IFRS S1: Sustainability Disclosures

January 2026

IFRS Adoption

BACKGROUND OF NEPAL'S FRAMEWORK

Nepal has aligned its national financial reporting standards in line with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Nepal Financial Reporting Standards (NFRSs) are the Nepal-specific adaptation of International Financial Reporting Standards (IFRS), developed to maintain consistency with international standards.

The Role of ASB Nepal

ALIGNING WITH IFRS STANDARDS

The Accounting Standards Board (ASB) plays a crucial role in developing the Nepal Financial Reporting Standards, including Sustainability Reporting Standards, ensuring alignment with IFRSs (including sustainability disclosure standards).

ASB is currently in the process of drafting local sustainability disclosure standards and has already issued public consultation document on the draft standards.

Introduction

A sustainability issue is any environmental, social, or governance (ESG) matter that may affect an entity's cash flows, access to finance, or cost of capital over the short, medium, or long term, such as climate change, resource depletion, pollution, and weak corporate governance.

IFRS S1, issued by the International Sustainability Standards Board (ISSB) in June 2023, establishes a global framework for consistent and comparable sustainability-related financial disclosures with IFRS financial reporting. It requires disclosures on governance, strategy, risk management, metrics and targets.

OBJECTIVES

- Helps understand impacts on financial performance, position and future prospects
- Requires disclosure of sustainability-related risks and opportunities
- Considers short, medium and long-term effects
- Focuses on impacts on cash flows, access to finance and cost of capital

Importance of Sustainability Information

A company's ability to generate cash flows over the short, medium, and long term depends on how it interacts with stakeholders, society, the economy and the environment across its value chain.

Sustainability risks and opportunities impact financial performance and position, helping investors assess risk, access to capital, and long-term value creation.

Disclosure Requirements for Sustainability Risks

WHAT MUST BE DISCLOSED?

Organizations must disclose all sustainability-related risks and opportunities that could significantly affect their financial performance and decision-making processes.

HOW DISCLOSURE SHOULD BE MADE?

Emphasis is placed on providing clear, consistent, and decision-useful information to stakeholders to facilitate informed evaluations and assessments of sustainability impacts.

Scope of IFRS S1

Applies to preparing and reporting sustainability-related financial disclosures based on IFRS Sustainability Disclosure Standards.

FLEXIBILITY

Can be applied whether financial statements are prepared under IFRS Accounting Standards or other GAAP.

The Standards use profit-based terminology; non-profit entities may need to adjust accordingly.

OUT OF SCOPE

Sustainability risks and opportunities that do not affect an entity's future prospects are outside the scope.

Conceptual Foundation of IFRS S1

For sustainability-related financial information to be useful, it must be relevant and faithful Representation

The usefulness of sustainability-related financial information is enhanced if the information is Comparable , Verifiable , Timely and Understandable

The Information also need to be : Fairly presented, Materiality and Connected to Information


Foundation of Disclosures
Fair Presentation
01
Disclosures must accurately represent all material sustainability-related risks and opportunities affecting future prospects.
02
Materiality
Disclose only information whose omission, misstatement, or obscuring could influence primary users' decisions.
03
Reporting Entity Alignment
Sustainability disclosures must align with the same reporting entity as financial statements for coherence.

Connected Information

A company should present sustainability information clearly so readers can easily understand how different elements are connected.

Link risks and opportunities: Show how sustainability risks connect to business opportunities.

Connect report sections: Align governance, strategy, risk management, and targets.

Align with financials: Ensure sustainability data is consistent with financial statements, using the same assumptions and currency.

Core Content: The Four Pillars

Governance

How sustainability risks/opportunities are overseen and managed.

Strategy

How the entity addresses and responds to these risks and opportunities.

Metrics & Targets

How performance and progress against sustainability goals are measured.

Risk Management

How risks/opportunities are identified, assessed, and monitored.

1.Governance

- **Oversight**: Explain how sustainability risks and opportunities are managed.
- **Responsible Body**: Identify the governing body in charge of oversight.
- **Management's Role**: Describe management's involvement in governance and controls.
- **Leadership Integration**: Show how sustainability is embedded in leadership and accountability.

2.Strategy

Companies need to disclose:

- Identification of sustainability-related risks and opportunities that may affect future prospects.
- Impact On Business: Explain effects of these matter on Business Model and value chain, Strategy Decision Making , Financial Position and cashflow
- Resilience of strategy and business model to risks over the short, medium, and long term

Identifying Sustainability-Related Risks & Opportunities

Companies must explain how sustainability-related risks and opportunities may affect future prospects by addressing:

- **Nature and implication:** Key sustainability risks and opportunities and their effects on the business and long-term value.
- **Timing:** Expected timing of impacts across short-, medium-, and long-term horizons.
- **Time Horizon Definitions:** Clear definitions aligned with strategy, capital allocation, and investor needs.

Note: Time horizons vary by company and industry based on planning and capital allocation.

Business Model ,Value Chain and Strategy Decision Making

- How sustainability-related risks and opportunities affect the business model and value chain, now and in the future.
- Where these impacts are most concentrated (e.g. key locations, facilities, assets, or value chain stages).
- An entity must disclose how it addresses sustainability-related risks and opportunities in its strategy and decision-making, including progress on previous plans and any trade-offs considered.

Impact on Financial Position

ASSETS AND LIABILITIES

Sustainability risks can substantially affect asset valuations and liabilities, influencing overall financial health and investment attractiveness for businesses.

CASH FLOW IMPACT

Effective management of sustainability-related risks leads to improved cash flows, ultimately enhancing long-term financial stability and strategic growth opportunities.

3.Risk Management

- **Identification**: effective risk management begins with identifying sustainability-related risks that could significantly impact financial performance and operational stability.
- **Prioritization**: once identified, sustainability risks must be prioritized based on their potential impact and likelihood, guiding resource allocation and management focus.
- **Integration**: integrating sustainability risks into overall risk management systems ensures comprehensive oversight and enables timely response to emerging challenges.

4.Metrics and Targets

- **Metrics:** IFRS-required, internal, or industry-specific; clearly defined, calculated, and validated.
- **Targets:** Metric, level, timeframe, milestones, performance, revisions.
- **Principle:** consistency over time; explain any change.

Sustainability Foundation in Nepal

Legal and Regulatory Frameworks

- Companies Act
- Environmental Protection Act
- Industrial Enterprises Act
- Regulatory directives from Nepal Rastra Bank (NRB), SEBON, and the Nepal Insurance Authority

Industry and Institutional Practices

- Sustainability practices adopted across major industries and development partners
- Practices include:
  - Greenhouse Gas (GHG) measurement
  - Climate risk management
  - ESG reporting and disclosures

Challenges in Nepal's Context

LIMITED SKILLS

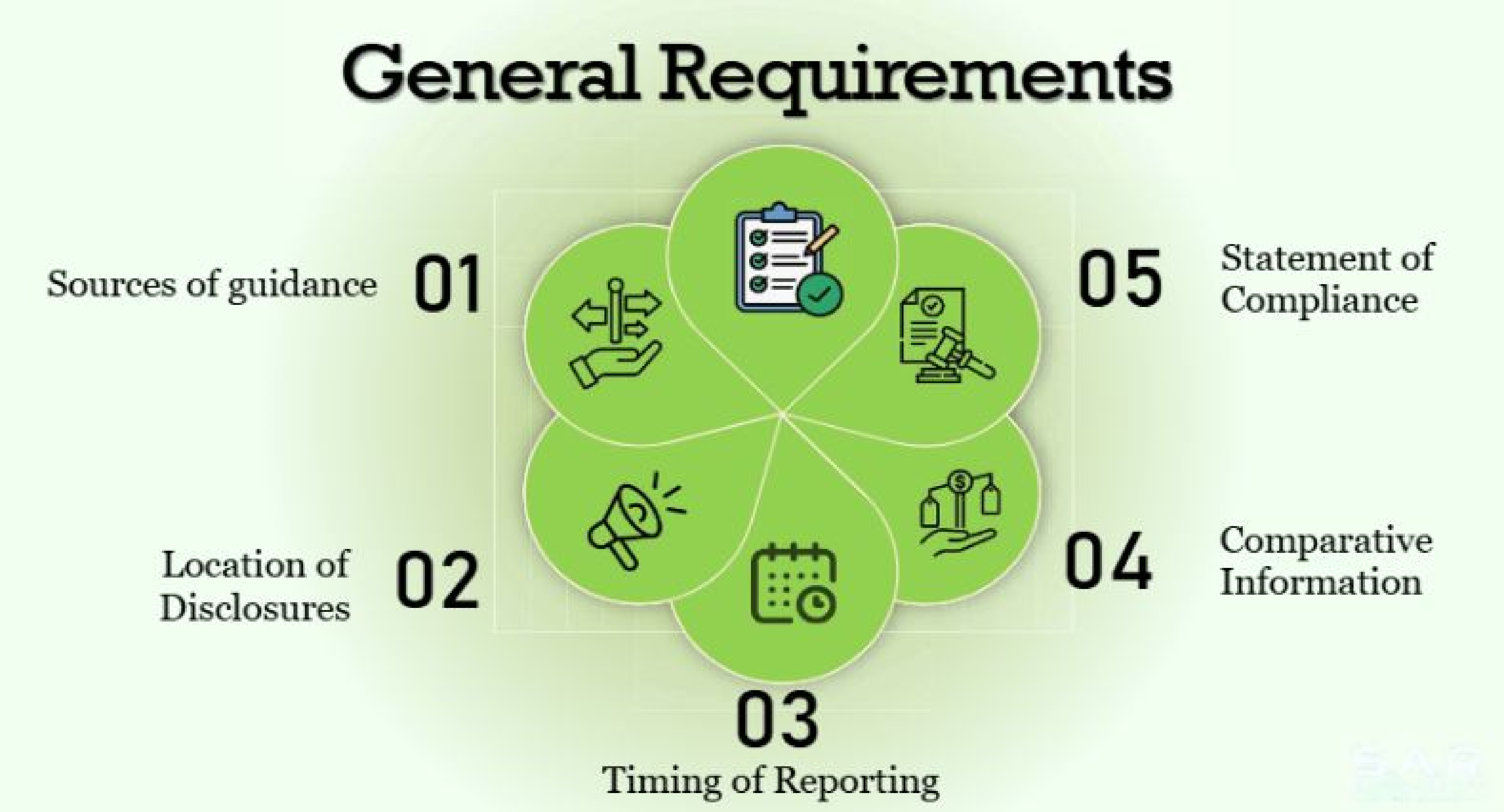
There is a significant lack of skilled professionals in Nepal, hindering effective implementation of IFRS S1 and sustainability reporting standards.

LEADERSHIP COMMITMENT

Weak leadership commitment often leads to inadequate prioritization and support for sustainability initiatives, affecting overall organizational integration and progress.

STRATEGIC INTEGRATION

Poor strategic integration of sustainability into business practices results in disconnected efforts and limits the effectiveness of the intended initiatives.


General Requirements
01
Sources of guidance
02
Location of Disclosures
03
Timing of Reporting
04
Comparative Information
05
Statement of Compliance

Sources of Guidance

- **Identifying Sustainability Risks & Opportunities:**
  Apply IFRS Sustainability Disclosure Standards, include only relevant SASB topics, and where useful consider CDSB guidance, other standard-setters' pronouncements, and peer entities' sustainability risks and opportunities.

- **Identifying Applicable Disclosure Requirements:**
  Apply the relevant IFRS Standard where available; otherwise, disclose decision-useful, faithfully representative information using informed judgement.

- **Disclosure of Sources Used:**
  Clearly disclose the standards, guidance, industry practices, and peer industries referenced in selecting sustainability disclosures and metrics.

Location of Disclosures & Timing of Reporting

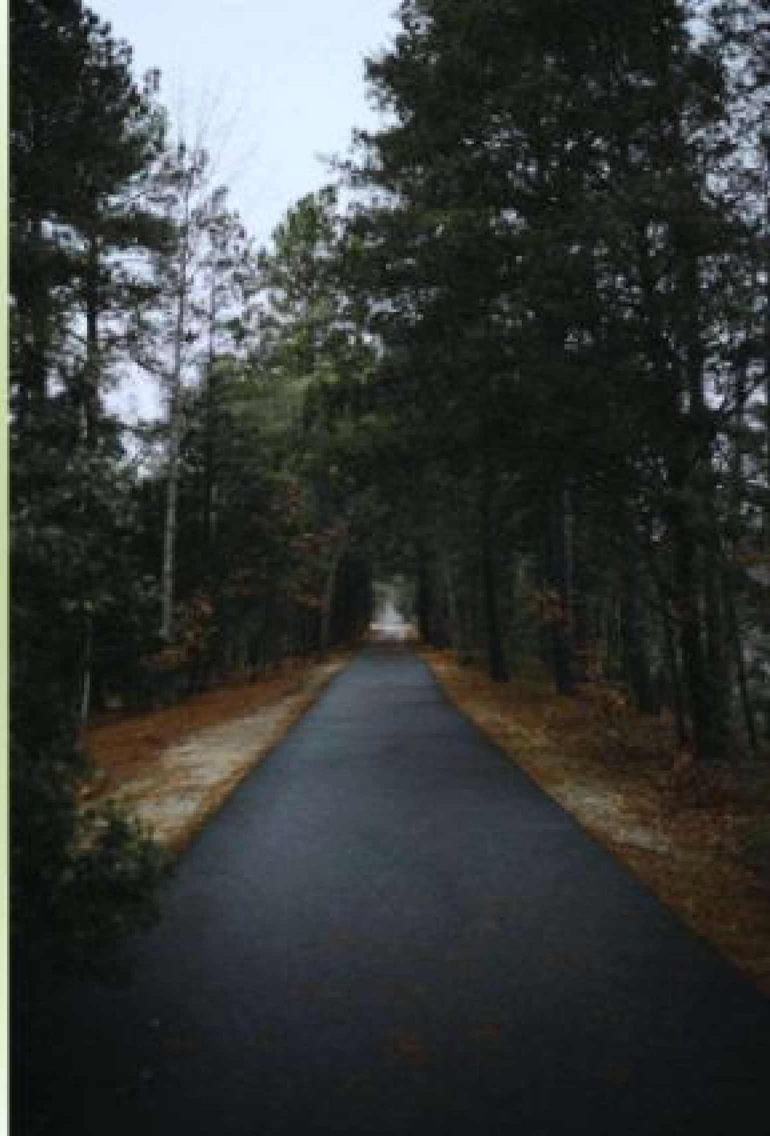
- Include sustainability disclosures in general-purpose financial reports.
- Disclosures may appear in management commentary or other regulatory reports if clearly identifiable.
- Cross-referencing to other reports is permitted where requirements are met.
- Disclosures must accompany financial statements and cover the same period.
- Usually 12 months; other periods allowed with explanation.
- Material post-period info must be disclosed.
- First-year relief allows later publication (e.g. interim reports).

Comparative Information

- Disclose comparative info to show trends.
- First-year relief: not required in initial period.
- Limited initial reporting may defer comparative info for other sustainability risks.

Statement of Compliance

- State compliance only if all requirement are met.
- Disclosure may be omitted if prohibited by law or commercial sensitive.



Judgement, Uncertainty and Error

Judgments

Disclose key judgements in preparing sustainability disclosures, including how risks and opportunities were identified, guidance sources selected, material information determined, and value chain scope assessed.

Measurement Uncertainty

- Estimate sustainability amounts when direct measurement isn't possible.
- Disclose high-uncertainty amounts, sources, and key assumptions.
- Explain sensitivity, possible outcomes, and changes from prior assumptions.
- Use reasonable estimates with clear explanation.

Errors

- Prior Period errors = material omissions or misstatements in earlier disclosures
- Caused by not using reliable info available at the time
- Material errors must be corrected by restating comparative info (unless impracticable)

- Note: Errors ≠ changes in estimates
  - Errors: mistakes based on existing info
  - Estimates: updates due to new info

Role of Professional Accountants

Compliance 03

Professional accountants ensure compliance with IFRS S1 and NSRS, promoting accurate financial reporting and transparency in sustainability disclosures.

02 **Strengthening**

They contribute to strengthening reporting frameworks, thereby enhancing the overall effectiveness of sustainability reporting and supporting informed decision-making.

Verific

Accountants play a crucial role in verifying sustainability data, ensuring reliability and credibility in reporting environmental and social metrics.

CONCLUSION

IFRS S1 provides a consistent framework for disclosing the financial impacts of sustainability-related risks and opportunities. In Nepal's context, where entities face increasing climate, regulatory, and socio-economic risks, the Standard enhances transparency, comparability, and reliability of sustainability-related financial information. By aligning sustainability disclosures with financial statements, IFRS S1 supports informed decision-making by investors, lenders, regulators, and other stakeholders, and strengthens confidence in corporate reporting while encouraging a long-term perspective.

For Further Consultation, Please Contact:

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Building Relationship

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