



**IFRS<sup>®</sup>**  
Sustainability

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## **IFRS S2**

IFRS<sup>®</sup> Sustainability Disclosure Standard

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### **Industry-based Guidance on implementing Climate-related Disclosures**

Volume 25—Processed Foods



**International Sustainability Standards Board**

## IFRS S2 CLIMATE-RELATED DISCLOSURES–JUNE 2023

This Industry-based Guidance accompanies IFRS S2 *Climate related Disclosures* (published June 2023; see separate booklet) and is issued by the International Sustainability Standards Board (ISSB).

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## IFRS S2 INDUSTRY-BASED GUIDANCE

### Introduction

*This volume is part of the Industry-based Guidance on Implementing IFRS S2 Climate-related Disclosures. This guidance suggests possible ways to apply some of the disclosure requirements in IFRS S2 but does not create additional requirements.*

This volume suggests possible ways to identify, measure and disclose information about climate-related risks and opportunities that are associated with particular business models, economic activities and other common features that characterise participation in this industry.

This industry-based guidance has been derived from Sustainability Accounting Standards Board (SASB) Standards, which are maintained by the International Sustainability Standards Board (ISSB). The metric codes used in SASB Standards have been included for ease of reference. For additional context regarding the industry-based guidance contained in this volume, including structure and terminology, application and illustrative examples, refer to Section III of the Accompanying Guidance to IFRS S2.

## Volume 25—Processed Foods

### Industry Description

Processed Foods industry entities process and package foods such as bread, frozen foods, snack foods, pet foods and condiments for retail consumer consumption. Typically, these products are made ready to consume, are marketed for retail consumers and can be found on food retailers' shelves. The industry is characterised by large and complex ingredient supply chains, because many entities source ingredients from around the world. Large entities operate globally, and international opportunities are driving growth.

### Sustainability Disclosure Topics & Metrics

**Table 1. Sustainability Disclosure Topics & Metrics**

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Energy Management	(1) Total energy consumed, (2) percentage grid electricity and (3) percentage renewable	Quantitative	Gigajoules (GJ), Percentage (%)	FB-PF-130a.1
Water Management	(1) Total water withdrawn, (2) total water consumed; percentage of each in regions with High or Extremely High Baseline Water Stress	Quantitative	Thousand cubic metres (m³), Percentage (%)	FB-PF-140a.1
	Number of incidents of non-compliance associated with water quality permits, standards and regulations	Quantitative	Number	FB-PF-140a.2
	Description of water management risks and discussion of strategies and practices to mitigate those risks	Discussion and Analysis	n/a	FB-PF-140a.3
Environmental & Social Impacts of Ingredient Supply Chain	Percentage of food ingredients sourced that are certified to third-party environmental or social standards, and percentages by standard	Quantitative	Percentage (%) by cost	FB-PF-430a.1
	Suppliers' social and environmental responsibility audit (1) non-conformance rate and (2) associated corrective action rate for (a) major and (b) minor non-conformances	Quantitative	Rate	FB-PF-430a.2
Ingredient Sourcing	Percentage of food ingredients sourced from regions with High or Extremely High Baseline Water Stress	Quantitative	Percentage (%) by cost	FB-PF-440a.1
	List of priority food ingredients and discussion of sourcing risks related to environmental and social considerations	Discussion and Analysis	n/a	FB-PF-440a.2

**Table 2. Activity Metrics**

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Weight of products sold	Quantitative	Metric tons (t)	FB-PF-000.A
Number of production facilities	Quantitative	Number	FB-PF-000.B

## Energy Management

### Topic Summary

The Processed Foods industry is reliant on energy and fuel as primary inputs for value creation in manufacturing food products. Energy is needed to operate large manufacturing facilities for cooking, refrigeration and packaging. Energy production and consumption contributes to significant environmental impacts, including climate change and pollution, which have the potential indirectly, yet materially, to affect processed food entity operations. Energy efficiency in production and distribution can mitigate exposure to volatile energy costs and limit an entity's contribution to direct and indirect greenhouse gas (GHG) emissions. Producers may be able to reduce the risk posed by volatile fossil fuel energy costs—particularly natural gas, which the industry uses heavily—by diversifying their energy portfolio across a range of sources. Decisions regarding alternative fuels use, renewable energy and on-site generation of electricity versus purchasing from the grid, may influence both the costs and reliability of the energy supply.

### Metrics

*FB-PF-130a.1. (1) Total energy consumed, (2) percentage grid electricity and (3) percentage renewable*

- 1 The entity shall disclose (1) the total amount of energy it consumed as an aggregate figure, in gigajoules (GJ).
  - 1.1 The scope of energy consumption includes energy from all sources, including energy purchased from external sources and energy produced by the entity itself (self-generated). For example, direct fuel usage, purchased electricity, and heating, cooling and steam energy all are included within the scope of energy consumption.
  - 1.2 The scope of energy consumption includes only energy directly consumed by the entity during the reporting period.
  - 1.3 In calculating energy consumption from fuels and biofuels, the entity shall use higher heating values (HHV), also known as gross calorific values (GCV), which are measured directly or taken from the Intergovernmental Panel on Climate Change (IPCC).
- 2 The entity shall disclose (2) the percentage of energy it consumed that was supplied from grid electricity.
  - 2.1 The percentage shall be calculated as purchased grid electricity consumption divided by total energy consumption.

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- 3 The entity shall disclose (3) the percentage of energy it consumed that was renewable energy.
  - 3.1 Renewable energy is defined as energy from sources that are replenished at a rate greater than or equal to their rate of depletion, such as geothermal, wind, solar, hydro and biomass.
  - 3.2 The percentage shall be calculated as renewable energy consumption divided by total energy consumption.
  - 3.3 The scope of renewable energy includes renewable fuel the entity consumed, renewable energy the entity directly produced and renewable energy the entity purchased, if purchased through a renewable power purchase agreement (PPA) that explicitly includes renewable energy certificates (RECs) or Guarantees of Origin (GOs), a Green-e Energy Certified utility or supplier programme, or other green power products that explicitly include RECs or GOs, or for which Green-e Energy Certified RECs are paired with grid electricity.
    - 3.3.1 For any renewable electricity generated on-site, any RECs and GOs shall be retained (not sold) and retired or cancelled on behalf of the entity for the entity to claim them as renewable energy.
    - 3.3.2 For renewable PPAs and green power products, the agreement shall explicitly include and convey that RECs and GOs be retained or replaced and retired or cancelled on behalf of the entity for the entity to claim them as renewable energy.
    - 3.3.3 The renewable portion of the electricity grid mix outside of the control or influence of the entity is excluded from the scope of renewable energy.
  - 3.4 For the purposes of this disclosure, the scope of renewable energy from biomass sources is limited to materials certified to a third-party standard (for example, Forest Stewardship Council, Sustainable Forest Initiative, Programme for the Endorsement of Forest Certification or American Tree Farm System), materials considered eligible sources of supply according to the *Green-e Framework for Renewable Energy Certification, Version 1.0* (2017) or Green-e regional standards or materials eligible for an applicable jurisdictional renewable portfolio standard.
- 4 The entity shall apply conversion factors consistently for all data reported under this disclosure, such as the use of HHVs for fuel use (including biofuels) and conversion of kilowatt hours (kWh) to GJ (for energy data including electricity from solar or wind energy).

## Water Management

### Topic Summary

Processed Foods entities rely on a reliable water supply for cooking, processing and cleaning finished goods. Additionally, entities in the industry generate and must manage the wastewater discharge from processing activities. As water scarcity becomes an issue of increasing importance, processed foods entities—operating in water-stressed regions—

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may face increasing operational risks. Entities in the industry may face higher operational costs as well as water shortages because of the physical availability or more stringent regulations. Entities can manage water-related risks and opportunities through capital investments and assessment of facility locations relative to water scarcity risks, improvements to operational efficiency, and partnerships with regulators and communities on issues related to water access and effluent.

### Metrics

*FB-PF-140a.1. (1) Total water withdrawn, (2) total water consumed; percentage of each in regions with High or Extremely High Baseline Water Stress*

- 1 The entity shall disclose the amount of water, in thousands of cubic metres, withdrawn from all sources.
  - 1.1 Water sources include surface water (including water from wetlands, rivers, lakes and oceans), groundwater, rainwater collected directly and stored by the entity, and water and wastewater obtained from municipal water supplies, water utilities or other entities.
- 2 The entity may disclose portions of its supply by source if, for example, significant portions of withdrawals are from non-freshwater sources.
  - 2.1 Fresh water may be defined according to the local laws and regulations where the entity operates. If no legal definition exists, fresh water shall be considered to be water that has less than 1,000 parts per million of dissolved solids.
  - 2.2 Water obtained from a water utility in compliance with jurisdictional drinking water regulations can be assumed to meet the definition of fresh water.
- 3 The entity shall disclose the amount of water, in thousands of cubic metres, consumed in its operations.
  - 3.1 Water consumption is defined as:
    - 3.1.1 Water that evaporates during withdrawal, use and discharge
    - 3.1.2 Water that is directly or indirectly incorporated into the entity's product or service
    - 3.1.3 Water that does not otherwise return to the same catchment area from which it was withdrawn, such as water returned to another catchment area or the sea
- 4 The entity shall analyse all its operations for water risks and identify activities that withdraw and consume water in locations with High (40–80%) or Extremely High (>80%) Baseline Water Stress as classified by the World Resources Institute's (WRI) Water Risk Atlas tool, Aqueduct.
- 5 The entity shall disclose its water withdrawn in locations with High or Extremely High Baseline Water Stress as a percentage of the total water withdrawn.
- 6 The entity shall disclose water consumed in locations with High or Extremely High Baseline Water Stress as a percentage of the total water consumed.

*FB-PF-140a.2. Number of incidents of non-compliance associated with water quality permits, standards and regulations*

- 1 The entity shall disclose the total number of incidents of non-compliance, including violations of a technology-based standard and exceedances of quantity or quality-based standards.
- 2 The scope of disclosure includes incidents governed by applicable jurisdictional statutory permits and regulations, which include the discharge of a hazardous substance, violation of pre-treatment requirements or total maximum daily load (TMDL) exceedances.
- 3 The scope of disclosure shall only include incidents of non-compliance that resulted in a formal enforcement action(s).
  - 3.1 Formal enforcement actions are defined as governmental recognised actions that address a violation or threatened violation of water quantity or quality laws, regulations, policies or orders, and can result in administrative penalty orders, administrative orders and judicial actions, among others.
- 4 Violations shall be disclosed, regardless of their measurement methodology or frequency. These include violations for:
  - 4.1 Continuous discharges, limitations, standards and prohibitions that are generally expressed as maximum daily, weekly and monthly averages; and
  - 4.2 Non-continuous discharges or limitations that are generally expressed in terms of frequency, total mass, maximum rate of discharge and mass or concentration of specified pollutants.

*FB-PF-140a.3. Description of water management risks and discussion of strategies and practices to mitigate those risks*

- 1 The entity shall describe its water management risks associated with water withdrawals, water consumption and discharge of water or wastewater.
  - 1.1 Risks associated with water withdrawals and water consumption include risks to the availability of adequate, clean water resources, which include:
    - 1.1.1 Environmental constraints—such as operating in water-stressed regions, drought, concerns of aquatic impingement or entrainment, interannual or seasonal variability, and risks from the impact of climate change
    - 1.1.2 Regulatory and financial constraints—such as volatility in water costs, stakeholder perceptions and concerns related to water withdrawals (for example, those from local communities, non-governmental organisations and regulatory agencies), direct competition with and impact from the actions of other users (for example, commercial and municipal users), restrictions to withdrawals because of regulations, and constraints on the entity's ability to obtain and retain water rights or permits



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- 1.2 Risks associated with the discharge of water or wastewater include the ability to obtain rights or permits related to discharges, regulatory compliance related to discharges, restrictions to discharges, the ability to maintain control over the temperature of water discharges, liabilities, reputational risks and increased operating costs because of regulation, stakeholder perceptions and concerns related to water discharges (for example, those from local communities, non-governmental organisations and regulatory agencies).
- 2 The entity may describe water management risks in the context of:
  - 2.1 How risks may vary by withdrawal source, including surface water (including water from wetlands, rivers, lakes and oceans), groundwater, rainwater collected directly and stored by the entity, and water and wastewater obtained from municipal water supplies, water utilities or other entities; and
  - 2.2 How risks may vary by discharge destinations, including surface water, groundwater or wastewater utilities.
- 3 The entity may discuss the potential effects that water management risks may have on its operations and the time line over which such risks are expected to manifest.
  - 3.1 Effects include those associated with costs, revenue, liabilities, continuity of operations and reputation.
- 4 The entity shall discuss its short- and long-term strategies or plans to mitigate water management risks, which include:
  - 4.1 The scope of its strategy, plans, goals or targets, such as how they relate to various business units, geographies or water-consuming operational processes.
  - 4.2 Any water management goals or targets it has prioritised, and an analysis of performance against those goals or targets.
    - 4.2.1 Goals and targets include those associated with reducing water withdrawals, reducing water consumption, reducing water discharges, reducing aquatic impingements, improving the quality of water discharges and regulatory compliance.
  - 4.3 The activities and investments required to achieve the plans, goals or targets, and any risks or limiting factors that might affect achievement of the plans or targets.
  - 4.4 Disclosure of strategies, plans, goals or targets shall be limited to activities that were ongoing (active) or reached completion during the reporting period.
- 5 For water management targets, the entity shall additionally disclose:
  - 5.1 Whether the target is absolute or intensity-based, and the metric denominator if it is an intensity-based target.

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- 5.2 The time lines for the water management activities, including the start year, the target year and the base year.
  - 5.3 The mechanism(s) for achieving the target, including:
    - 5.3.1 Efficiency efforts, such as the use of water recycling or closed-loop systems;
    - 5.3.2 Product innovations, such as redesigning products or services to require less water;
    - 5.3.3 Process and equipment innovations, such as those that enable the reduction of aquatic impingements or entrainments;
    - 5.3.4 Use of tools and technologies (for example, the World Wildlife Fund Water Risk Filter, the Global Water Tool and Water Footprint Network Footprint Assessment Tool) to analyse water use, risks and opportunities; and
    - 5.3.5 Collaborations or programmes in place with the community or other organisations.
  - 5.4 The percentage reduction or improvement from the base year, in which the base year is the first year against which water management targets are evaluated towards the achievement of the target.
- 6 The entity shall discuss whether its water management practices result in any additional lifecycle impacts or trade-offs in its organisation, including trade-offs in land use, energy production and greenhouse gas (GHG) emissions, and why the entity chose these practices despite lifecycle trade-offs.

## Environmental & Social Impacts of Ingredient Supply Chain

### Topic Summary

Entities in the Processed Foods industry manage global supply chains to source a wide range of ingredient inputs. How entities screen, monitor and engage with suppliers on environmental and social topics affects the ability of entities to maintain steady supplies and manage price fluctuations. Supply chain management issues related to labour and environmental practices, ethics or corruption also may result in regulatory fines or increased long-term operational costs for entities. The consumer-facing nature of the industry increases the reputational risks associated with supplier performance. Entities can engage with important suppliers to manage environmental and social risks to improve supply chain resiliency, mitigate reputational risks, potentially increase consumer demand, or capture new market opportunities.

### Metrics

*FB-PF-430a.1. Percentage of food ingredients sourced that are certified to third-party environmental or social standards, and percentages by standard*

- 1 The entity shall disclose the percentage of food ingredients sourced that are certified to a third-party environmental or social standard.

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- 1.1 Environmental standards are defined as standards that address environmental impacts related to the production of food ingredients, such as protection of primary forests, maintenance of surface water and groundwater quality, and implementation of integrated pest management solutions or an Organic System Plan.
- 1.2 Social standards are defined as standards that address social impacts related to the production of food ingredients, such as compensation of workforce, training and continual monitoring of health and safety risks associated with the application of agrochemicals and child-labour practices.
- 1.3 The percentage shall be calculated as the cost of food ingredients purchased from Tier 1 suppliers certified to a third-party environmental or social standard divided by the total cost of food ingredients purchased from Tier 1 suppliers.
- 1.4 Examples of certifications to third-party environmental and social standards include:
  - 1.4.1 Bonsucro
  - 1.4.2 Fairtrade International
  - 1.4.3 Fair Trade USA
  - 1.4.4 Roundtable on Sustainable Palm Oil (RSPO)
  - 1.4.5 Roundtable on Responsible Soy (RTRS)
  - 1.4.6 Rainforest Alliance
  - 1.4.7 SA8000
  - 1.4.8 U.S. Department of Agriculture (USDA) Organic
  - 1.4.9 UTZ Certified
- 2 The entity shall disclose the percentage of food ingredients it sourced that are certified to a third-party environmental or social standard, by standard.
  - 2.1 The entity shall calculate the percentage as the cost of food ingredients purchased from Tier 1 suppliers certified to each respective third-party environmental or social standard divided by the total cost of agricultural products purchased from Tier 1 suppliers.
    - 2.1.1 For Bonsucro certification, the entity shall disclose whether the food ingredients are certified to the Bonsucro Production Standard or the Bonsucro Chain of Custody Standard.
    - 2.1.2 For Fairtrade International and Fair Trade USA, the entity shall disclose whether the food ingredients are certified to the standards for small producer organisations, hired labour, contract production, traders, independent small holders or capture fisheries.

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- 2.1.3 For RSPO certification, the entity shall disclose which of the RSPO supply chain models the food ingredients are certified to: Identity Preserved (IP); Segregated (SG); Mass Balance (MB); or Book & Claim (B&C).
- 2.1.4 For RTRS certification, the entity shall disclose whether the food ingredients are certified to the RTRS Production standard or the RTRS Chain of Custody Standard and whether traceability in the chain of custody standard is kept through segregation or mass balance.
- 2.1.5 For other third-party certifications, the entity may specify the type of certification if there is more than one type.
- 2.2 The entity may aggregate the percentages of numerous third-party certifications into one aggregate percentage, if the certifications are for the same food ingredient and deliver similar environmental or social criteria.
- 3 The disclosure scope includes food ingredients purchased from Tier 1 suppliers.
  - 3.1 Tier 1 suppliers are defined as suppliers that transact directly with the entity for food ingredients.

### *FB-PF-430a.2. Suppliers' social and environmental responsibility audit (1) non-conformance rate and (2) associated corrective action rate for (a) major and (b) minor non-conformances*

- 1 The entity shall disclose its supplier facilities' (1) non-conformance rate with external social and environmental audit standard(s) or internally developed supplier code(s) of conduct for (a) major non-conformances, and separately, (b) minor non-conformances.
  - 1.1 A major non-conformance is defined as the highest severity of non-conformance and requires escalation by auditors. Major non-conformances confirm the presence of underage child workers (below the legal age for work or apprenticeship), forced labour, health and safety issues that can cause immediate danger to life or serious injury, or environmental practices that can cause serious and immediate harm to the community. Major non-conformance includes material breach or systemic breaking of code requirement or law. Major non-conformances may also be referred to as critical or priority non-conformances.
  - 1.2 A minor non-conformance is defined as a non-conformance that, by itself, is not indicative of a systemic problem with the management system. Minor non-conformances are typically isolated or random incidents and represent a low risk to workers or the environment.
  - 1.3 The entity shall calculate the non-conformance rates as the total number of non-conformances identified (in each respective category) among its supplier facilities divided by the number of supplier facilities audited.

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- 2 The entity shall disclose the (2) corrective action rates associated with its supplier facilities' (a) major non-conformances, and separately, (b) minor non-conformances.
  - 2.1 A corrective action is defined as the completion of an action (generally identified in a corrective action plan) within 90 days, designed to eliminate the cause of a detected non-conformance, including the implementation of practices or systems to eliminate any non-conformance and ensure no reoccurrence of the non-conformance, as well as verification that the action has taken place.
  - 2.2 The entity shall calculate the corrective action rates as the number of corrective actions that address non-conformances (in each respective category) divided by the total number of non-conformances identified (in each respective category).
- 3 The entity shall disclose the standards or code(s) of conduct to which it has measured social and environmental responsibility audit compliance.
  - 3.1 For internally developed supplier code(s) of conduct, the entity shall disclose the public location where such code(s) can be viewed.

## Ingredient Sourcing

### Topic Summary

Entities in the Processed Foods industry source a wide range of ingredients, largely agricultural inputs, from global suppliers. The industry's ability to source ingredients, and at some price points, fluctuates with supply availability, which may be affected by climate change, water scarcity, land management and other resource scarcity considerations. This exposure may cause price volatility which may affect entity profitability. Climate change, water scarcity and land-use restrictions present risks to an entity's long-term ability to source essential materials and ingredients. Entities that source ingredients which are more productive and less resource-intensive, or coordinate with suppliers to increase their adaptability to climate change and other resource scarcity risks, may reduce price volatility and supply disruptions.

### Metrics

#### *FB-PF-440a.1. Percentage of food ingredients sourced from regions with High or Extremely High Baseline Water Stress*

- 1 The entity shall disclose the percentage of food ingredients sourced from regions with High or Extremely High Baseline Water Stress.
- 2 The percentage shall be calculated as the cost of food ingredients purchased from Tier 1 suppliers that withdraw and consume water in regions with High or Extremely High Baseline Water Stress to produce the agricultural products, divided by the total cost of food ingredients purchased from Tier 1 suppliers.
  - 2.1 Tier 1 suppliers are defined as suppliers that transact directly with the entity for food ingredients.

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- 2.2 The entity shall identify Tier 1 suppliers that withdraw and consume water in locations with High (40–80%) or Extremely High (>80%) Baseline Water Stress as classified by the World Resources Institute's (WRI) Water Risk Atlas tool, Aqueduct.
- 3 If the entity is unable to identify or collect data pertaining to all Tier 1 suppliers, the entity shall disclose the percentage of agricultural products for which the source region and water risks are unknown.

### *FB-PF-440a.2. List of priority food ingredients and discussion of sourcing risks related to environmental and social considerations*

- 1 The entity shall identify the highest priority food ingredients to its business.
  - 1.1 Priority food ingredients are defined as ingredients (excluding water) that constitute the largest food ingredient expense, or those ingredients identified by the entity as essential to its products or as having significant environmental or social risks.
  - 1.2 The scope of disclosure includes priority food ingredients sourced by the entity, which may include those sourced directly from contract growers and from producer supply agreements.
- 2 The entity shall discuss its strategic approach to managing the environmental and social risks that arise from its highest priority food ingredients.
  - 2.1 Environmental risks may include effects of drought and climate change on ingredient prices, reputational damage because of deforestation and other risks resulting from the environmental impacts associated with the entity's supply chain.
  - 2.2 Social risks may include the effects of workers' rights on productivity, reputational damage because of human rights issues and other risks resulting from the social impacts associated with the entity's supply chain.
- 3 The entity may identify which food ingredients present risks to its operations, the risks represented and the strategies the entity uses to mitigate such risks.
  - 3.1 For environmental risks, relevant strategies to discuss may include the diversification of suppliers, supplier training programmes on environmental best management practices, expenditures on research and development for alternative and substitute crops, and audits or certifications of suppliers' environmental practices.
  - 3.2 For social risks, relevant strategies to discuss may include supplier training programmes on agrochemical application, engagement with suppliers on labour and human rights issues and maintenance of a supply chain code of conduct.



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