>shall</u> disclose information about the governance body(s) or individual(s) responsible for oversight of climate-related risks and opportunities. The entity <u>shall</u> identify that body(s) or individual(s). The entity <u>shall</u> disclose information about how responsibilities for climate-related risks and opportunities are reflected in the

	reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans as well as setting the organisation's performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures, and - How the board monitors and oversees progress against goals and targets for addressing climate-related issues.	terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s). The entity shall disclose information about how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to climate-related risks and opportunities. The entity shall disclose information about how and how often the body(s) or individual(s) is informed about climate-related risks and opportunities. The entity shall disclose information about how the body(s) or individual(s) takes into account climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities. The entity shall disclose information about how the body(s) or individual(s) oversees the setting of targets related to climate-related risks and opportunities, and monitors progress towards those targets (paragraphs 33–36), including whether and how related performance metrics are included in remuneration policies (paragraph 29(g)).
b) Describe management's role in assessing and managing climate-related risks and opportunities	In describing management's role related to the assessment and management of climate-related issues, organisations should consider including the following information: - Whether the organisation has assigned climate-related responsibilities to management-level positions or committees; and, if so,	An entity shall disclose information about management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities. An entity shall disclose information about whether the role is delegated to a specific management-level

	whether such management positions or committees report to the board or a committee of the board and whether those responsibilities include assessing and/or managing climate-related issues, - A description of the associated organisational structure(s), - Processes by which management is informed about climate-related issues, and - How management (through specific positions and/or management committees) monitors climate-related issues.	position or management-level committee and how oversight is exercised over that position or committee. An entity shall disclose information about whether management uses controls and procedures to support the oversight of climate-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.

If you have any questions about the information in this newsletter, please speak to your usual BDO contact or get in touch with BDO in Thailand's IFRS team at ifrsthailand@bdo.th