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# REPORTING ON SUSTAINABILITY

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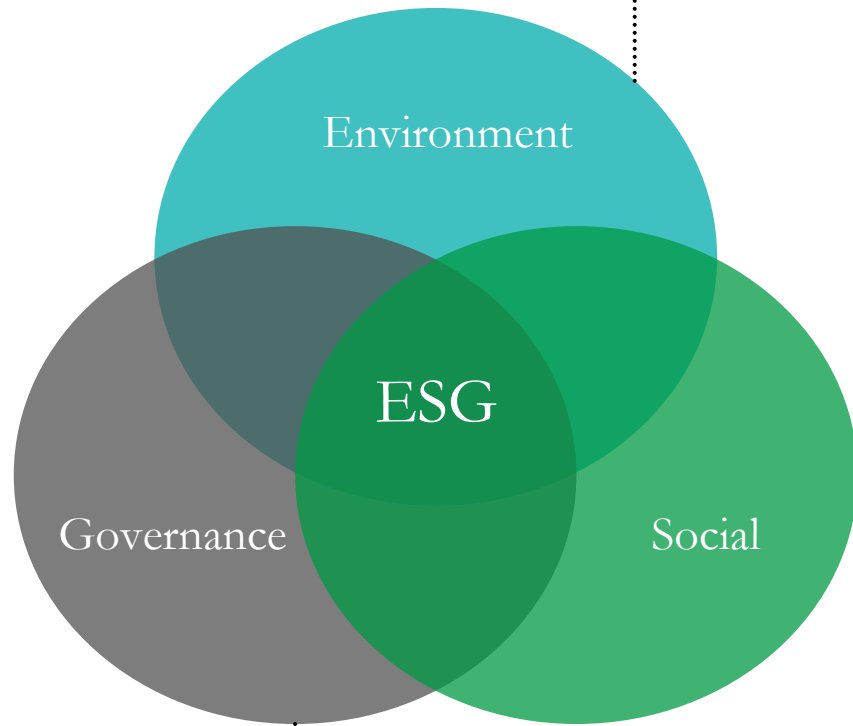
# Introduction

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- ❖ In the 2015 UN Sustainable Development Summit (COP 21), the ‘2030 Agenda for Sustainable Development’ was agreed and endorsed by the 193 - member nations
- ❖ The core principles underpinning the Agenda were:
  - Universality, Leaving no one behind, Interconnectedness and Indivisibility, Inclusiveness and Multi-stakeholder partnerships
- ❖ **17 Sustainability Development Goals (SDGs) were also laid down**
- ❖ To the 3 core elements of UN initiatives:
  - People (Social Inclusion),
  - Prosperity (Economic Growth) and
  - Planet (Environmental protection),
  - **the 2030 Agenda added 2 more – Partnership and Peace**
- ❖ Making it the **5 Ps: People, Prosperity, Planet, Partnership and Peace**

# What is ESG & its Components ?



Environmental Factors – Impact of company’s operation on the environment, both Direct and Indirect

- Climate Change,
- Biodiversity,
- Water & Energy Efficiency,
- Environmental Management System (EMS),
- Contaminated Property,
- Waste Management, Pollution
- Toxic Emissions,
- Carbon Intensity (Footprint)

Social Factors – relationship of the company with the employees, Labour, consumers, suppliers, and other stakeholders

- Equal Opportunitie
- Freedom of Association
- Health & Safety,
- Human Rights,
- Child Labour,
- Gender - Race Equality
- Customer & Product Responsibility,
- Vendor Relationship
- Education Initiative

Governance – the diversity in the Board, leadership, engagement of the stakeholders, and independence in matters of financial auditing and reporting

- Business Ethics
- Compliance
- Board Independence
- Executive Compensation
- Shareholder Democracy
- Clear Accounting
- Conflict of Interest
- Political Influence
- Whistleblower Policy

# Sustainable Development Goals – UN

|  |                                      |  |                                      |
|--|--------------------------------------|--|--------------------------------------|
|  <b>1 NO POVERTY</b>                                | No Poverty                           |  <b>10 REDUCED INEQUALITIES</b>                     | Reduced Inequalities                 |
|  <b>2 ZERO HUNGER</b>                               | Zero Hunger                          |  <b>11 SUSTAINABLE CITIES AND COMMUNITIES</b>       | Sustainable Cities & Communities     |
|  <b>3 GOOD HEALTH AND WELL-BEING</b>                | Good Health & Well Being             |  <b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b>   | Responsible Consumption & Production |
|  <b>4 QUALITY EDUCATION</b>                         | Quality Education                    |  <b>13 CLIMATE ACTION</b>                           | Climate Action                       |
|  <b>5 GENDER EQUALITY</b>                           | Gender Equality                      |  <b>14 LIFE BELOW WATER</b>                         | Life Below Water                     |
|  <b>6 CLEAN WATER AND SANITIZATION</b>              | Clean Water & Sanitization           |  <b>15 LIFE ON LAND</b>                            | Life on Land                         |
|  <b>7 AFFORDABLE AND CLEAN ENERGY</b>              | Affordable & Clean Energy            |  <b>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</b> | Peace Justice & Strong Institutions  |
|  <b>8 DECENT WORK AND ECONOMIC GROWTH</b>         | Decent Work & Economic Growth        |  <b>17 PARTNERSHIPS FOR THE GOALS</b>             | Partnership for the Goals            |
|  <b>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</b> | Industry Innovation & Infrastructure |  |                                      |

# Commonly used Terms for Sustainability

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# What is Climate Change?

- ❖ **Climate change refers to long-term shifts in temperatures and weather patterns.**
- ❖ Burning fossil fuels generates greenhouse gas emissions that act like a blanket wrapped around the Earth, trapping the sun's heat and raising temperatures.
- ❖ **The consequences of climate change now include, among others, intense droughts, water scarcity, severe fires, rising sea levels, flooding, melting polar ice, catastrophic storms and declining biodiversity.**
- ❖ **The number of “climate refugees” is expected to rise as** conditions like sea-level rise and saltwater intrusion have advanced.
- ❖ Three broad categories of action are: cutting emissions, adapting to climate impacts and financing required adjustments
- ❖ **Climate action requires significant financial investments by governments and businesses.**



# What is Net Zero?

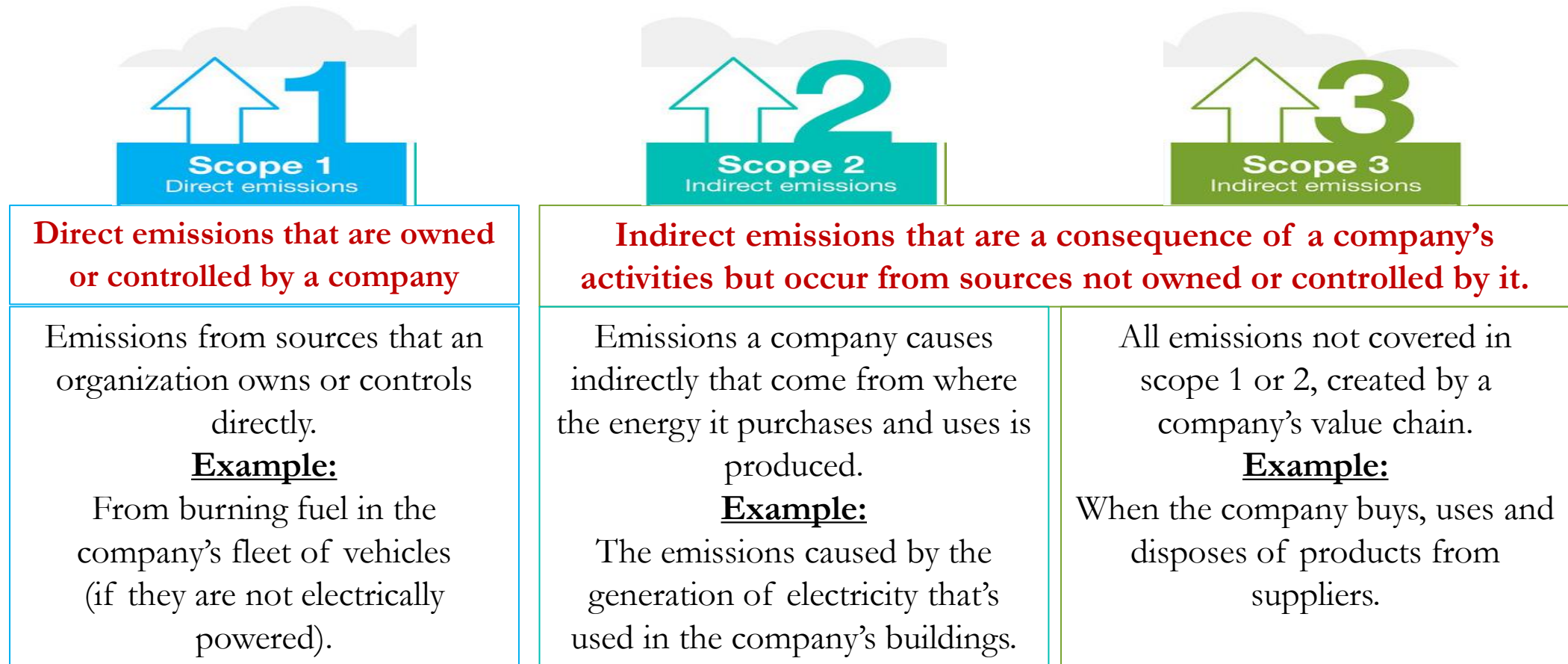
- ❖ “Net zero emission” by 2030 or 2050 is being demanded by the climate movement triggered by Greta Thunberg
- ❖ Since the Earth already reacts strongly to small changes in the amount of CO<sub>2</sub>, methane and other greenhouse gases in the atmosphere, emissions of these gases must be reduced until the whole system is back in balance again. **Net zero emission means that all man-made greenhouse gas emissions must be removed from the atmosphere through reduction measures, thus reducing the Earth’s net climate balance, after removal via natural and artificial sink to zero.** This way humankind would be carbon neutral and global temperature would stabilize



**What Net Zero means for businesses?**

# What are carbon emissions?

- ❖ The three scopes are a way of categorizing the different types of greenhouse gas emissions created by a company, its suppliers and its customers.



# Main Greenhouse Gases

## Carbon dioxide (CO<sub>2</sub>)

CO<sub>2</sub> is released through natural processes, such as volcanic eruptions, plant respiration and animals and humans breathing. But the atmospheric CO<sub>2</sub> concentration has increased by 50% since the Industrial Revolution began in the 1800s, due to human activities like the burning of fossil fuels and large-scale deforestation. Due to its abundance, CO<sub>2</sub> is the main contributor to climate change.

Nitrous oxide is produced through the large-scale use of commercial and organic fertilizers, fossil-fuel combustion, nitric-acid production and biomass burning.

## Nitrous Oxide

## Methane

Methane is produced naturally through decomposition. But again, human activity has displaced the natural balance. Large amounts of methane are released by cattle farming, landfill waste dumps, rice farming and the traditional production of oil and gas.

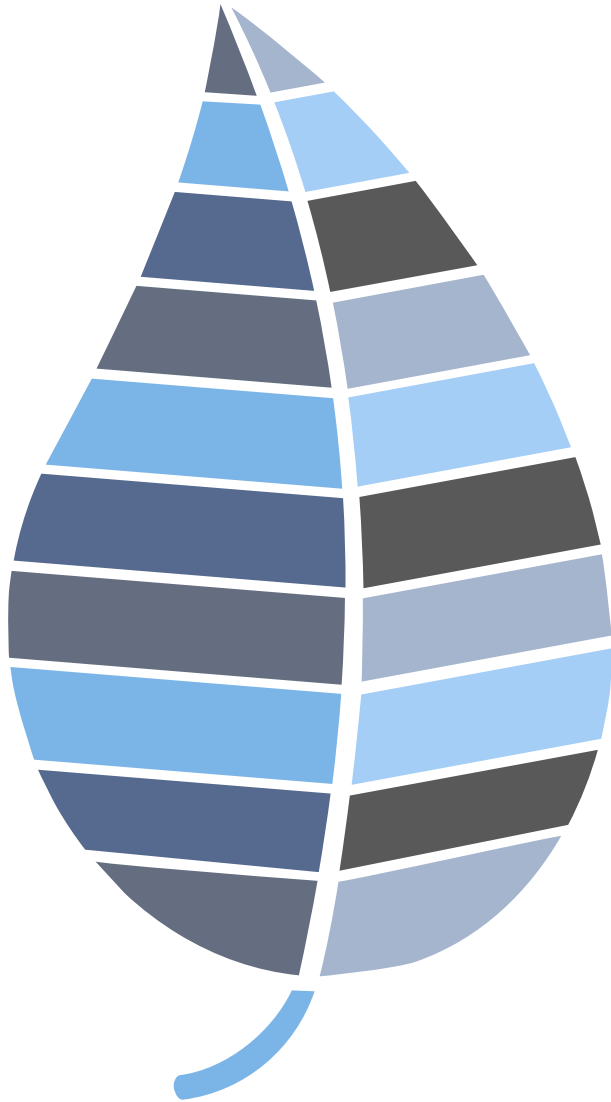
Water vapour is the most abundant greenhouse gas. It increases as the earth's atmosphere warms but unlike CO<sub>2</sub>, which can remain in the earth's atmosphere for centuries, water vapour persists for a few days.

## Water Vapour

01 02

03 04

# The 1.5°C challenge



## Objective

Limit warming to 1.5°C above preindustrial levels to avoid the most severe impacts of climate change.

Three scenarios model the decarbonization needed to keep to the 1.5°C pathway.

While big cuts are needed everywhere, if one source moves higher, others must move lower to make up the difference.

## Scenario A

Comprehensive decarbonization across all sectors based on technology readiness and cost-effectiveness.

## Scenario B

Oil fuels transport for longer. The transport sector rapidly decarbonizes, but much less rapidly than in other scenarios. To compensate, deforestation is nearly halted, and an area the size of Egypt is reforested by 2030.

## Scenario C

Gradual shift in the power sector with continued use of coal and gas; deforestation halted and reforestation of an area twice the size of Sweden by 2030.

# Key Shifts Required

**Regardless of the scenario, five major business, economic, and societal shifts would underlie a transition to a 1.5-degree pathway:**

- ❖ **Shift 1 - Reforming Food and Forestry:**
  - Reduce food waste.
- ❖ **Shift 2 - Electrifying Our Lives:**
  - Transition to zero-carbon transport options.
- ❖ **Shift 3 - Adapting Industrial Operations:**
  - Embrace circular economy and efficiency improvements.
- ❖ **Shift 4 - Decarbonizing Power and Fuel:**
  - Increase use of renewables.
- ❖ **Shift 5 - Carbon Capture and Sequestration:**
  - Capture and store CO<sub>2</sub> from point sources or the air.



# What is Greenwashing? //



- ❖ Greenwashing involves **companies creating a false impression of their product's environmental virtues, deceiving stakeholders through misleading claims and imagery.**
- ❖ Breach of Trust: Achieved through environmental imagery, misleading labels, hidden trade-offs.



## Purpose

- Measures environmental, social, and governance (ESG) practices.
- Assesses a company's sustainability and impact on society and the environment.



## Rating Process

- **Data Collection:** Sources include sustainability reports, financial statements, media, articles, and regulatory records.
- **Framework:** Evaluates ESG factors such as environmental impact, social responsibility, and governance. Frameworks vary by agency.
- **Score:** Companies are rated on their ESG performance. Scores may be numerical, alphabetical, or relative.
- **Importance:** Different weights are assigned to ESG factors based on their relevance to the industry and stakeholders.
- **Validation:** Ratings are validated through expert opinions, stakeholder consultations, and benchmarking.
- **Reporting:** Agencies provide detailed reports on evaluation, methodology, and analysis for clients like investors and asset managers.

## Function

Like regular bonds, but funds are used exclusively for projects with positive environmental impacts, like renewable energy and green buildings.

## Market Growth

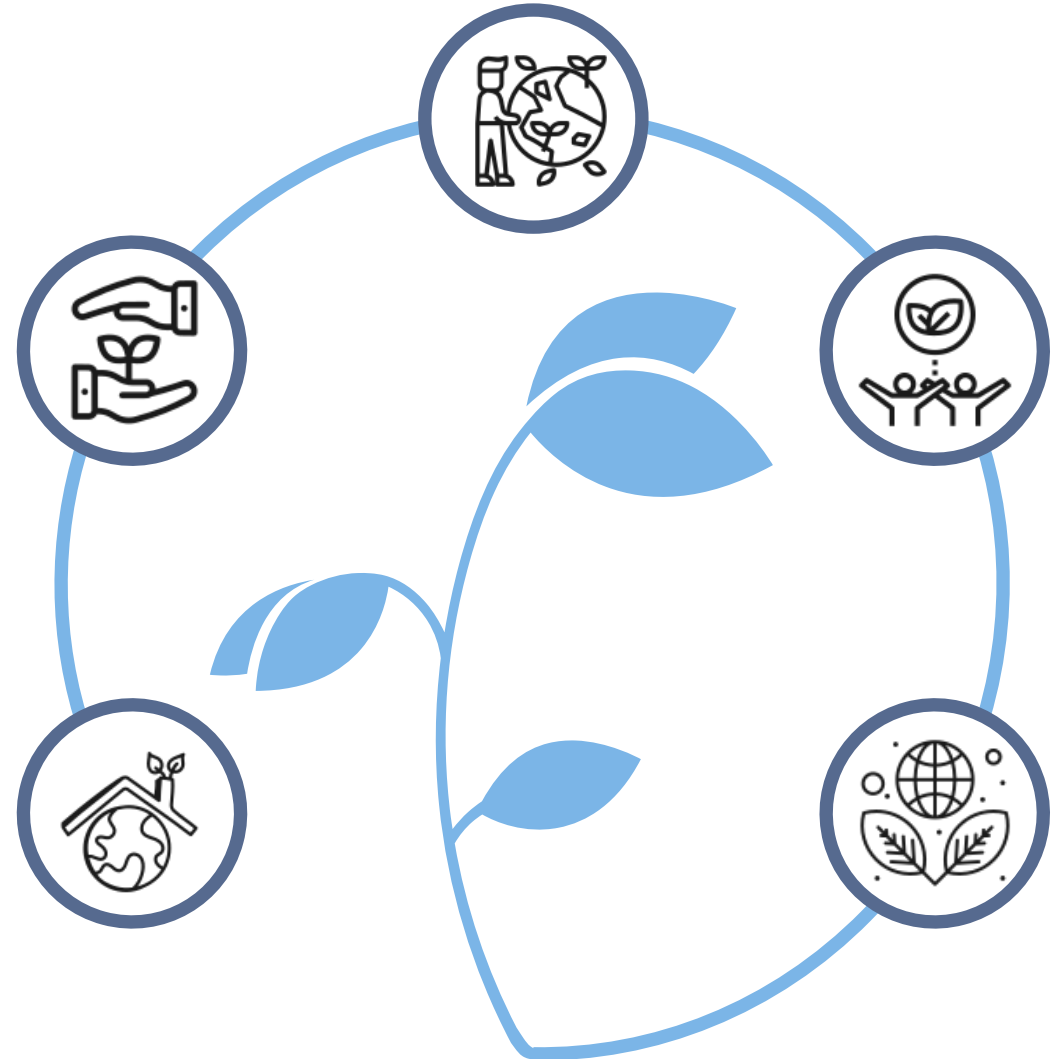
The green bond market is expanding rapidly as countries work to reduce carbon emissions. In October 2021, the European Union issued USD 14 billion in green bonds.

## Tax Benefits

Potential tax exemptions or credits (varies by issuer and jurisdiction) to attract investors.

## The UAE Example

Abu Dhabi Future Energy Company PJSC (Masdar) raised USD 1 billion through its second green bond issuance. Proceeds will fund new greenfield renewable energy projects.





# What is Conference of Parties (COP)?

- ❖ As part of the UN Climate Change Initiative, COP is the supreme decision-making body
- ❖ All States that are Parties to the UN Convention are represented at the COP
- ❖ The COP reviews the implementation of the Convention and any other legal instruments that COP adopts and take decisions necessary to promote the effective implementation of the Convention.

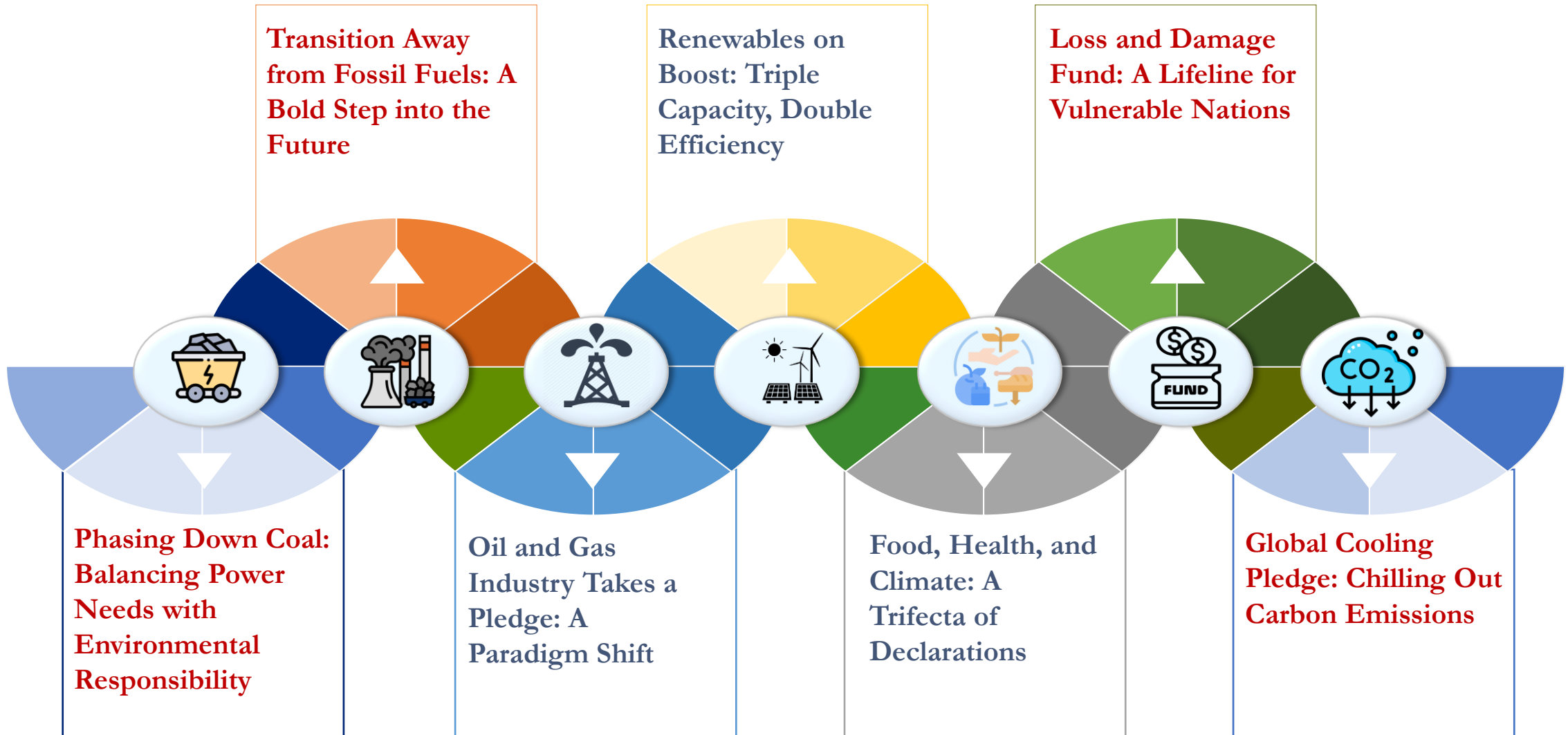
❖ So far 27 COPs have been held – **1st was in Berlin, March 1995**

❖ The last few COPs were as under:

- COP 22 – Marrakech (Morocco) – Nov 2016
- COP 23 – Bonn (Germany) – Nov 2017
- COP 24 – Katowice (Poland) – Dec 2018
- COP 25 – Madrid (Spain) – Dec 2019
- COP 26 – Glasgow (UK) – Nov 2021
- COP-27 - Sharm-El-Shaikh (Egypt) –Nov 2022
- **COP 28 – Dubai, UAE – Dec 2023**
- **COP 29 – Baku, Azerbaijan Nov 2024**



# Updates from COP 28 – Dubai

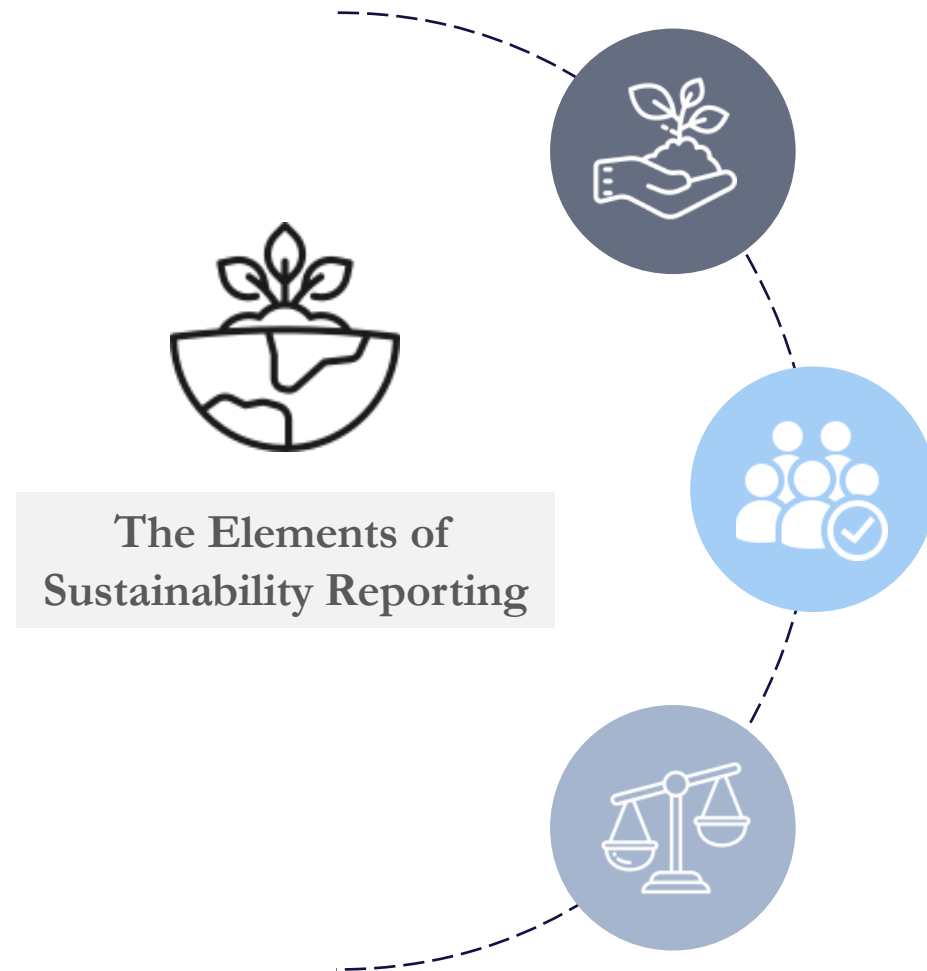


# Global developments in Reporting on Sustainability and ESG

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# Sustainability and ESG Reporting



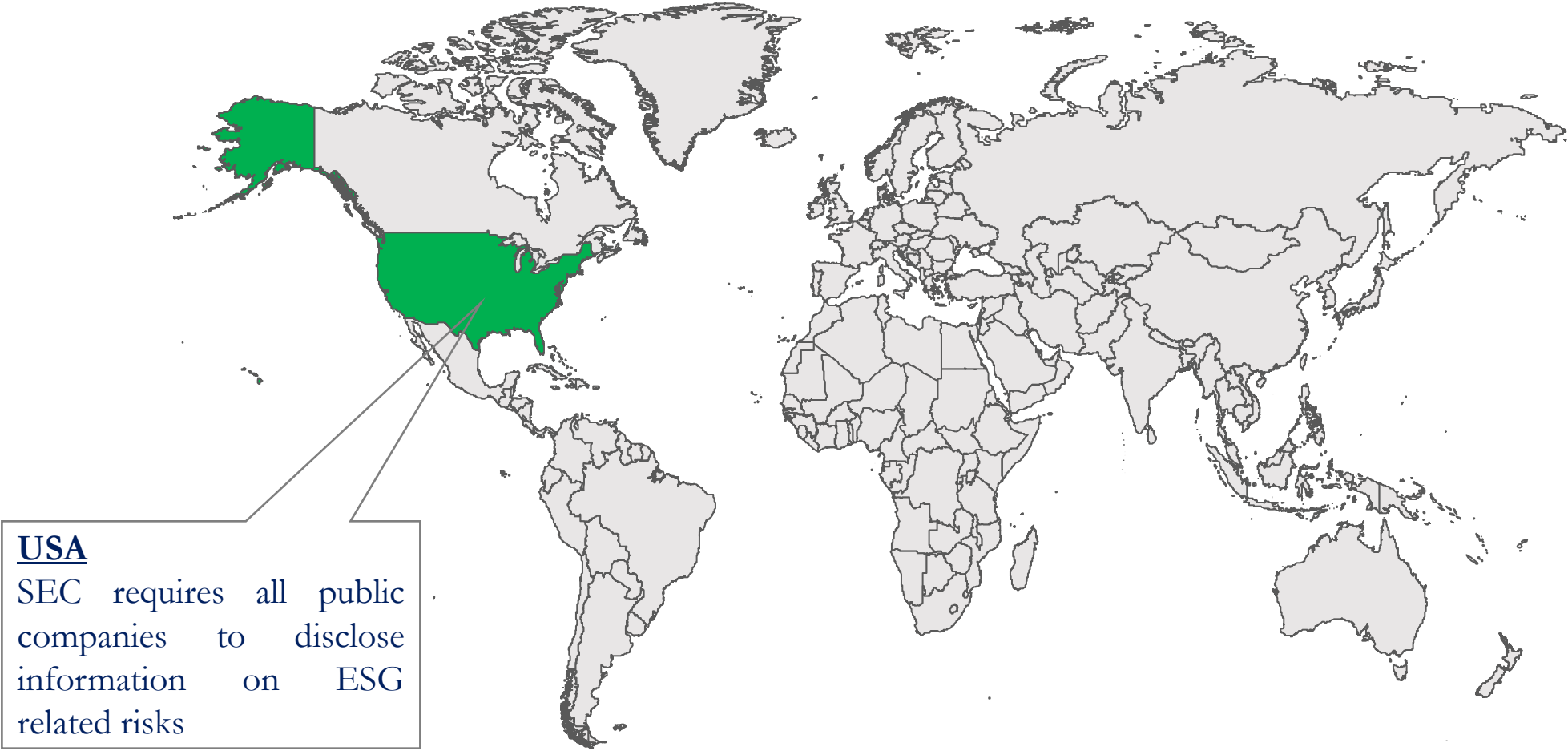
**Environment:** The Environmental pillar of ESG assesses how an industry **affects the environment** by considering elements such as **carbon footprint, pollution levels, resource management, dependence on fossil fuels, and efforts to address climate change.**

**Social:** The social pillar deals with the **assessment of both internal (workers) and external relationships (local community / consumers).** This pillar focuses on human rights, among other things.

**Governance:** **Leadership, internal controls, audits, board diversity and composition, strategies, and policies** are all included under the governance pillar. It has been found that the **financial performance of a business is influenced by its decision-making body.**

# Increasing trend in Sustainability Reporting

- ❖ Disclosure of Sustainability is increasing globally
- ❖ Reporting on Sustainability has increased:
  - In 2011, 20% S&P 500 Companies published Sustainability reports
  - In 2019, 90% S&P 500 Companies published Sustainability reports
  - In 2022, 96% S&P 500 Companies published Sustainability reports
- ❖ Such reporting has moved from ‘nice to report’ to ‘must report’ reflecting increasing expectation of stakeholders
- ❖ Stakeholders now expect companies to report on sustainability – whether it is regulators, investors or customers
- ❖ Companies giving information on Sustainability are now perceived as ‘trustworthy’ and ‘caring for the environment’ rather than only carrying on activities ‘only for profits’



**USA**

SEC requires all public companies to disclose information on ESG related risks

## ❖ SEC Adopts Rules on Climate-Related Disclosures:

- Enhance and standardize climate-related disclosures for investors.
- **Applies to public companies and public offerings.**
- Addresses the need for consistent, comparable, and reliable information on climate-related risks.
- **Focusses on the financial effects of climate risks on operations and risk management practices.**
- Balances the need for transparency with concerns about mitigating associated costs.

## ❖ SEC's ESG Greenwashing Rules:

- Increase transparency and prevent misleading claims about environmental or sustainability practices.
- **Companies must accurately report ESG claims, ensuring substantiation of environmental impact.**

## ❖ SEC's Human Capital Disclosure Rules:

- Enhance investor understanding of how companies manage human capital and ESG risks.
- **Companies must disclose detailed information on workforce demographics, benefits, and development programs.**





## UK

Mandatory to report on ESG for UK registered companies & LLP's having:

- Turnover > £ 500 million
- Employees > 500



## ❖ UK's Focus on Regulating ESG Ratings:

- The UK is aiming **to regulate ESG ratings to become a leader in sustainable finance.**
- Increased **integration of ESG considerations by investors** has led to rising demand for ESG ratings.
- ESG rating providers are generally not covered by existing markets and securities regulations.

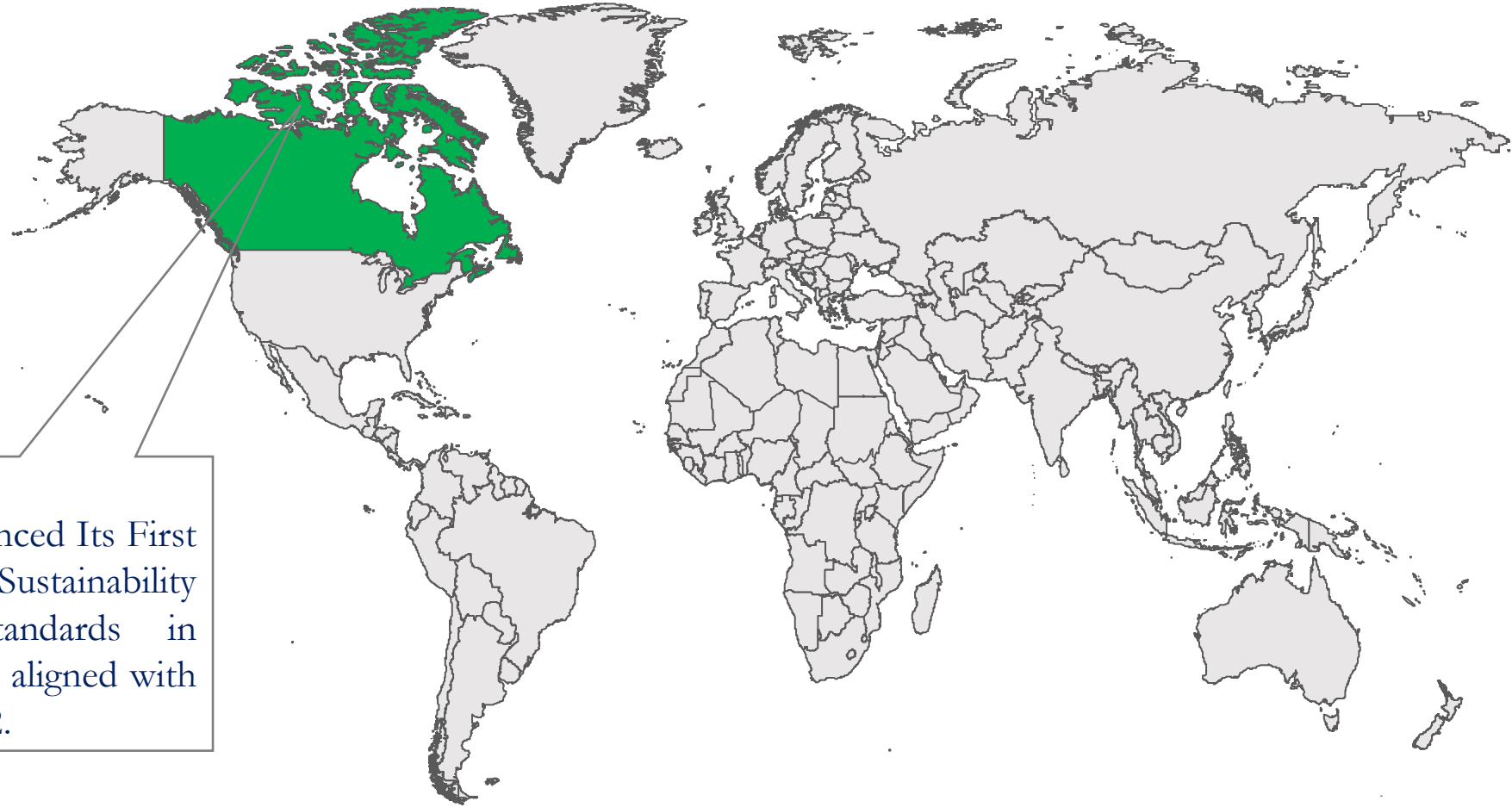
## ❖ Development of UK Sustainable Reporting Standards (SRS):

- **UK SRS expected to be finalized between March and July 2025.**
- **Objective is to institutionalize and unify SECR, TCFD, and ESOS reporting into a cohesive annual sustainability reporting framework.**
- **The FCA will introduce requirements for UK-listed companies to report sustainability-related information using UK SRS.**

## ❖ Key Components of UK SRS:

- **ISSB S1 and S2 reporting which includes Scope 3 emissions and incorporates TCFD.**
- Additional non-climate sustainability and ESG reporting requirements.
- **Mandatory submission of a detailed transition plan to achieve net zero emissions.**

# Global Scenario: Canada



**Canada:**

Canada Announced Its First Canadian Sustainability Disclosure Standards in 2024 which are aligned with IFRS S1 and S2.

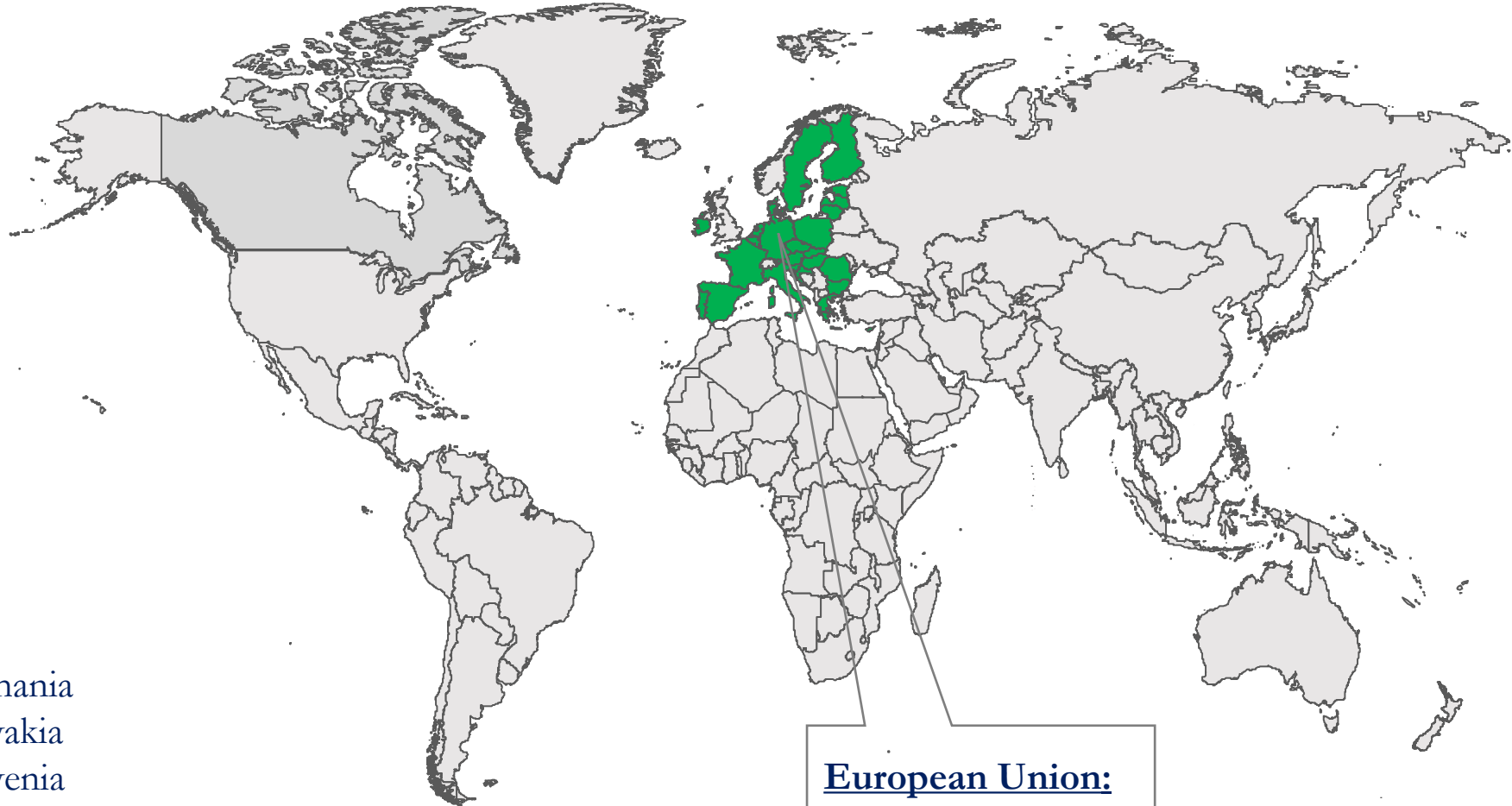
# Latest Developments: Canada

- ❖ **Canada Announced Its First Canadian Sustainability Disclosure Standards in 2024:**
  - Introduction of Canada's first Sustainability Disclosure Standards (CSDS).
  - **CSDS 1 and CSDS 2 align with IFRS S1 and S2, with modifications for Canadian interests.**
  - Emphasis on participant input and meaningful discussions to refine the standards.
- ❖ **Canada Released New Corporate Greenwashing Regulation into Law:**
  - **Regulation focuses on unsubstantiated environmental claims by companies.**
  - Non-compliance administrative penalties of up to CAD 10 million (CAD 15 million for repeat offenses) or 3% of worldwide gross revenues.
  - Companies must rigorously review and substantiate all environmental claims, with the burden of proof on them.

## European Union Nations:

1. Austria
2. Belgium
3. Bulgaria
4. Croatia
5. Cyprus
6. Czechia
7. Denmark
8. Estonia
9. Finland
10. France
11. Germany
12. Greece
13. Hungary
14. Ireland
15. Italy
16. Latvia
17. Lithuania
18. Luxembourg
19. Malta
20. Netherlands
21. Poland
22. Portugal
23. Romania
24. Slovakia
25. Slovenia
26. Spain
27. Sweden

# Global Scenario: European Union



### European Union:

In March 2024, the EU Council voted to adopt the CSDD.

# Latest Developments: European Union

- ❖ **Sustainable Finance Disclosure Regulation (SFDR):**
  - Mandates sustainability reporting for EU investment managers.
  - Increases transparency in integrating ESG risks into investment decisions.
- ❖ **Corporate Sustainability Reporting Directive (CSRD):**
  - **Expands sustainability reporting requirements** for EU and non-EU companies.
  - **Enhances consistency and comparability of sustainability information.**
- ❖ **Corporate Sustainability Due Diligence Directive (CSDDD):**
  - Requires companies to **identify, prevent, mitigate, and account for adverse sustainability impacts.**
  - **Applies to operations and value chains.**

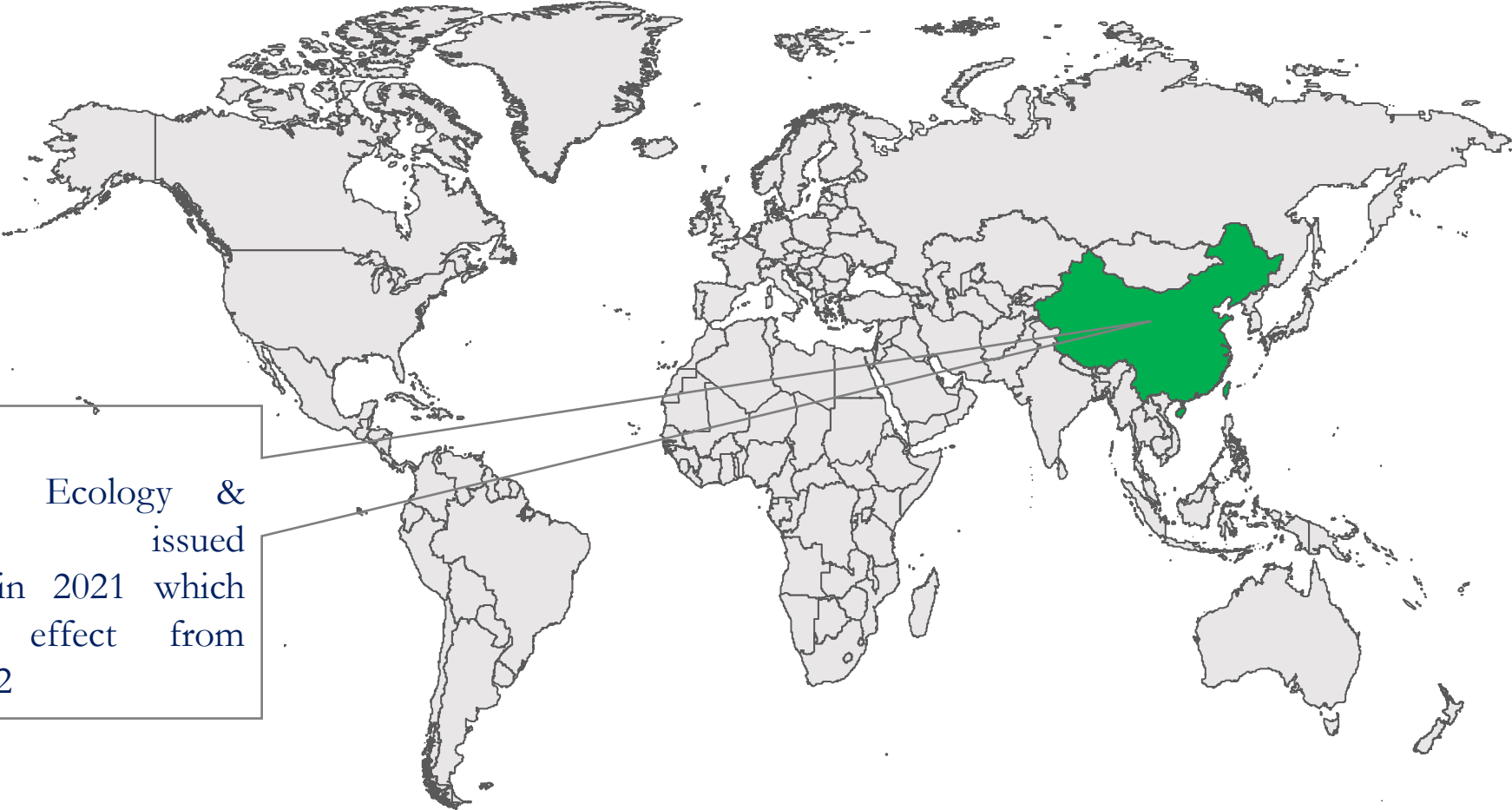
# Latest Developments: European Union ...

## ❖ Carbon Border Adjustment Mechanism (CBAM):

- Introduces a carbon price on certain imports.
- Aims to prevent carbon leakage and promote cleaner industrial production.

## ❖ ‘Fit for 55’ Package:

- **A comprehensive plan to reduce EU GHG emissions by at least 55% by 2030.**
- Incorporates various legislative measures to support emission reduction goals.



**China:**  
Ministry of Ecology & Environment issued “Measures” in 2021 which went into effect from February 2022

# Latest Developments: China

- ❖ **Focus on ESG Transparency and Accountability:**
  - China is prioritizing the increase of transparency and accountability in Environmental, Social, and Governance (ESG) reporting.
  - **Target is to establish basic standards for corporate sustainable disclosure and climate-related disclosure by 2027.**
- ❖ **Guidelines from Mainland China's Stock Markets:**
  - **Mainland China's three main stock markets have issued guidelines for listed companies on sustainability-related disclosures.** (may differ for each stock exchange)
- ❖ **Hong Kong Stock Exchange (HKEX) requirements:**
  - **HKEX has implemented stringent new mandatory ESG disclosure requirements for listed companies.**
- ❖ **Mandatory Disclosure Timeline:**
  - **Companies subject to mandatory disclosure must make their first report by 30 April 2026, covering the year 2025.**



# Global Scenario: Australia



## **Australia:**

Introducing mandatory climate-related financial disclosures, modern slavery act reforms, and stringent greenwashing enforcement

# Latest Developments: Australia

## ❖ Mandatory Climate-Related Financial Disclosures:

- From 2024-25, large Australian companies and financial institutions will be required to comply with mandatory climate-related financial disclosure requirements.
- Disclosures will align with the ISSB's global standards and will eventually include reporting on Scope 1, 2, and material Scope 3 GHG emissions.

## Modern Slavery Act Reforms:

- The Australian government is to introduce reforms to the Modern Slavery Act, including expanding mandatory reporting requirements and lowering the thresholds for businesses required to comply.

## ❖ Greenwashing Enforcement:

- The Australian Securities and Investments Commission (ASIC) and the Australian Competition and Consumer Commission (ACCC) have **intensified their focus on greenwashing, taking enforcement actions against companies that make misleading claims about their environmental credentials.**



**SEBI - BRSR:**

With the varied and distinguished widespread economy of the country SEBI has mandated BRSR and Assurance thereon – **India is one of the early movers on ESG reporting**

# Latest Developments: India

- ❖ **SEBI's Updated ESG Reporting Framework (including for debt securities):**
  - **Introduction of Business Responsibility and Sustainability Report (BRSR) and BRSR Core.**
  - **Mandatory ESG disclosures for top 150 listed companies from FY 2023-2024.**
  - **Focus on nine key ESG attributes (e.g., greenhouse gas emissions, water and energy footprints, gender diversity).**
  - **Requirement for third-party assurance to enhance transparency and comparability.**
  
- ❖ **Value Chain ESG Disclosures:**
  - **Introduction of ESG disclosure requirements across value chains for top 250 listed entities.**
  - **Implementation on a "comply-or-explain" basis starting FY 2024-2025.**
  
- ❖ **RBI / IRDA circulars for Sustainability Reporting**
  - **Banks, NBFCs and Insurance Companies to comply – initially voluntarily and mandatory from 2025-26.**



**UAE:** Chapter 4A of the Abu Dhabi Global Market (ADGM) covers ESG Disclosures. Dubai Financial Market (DFM) has also issued an ESG Reporting Guide, 2023.



Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) have made a formal commitment to promote sustainability in financial markets by joining the UN led Sustainable Stock Exchange (SSE) initiative



**ADX has issued a voluntary sustainability disclosure guide** outlining the essential sustainability indicators for its listed companies **to align with these recommendations.**



Securities and Commodities Authority (SCA) stated that **all listed companies will be required to publish an annual sustainability report and comply with the GRI standards, and any other requirement issued by the relevant stock market.**



**Abu Dhabi Global Market (ADGM) introduced ESG disclosure requirements and has published its regulatory framework** for sustainable finance which comprises ESG disclosure requirements and a regulatory framework.

# Considering Climate Impact on Financial Statements

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# Considering Impact of Climate change on Financial Statements

## Increasing focus on measurement and disclosure of climate impact:

- ❖ Announcements / commitments made by governments at International forums need to be considered – e.g. at COP 28, UN Climate change conferences, G20 summits, etc.
- ❖ Commitments can be for:
  - ❖ **The 1.5°C challenge**
  - ❖ **Net zero commitments**
  - ❖ **Contribution towards Climate funding**
  - ❖ **Shift to alternate energy (nuclear, hydrogen) and reducing thermal energy (low carbon)**
  - ❖ **Transition away from fossil fuels**
- ❖ Companies as preparers of FS need to take such commitments into account and **ascertain additional climate-related liabilities in their FS** – these require significant effort for estimation and judgement.
- ❖ **Auditors' also may need to take cognizance of these disclosures and reporting implications.**



# Considering Impact of Climate change on FS ...

## ❖ IAS 1 – Presentation of Financial Statements

- ❖ Disclosure regarding assumptions and estimates
- ❖ Transition risks and consequences of measures taken
- ❖ Recognition of assets and liabilities
- ❖ Going Concern

## ❖ IAS 16 – Property, Plant and Equipment

- ❖ Useful life determination
- ❖ Residual value
- ❖ Decommissioning liability
- ❖ Disclosures

## ❖ IAS 36 – Impairment

- ❖ Indications of Impairment for a CGU
- ❖ Determining recoverable amount and future cash flows
- ❖ Impairment testing for PPE
- ❖ Impairment Testing for Intangible assets like 'technology', 'patents', 'know-how', etc

# Considering Impact of Climate change on FS ...

## ❖ IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

- ❖ Regulatory changes and provisioning thereof
- ❖ Onerous contracts
- ❖ Legal proceedings – litigation with regulators, climate activists, etc.

## ❖ IFRS 9, 13, 7 – Financial Instruments, Fair Value

- ❖ Determining Fair Value
- ❖ Measuring ECL for investments, etc
- ❖ Evaluation of Risks esp. Business Risks
- ❖ Disclosures

## ❖ Illustrations of Companies giving impact disclosures:

- ❖ **Climate impact disclosures:** Aviva plc, BHP group, Equinor ASA, Mercedes-Benz group, Rolls Royce Holdings Plc, ...
- ❖ **Possible Impairment and provisions:** Arcelor Mittal, Unilever Plc, Shell plc, ...
- ❖ **Fair Value changes:** Sergo Plc (real estate), UBS group (banking), Natwest Group plc, (finance)..

# Climate-related and other Uncertainties in FS

## **Exposure draft issued by IASB in July 2024 (comments by November 2024)**

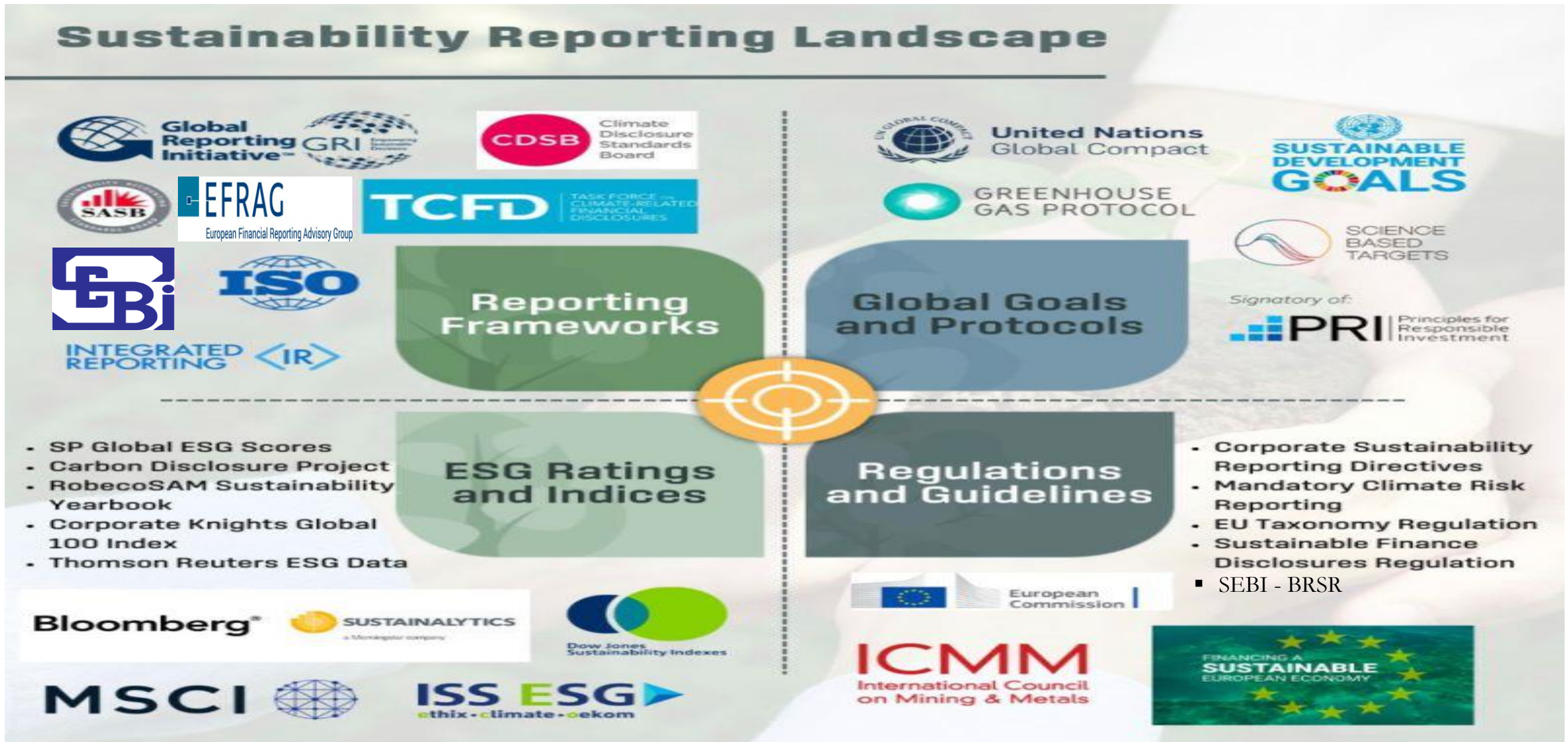
- ❖ IASB carried out extensive research to understand the nature and concerns about reporting the effects of climate-related risks in the financial statements.
- ❖ **Based on this research, the IASB (in collaboration with ISSB) decided:**
  - **To generalize the project's objective to cover climate-related and other uncertainties; and**
  - **To take actions to help improve the reporting of the effects of these uncertainties in the financial statements**
- ❖ **The ED proposes 8 examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements.**
- ❖ The examples mostly focus on climate-related uncertainties, but the principles and requirements illustrated apply equally to other types of uncertainties.

**Which Frameworks are used for  
Reporting on  
Sustainability and ESG?**

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# Multiple Global Reporting Frameworks



# Most Adopted Global Standards



**Global ESG disclosures and frameworks** such as the Global Reporting Initiative (GRI), Integrated Reporting (IR), Sustainability Accounting Standards Board (SASB), United Nations Global Compact (UNGC), TCFD and CDP **require businesses to disclose their sustainability performance as per the respective key performance indicators (KPIs) and principles.**

Many countries around the world have introduced and mandated some form of ESG-related disclosures.



## Move towards Unified Sustainability Reporting Framework



- ❖ **In September 2020, the International Financial Reporting Standards (IFRS) Foundation published a consultation paper on sustainability reporting:**
  - Assess the current situation
  - Examine the options – maintain status quo, facilitate existing initiatives, create a Sustainability Standards Board and become a standard-setter working with existing initiatives & build upon their work
  - Reduce level of complexity and achieve greater consistency in sustainability reporting
- ❖ **In November 2021, the IFRS Foundation Trustees published a revised Constitution and a Feedback Statement that responds to the feedback from Exposure Draft Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards.**
- ❖ **On 3 November 2021, the IFRS Foundation Trustees announced the creation of a new standard-setting board—the International Sustainability Standards Board (ISSB)**

# ISSB Objectives



To **develop** standards for a **global baseline** of **sustainability disclosures**.

To **meet the information needs of investors**.



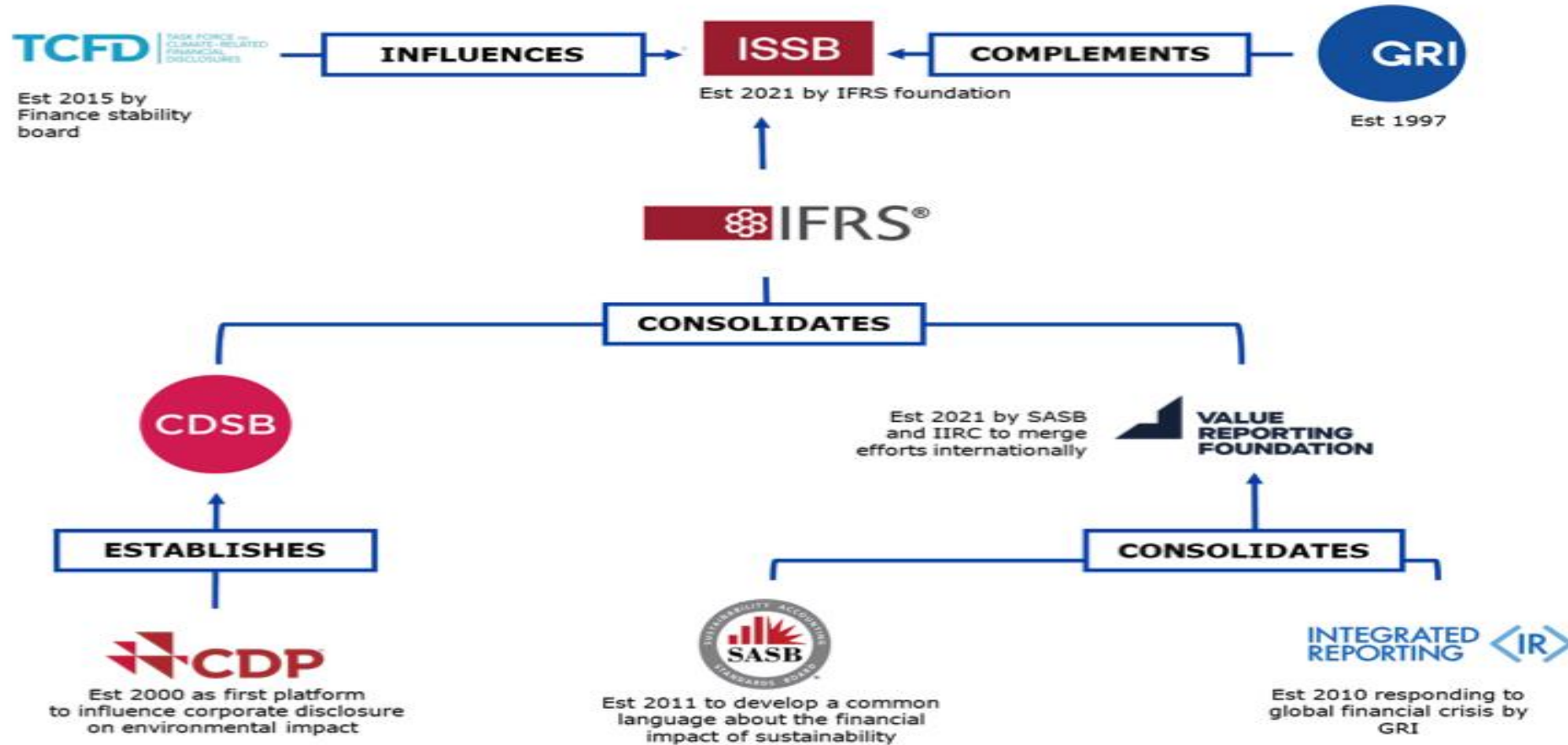
To enable companies to provide **comprehensive sustainability information** to **global capital markets**.

To **facilitate interoperability with disclosures** that are jurisdiction-specific and/or aimed at broader stakeholder groups.



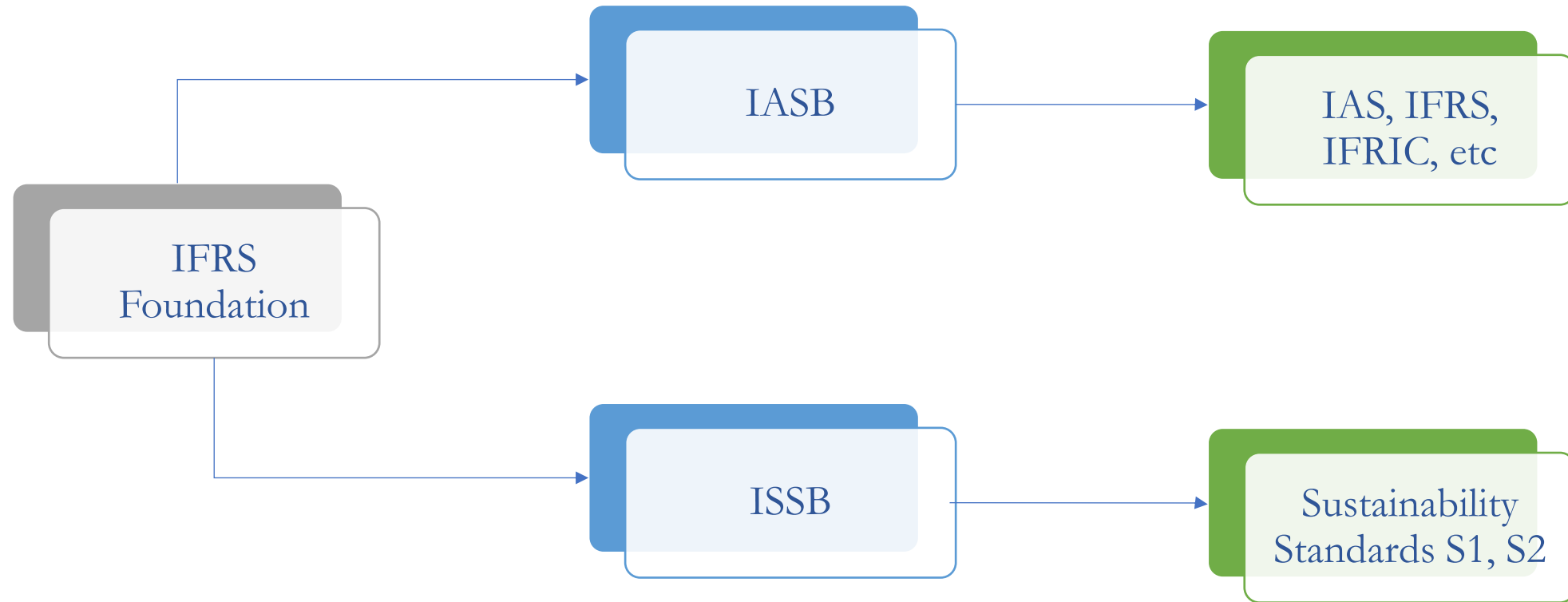


# Consolidation of Sustainability Reporting Frameworks



- ❖ International investors with global investment portfolios are increasingly calling for high quality, transparent, reliable and comparable reporting by companies on climate and other ESG matters.
- ❖ The intention is for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.
- ❖ **On 23 June 2023, ISSB issued 2 standards namely,**
  - **S1 – General Requirements for Sustainability related disclosures**
  - **S2 – Climate related disclosures**
- ❖ **At COP28, Dubai ISSB released the**  
[IFRS - IFRS Sustainability knowledge hub](#)

# What does IFRS now do?



S1 / S2 are to be followed irrespective of the Reporting Framework – i.e. they need to be followed even if IFRS is not followed

IFRS S1 – General Requirements for  
Disclosure of Sustainability-related  
Financial Information

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# IFRS S1 – Overview

Asks for **disclosure of material information about sustainability-related risks and opportunities** with the financial statements, to meet investor information needs.



**Applies TCFD architecture** whenever providing information about sustainability.



For matters other than climate (IFRS S2), S1 refers to **sources to help companies identify sustainability-related risks, opportunities and information.**



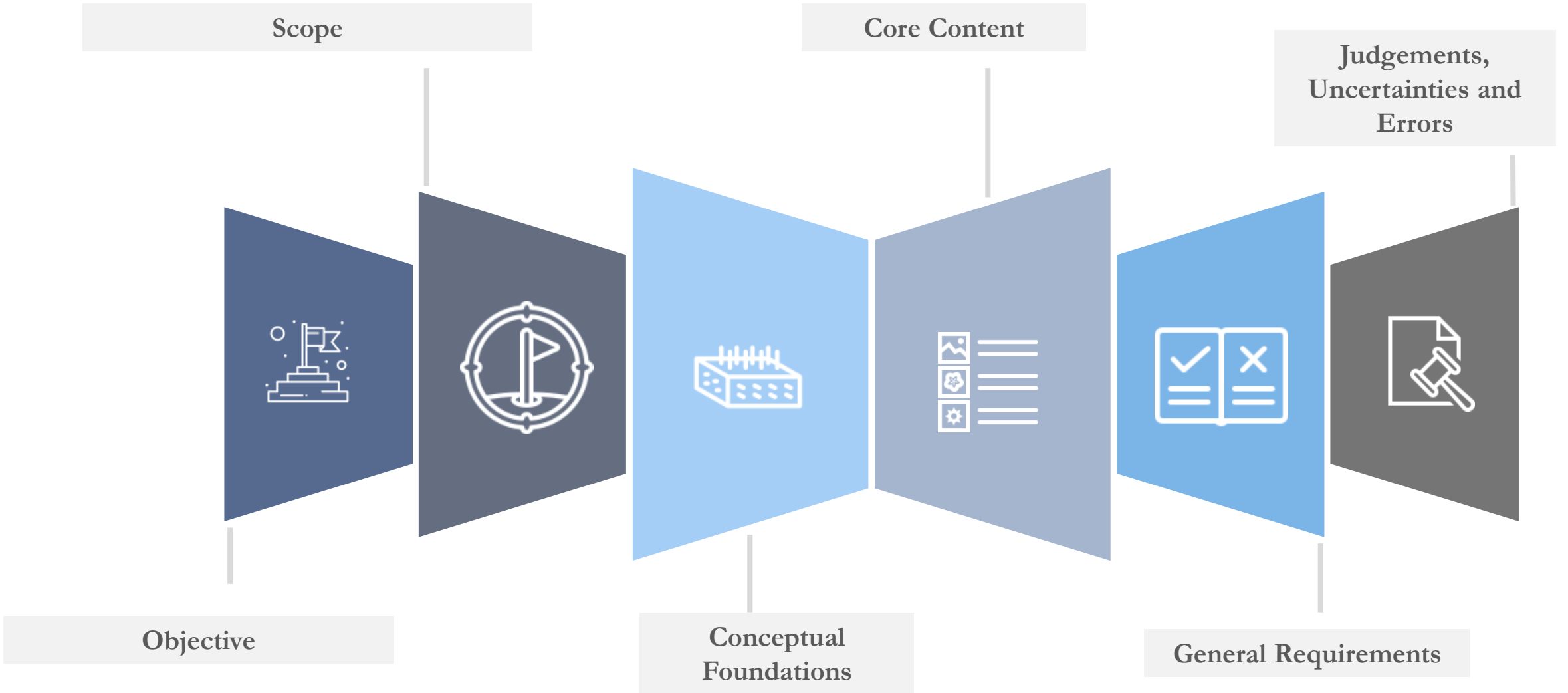
Can be **used in conjunction with any accounting requirements.**



Requires **industry specific disclosures.**



# Contents of IFRS S1



# IFRS S1 - Objective



IFRS S1 asks for **disclosure of information about sustainability-related risks and opportunities** to meet investor information needs.

This means **all sustainability-related risks and opportunities that could reasonably be expected to affect the company's prospects** i.e. its cash flows, access to finance or cost of capital over the short, medium or long term.

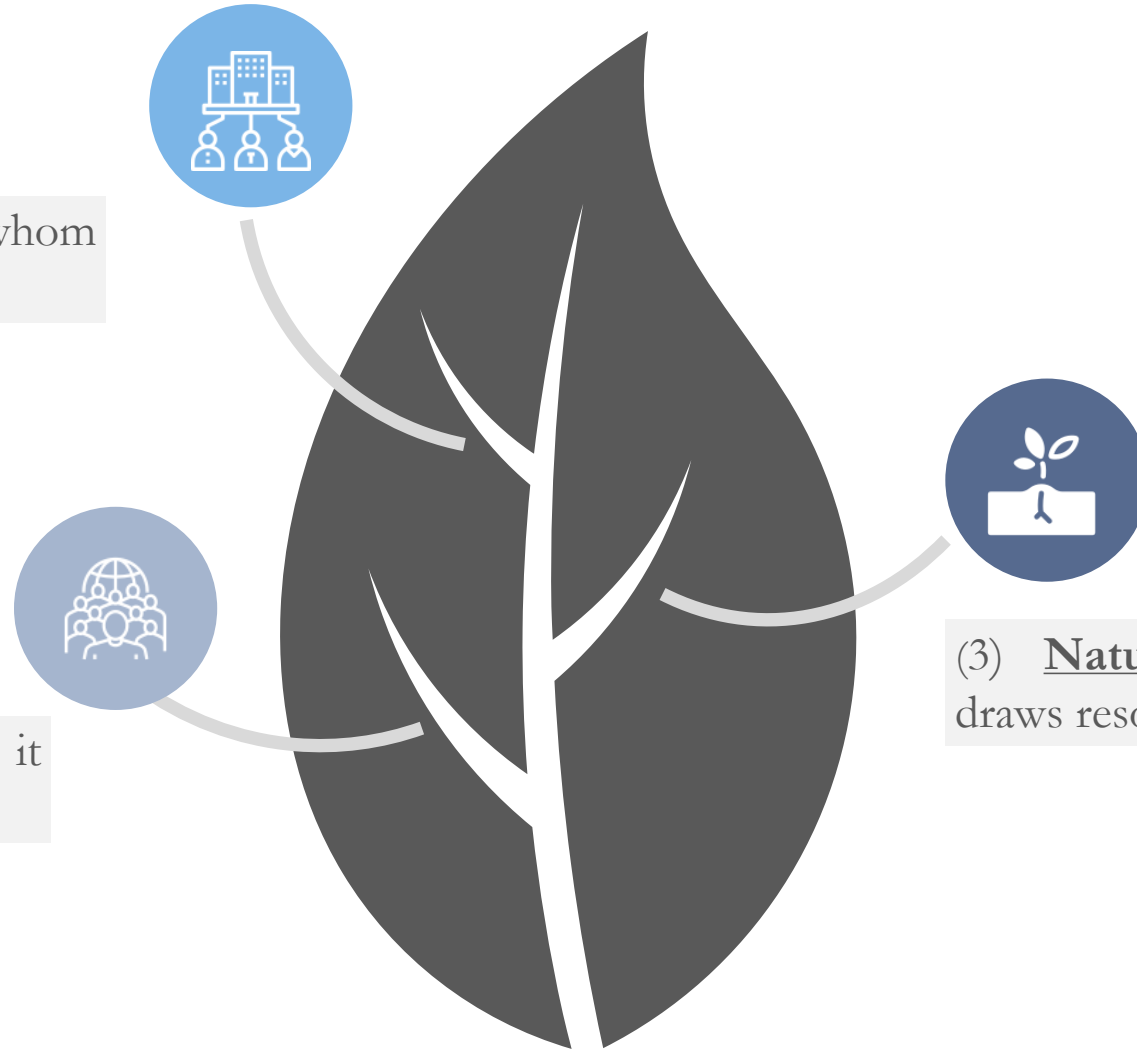
# Sustainability and Business

An organization's ability to deliver financial value for its investors is inextricably linked to

(1) **Stakeholders:** with whom it works and serves.

(2) **Society:** in which it operates.

(3) **Nature:** from which it draws resources.





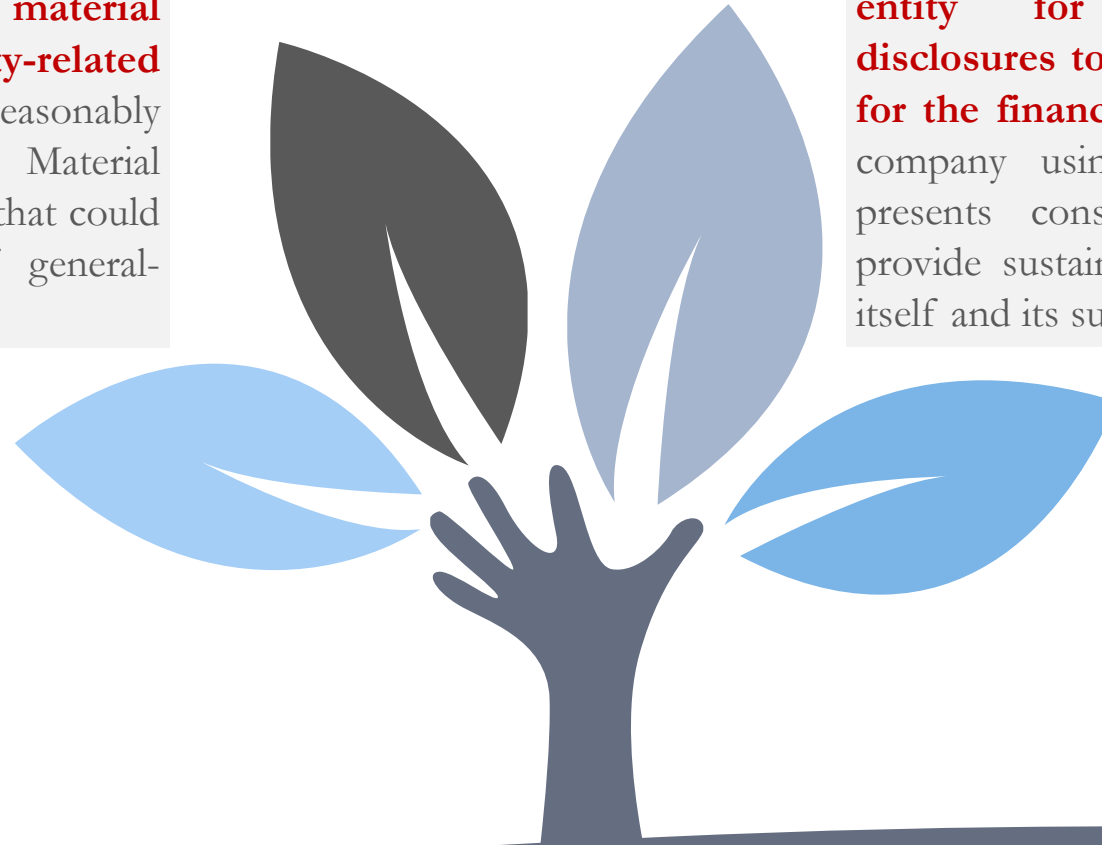
# Conceptual Foundations

**Materiality:** To comply with the requirements of IFRS S1, a company will **disclose material information about the sustainability-related risks and opportunities** that could reasonably be expected to affect its prospects. Material information is defined as information that could influence the decisions of users of general-purpose financial reports.

**Fair Presentation:** The fair presentation requirements in IFRS S1 include a requirement for a company **to disclose relevant information about its sustainability-related risks and opportunities and to faithfully represent those risks and opportunities**

**Reporting Entity:** IFRS S1 requires the **reporting entity for sustainability-related financial disclosures to be the same as the reporting entity for the financial statements.** For example, a parent company using IFRS Accounting Standards that presents consolidated financial statements would provide sustainability-related financial disclosures for itself and its subsidiaries.

**Connected Information:** IFRS S1 requires the **sustainability report to be presented alongside financial statements** to provide a comprehensive view of the organization's performance.



IFRS S1 applies TCFD structure throughout core content areas



### Strategy

A company's **strategy** for **managing** sustainability-related **risks** and **opportunities**.



### Metrics and Targets

A company's **performance** in **relation** to **sustainability-related risks** and **opportunities**.



### Risk Management

The **process** a **company** uses to **identify**, **assess**, **prioritize** and **monitor** sustainability-related **risks** and **opportunities**.



### Governance

It includes **processes**, **controls** and **procedures** a **company** uses to **monitor**, **manage** and **oversee** sustainability-related risks and opportunities.

# IFRS S1 – General Requirements



1. Sources of guidance.
2. Location of disclosures.
3. Timing of reporting.
4. Comparative Information.
5. Statement of compliance.

# IFRS S1 – Risks and Opportunities

To identify relevant risks and opportunities, a company uses ISSB standards and should also consider:



SASB standards



CDSB Framework Application Guidance



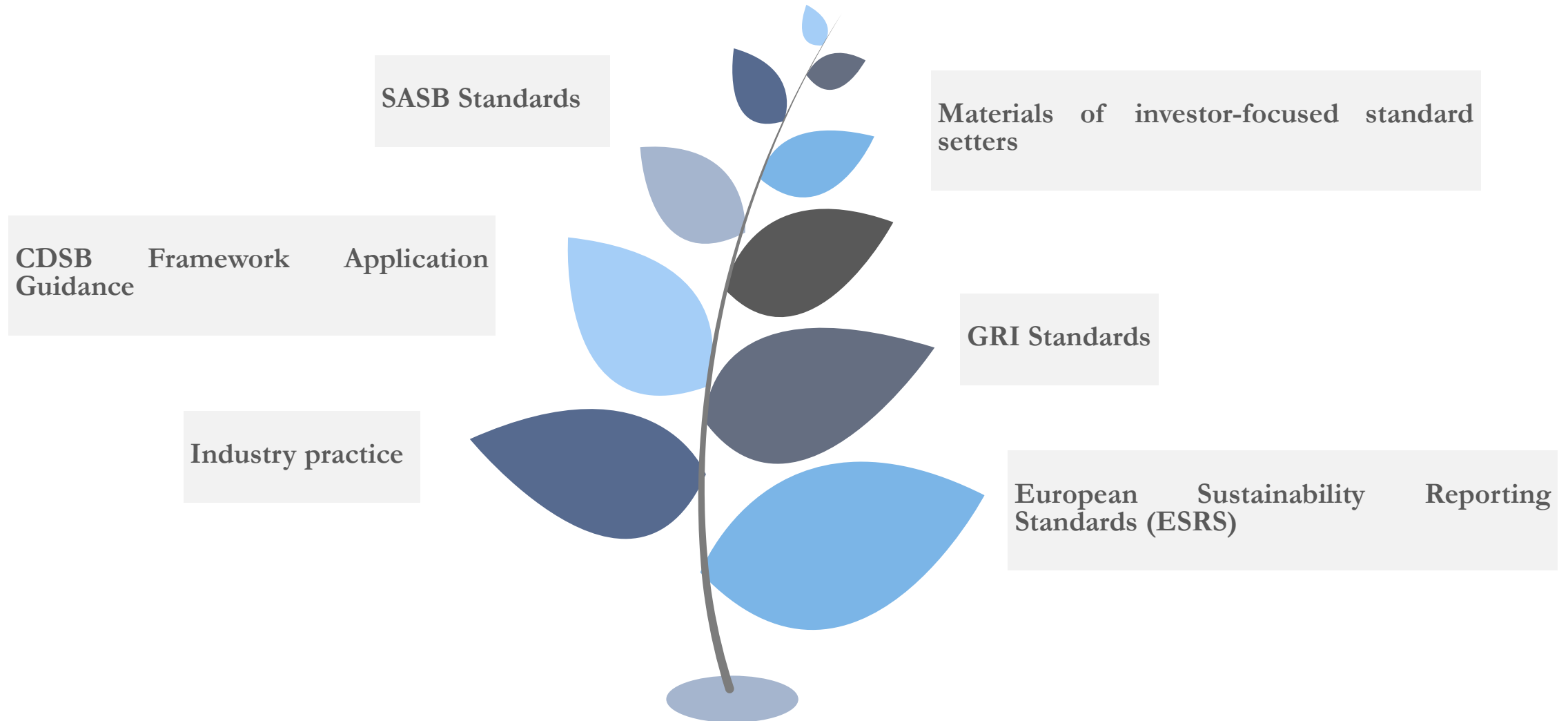
Industry practice



Materials of investor-focused standard setters

# IFRS S1 – Information

To identify what information to disclose, a company uses ISSB Standards, and for matters other than climate, shall consider:



# Timing, Location and Comparatives



## Timing

Financial statements and sustainability disclosures published at the same time, but with **transitional relief in the first year of reporting.**

## Location

**No specific location for disclosure within the financial reports** – allows for additional information, to facilitate application in different jurisdictions.

## Comparatives

**Asks for comparative information for the preceding period** for amounts disclosed. This might relate to metrics and targets or to current and anticipated financial effects.

# Supporting IFRS S1 Application

## Application Guidance

- **Identifying** sustainability-related risks and opportunities **and disclosing material information** about such risks and opportunities.
- Material information.
- Connected information.

## Accompanying Guidance

- Guidance on **who “primary users” are and how companies should apply sources of guidance.**
- Examples of considering and applying the SASB Standards.

# Mechanisms that support application

Use of well-known terminology and concepts.



Guidance within the standards and educational material.



Instructions to use reasonable and supportable information available without undue cost or effort, and special consideration of skills, capabilities and resources.



Transitional reliefs.





# IFRS S2 – Climate-related Disclosures

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# IFRS S2 – Overview



Fully **incorporates the TCFD** recommendations.



IFRS S2 is issued in conjunction with IFRS S1.



It requires **disclosure of material information about climate-related risks and opportunities**, including physical and transition risks.

It requires **industry-specific disclosures**, which are supported by accompanying guidance built on SASB Standards



## Material climate-related information enables investors to



- Determine the effects of climate-related risks and opportunities on the company's performance and prospects.
- Understand the company's response to, and strategy for, managing its climate-related risks and opportunities, including its climate-related transition planning.
- Evaluate the ability of the company to adapt its planning, business model and operations to climate-related risks and opportunities.
- Understand climate-related risks and opportunities in a company's value chain.

# Correlation with IFRS S1

Companies providing climate disclosures must base their requirements using IFRS S1 which can include:



Identification or reporting entity



Timing of reporting



Value chain concepts



Evaluation of sustainability indicators



Location of reporting



Materiality – meaning and assessment



Connections in information



Relief from disclosing commercially sensitive opportunities



Quality of information

# Correlation with IFRS S1 ...



What to do with changes in estimates and errors



When disaggregation is needed



Comparative information



Interactions with law and regulations

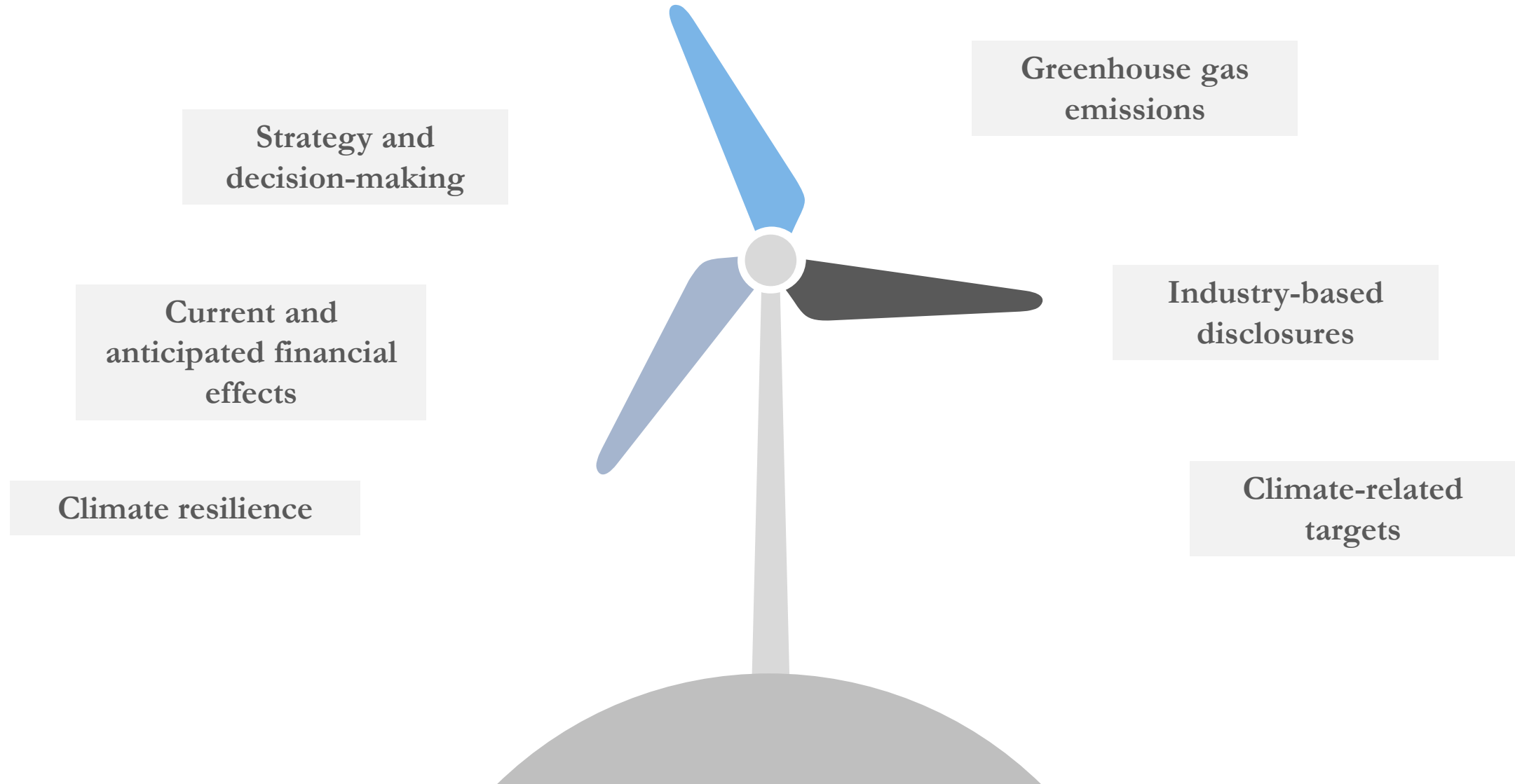


Disclosures about key judgements



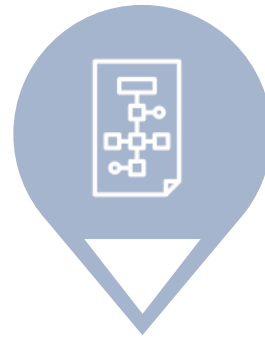
Assertion using ISSB standards

# Key Disclosures



# Strategy and Decision Making

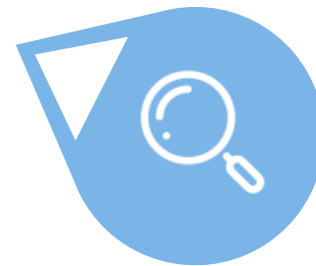
The effects of climate-related risks and opportunities on a company's strategy and decision making



How the company has responded to and plans to respond to climate-related risks and opportunities.



The company's progress against previously reported plans.



How the company is resourcing, and planning to resource, these plans and activities.

# Current and Anticipated Financial Effects

The effects of climate-related risks and opportunities on a company's current and anticipated financial performance, financial position and cash flows

A company is required to disclose both quantitative and qualitative information



The quantitative information may be a **single amount or a range of amounts.**



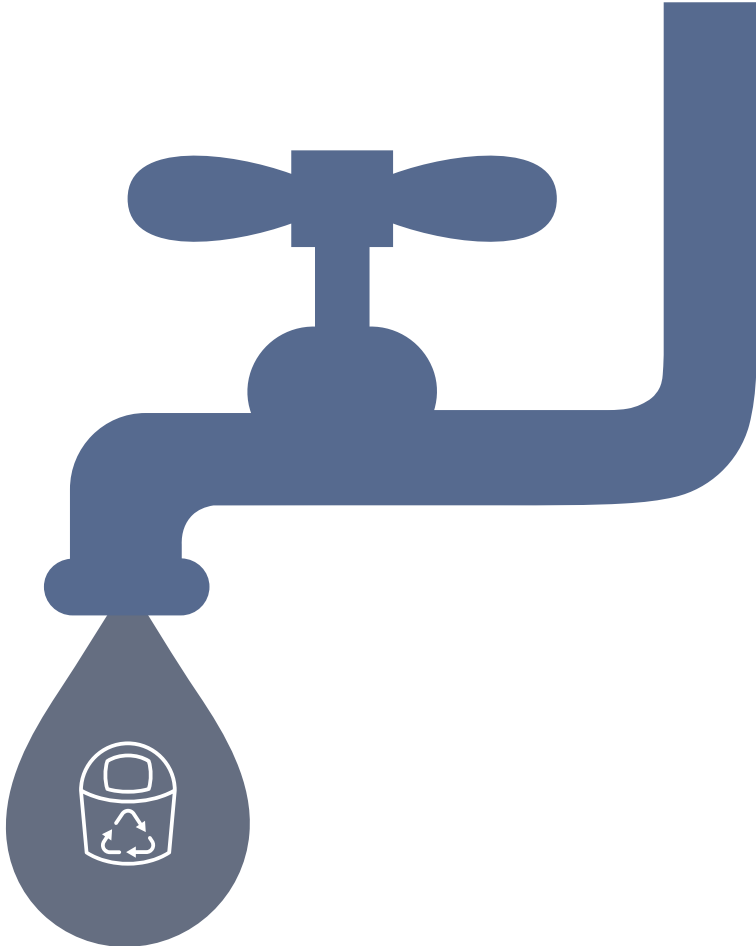
A company can provide qualitative rather than quantitative information when:

- It is not separately identifiable;
- There is a high level of measurement uncertainty.
- Quantification is not commensurate with the company's skills, resources and expertise.

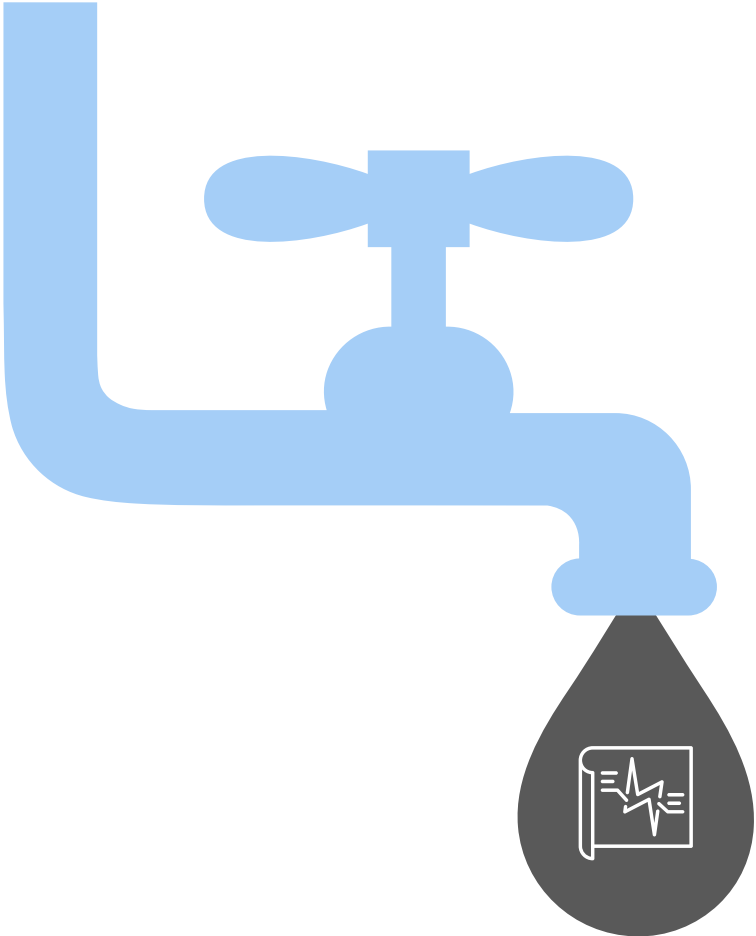


The resilience of a company's strategy and business model to climate-related changes, developments and uncertainties

Climate resilience assessment



Inputs and key assumptions used in the scenario analysis



# Greenhouse Gas Emissions

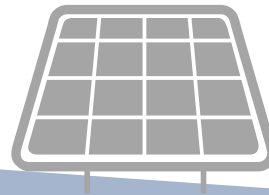
Disclose a company's absolute gross Scope 1, Scope 2 and Scope 3 greenhouse gas emissions

It is a disclosure of **how and why a company has used specific inputs, assumptions and estimation techniques to measure its GHG emissions**, including any changes to these.

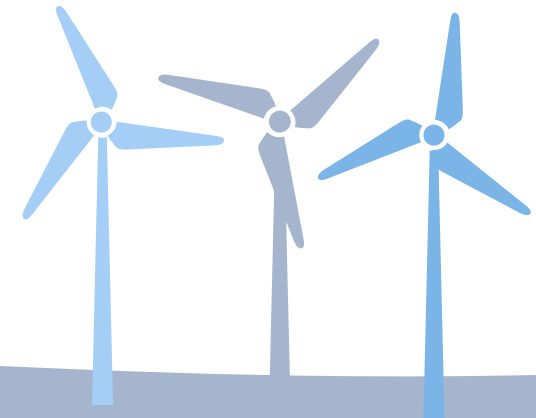
**Scope 1:** Direct emissions.



**Scope 2:** Indirect emissions from the generation of purchased energy consumed by the company.



**Scope 3:** All other indirect emissions.



## Scope 3 greenhouse gas emissions are spread across 15 categories

1. Purchased goods and services
2. Capital goods
3. Fuel and energy related activities
4. Upstream transportation and distribution
5. Waste generated in operations
6. Business travel
7. Employee commuting
8. Upstream leased assets
9. Downstream transportation and distribution
10. Processing of sold products
11. Use of sold products
12. End-of-life treatment of sold products
13. Downstream leased assets
14. Franchises
15. Investments



## A company shall prioritise the use of

- Direct measurement.
- Primary data such as company specific metrics.
- More granular data such as GHG emissions for the specific product.
- Verified data.

## Can consider these if prioritised information is not available

- Estimations.
- Secondary data such as estimated metrics.
- Less granular data such as GHG emissions for the entire company.
- Unverified data.

# Industry Specific Disclosures

Industry specific disclosures are useful because

Relevant sustainability issues vary by industry.

Companies can focus on reporting that more closely fits their business.

The ISSB has indicated an intention to make the industry-based metrics mandatory in the future, subject to consultation.

Investors analyse companies and portfolios by industry and sector.

It focuses on the most relevant information.

# Climate Related Metrics

## (1) Climate Related Transition Risks

The amount and percentage of assets or business activities vulnerable to climate-related transition risks.

## (2) Climate Related Physical Risks

The amount and percentage of assets or business activities vulnerable to climate-related physical risks.

## (6) Remuneration

The entity shall disclose:

- A. A description of whether and how climate-related considerations are factored into executive remuneration; and
- B. the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations

## (3) Climate Related Opportunities

The amount and percentage of assets or business activities aligned with climate-related opportunities.

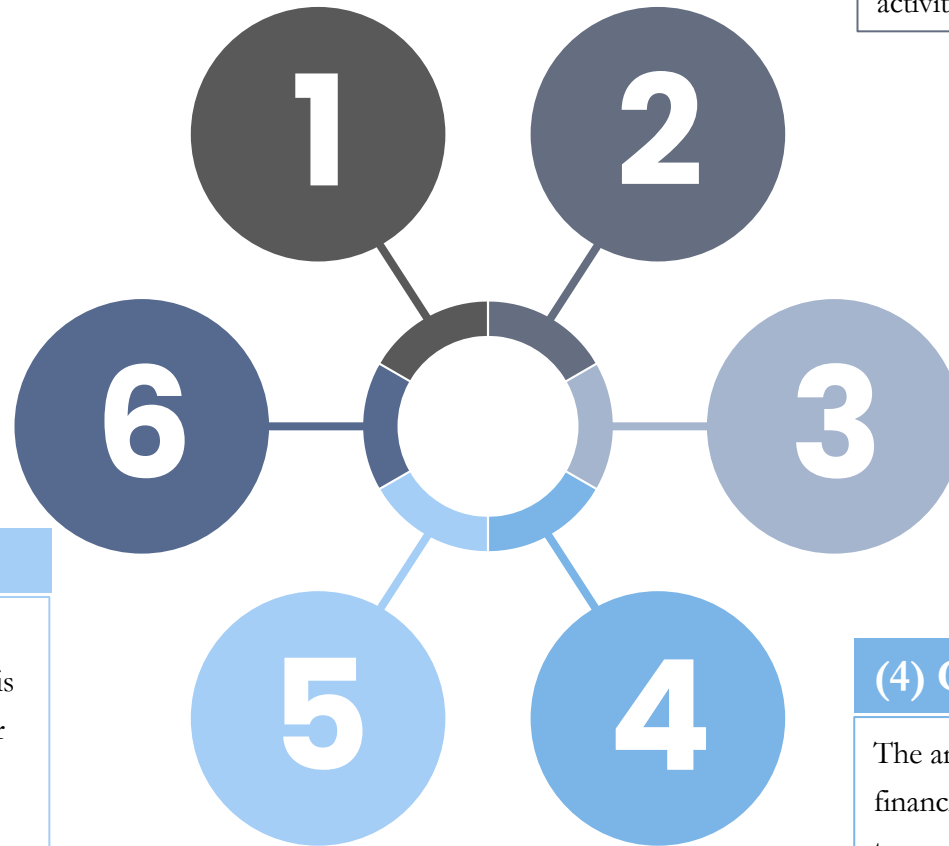
## (5) Internal Carbon Prices

The entity shall disclose:

- A. an explanation of whether and how the entity is applying a carbon price in decision-making (for example, investment decisions, transfer pricing and scenario analysis); and
- B. the price for each metric tonne of greenhouse gas emissions the entity uses to assess the costs of its greenhouse gas emissions

## (4) Capital Deployment

The amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities.



# Climate-related Targets

Disclose the climate-related targets a company has set, as well as those it is required to meet by law or regulation



The characteristics of each target.



How the company sets and reviews each target.



The company's performance against each target.

# Industry-based Guidance





❖ **Volume 15 – Asset Management & Custody Activities:**

The disclosures include **amount of assets under management, by asset class.**

❖ **Volume 16 – Commercial Banks:**

The disclosures include **description of approach to incorporation of ESG factors in credit analysis.**

❖ **Volume 17 – Insurance:**

The disclosures include **net premiums written related to energy efficiency.**

❖ **Volume 18 – Investment Banking & Brokerage:**

The disclosures include **revenue from underwriting, advisory and securitisation transactions incorporating integration of ESG factors.**

❖ **Volume 19 – Mortgage Finance:**

The disclosures include **Loss Given Default (LGD) attributable to mortgage loan default and delinquency because of weather-related natural catastrophes, by geographical region.**

❖ **Volume 51 – Casinos & Gaming:**

The disclosures include **total energy consumed by number of tables.**

❖ **Volume 52 – Hotels & Lodging:**

The disclosures include **number of lodging facilities located in 100-year flood zones.**

❖ **Volume 53 – Leisure Facilities:**

The disclosures include **percentage grid electricity and percentage renewable by number of customer days.**

# Assurance for Sustainability Reporting

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# Assurance for Sustainability Reporting

- ❖ International Federation of Accountants (IFAC) took the lead for giving independent assurance on Sustainability Reporting – **IFAC through its International Auditing & Assurance Standards Board (IAASB) issues International Standards on Auditing (ISAs) – these are followed across all countries**
- ❖ In October 2020, IAASB highlighted areas of focus related to consideration of climate-related risks when conducting an audit of financial statements in accordance with International Standards on Auditing (ISA) by issue of document **“Consideration of Climate-related risks in an audit of Financial Statements”**
- ❖ **The International Standard on Assurance Engagements (ISAE) 3000(R) is the standard mostly used when dealing with sustainability information assurance as practice has evolved.**

# Assurance for Sustainability Reporting ...

- ❖ **Auditors also need to understand how climate-related risks relate to their responsibilities under professional standards, and applicable laws and regulations**
- ❖ IFAC publication on the vision for Sustainability Assurance:  
<https://www.ifac.org/system/files/publications/files/IFAC-Vision-Sustainability-Assurance.pdf>
- ❖ **The European Commission (EC) adopted a proposal for the Corporate Sustainability Reporting Directive (CSRD)** to strengthen sustainability reporting. This is fundamental to achieve a sustainable economy. It requires companies to report more comparable, targeted, reliable as well as easily accessible information as the basis for sustainable decision-making.
- ❖ The EC also introduced an EU-wide requirement for **limited assurance on sustainability information**. According to the EC proposal, independent external assurance enhances the reported sustainability information's credibility. This helps meet the growing demands for reliable information on sustainability matters.

# Assurance for Sustainability Reporting ...

Exposure Draft  
August 2023  
Comments due: December 1, 2023

International Standard on Sustainability Assurance

Proposed International Standard  
on Sustainability Assurance  
5000

General Requirements for  
Sustainability Assurance  
Engagements

and

Proposed Conforming and  
Consequential Amendments to  
Other IAASB Standards

*This Exposure Draft is intended to be read  
along with the separate Explanatory  
Memorandum.*



- ❖ The IAASB at its June 2023 meeting approved and has subsequently released the globally anticipated exposure draft of proposed International Standard on Sustainability Assurance ISSA 5000 General Requirements for Sustainability Assurance Engagements, (was open for comment till December 1, 2023).
- ❖ **Proposed ISSA 5000 is responsive to developments in the external reporting ecosystem, including calls from policy makers and regulators for mandatory assurance on sustainability reporting.**
- ❖ Proposed **ISSA 5000 provides a comprehensive, initial global baseline for sustainability assurance engagements** that intends to enhance trust and confidence in reported sustainability information. It is applicable to information about all sustainability topics prepared in accordance with any sustainability reporting framework, regardless of the mechanism for reporting the information (e.g., in an integrated report, the annual report, or a stand-alone sustainability report).

# Limited v/s Reasonable Assurance

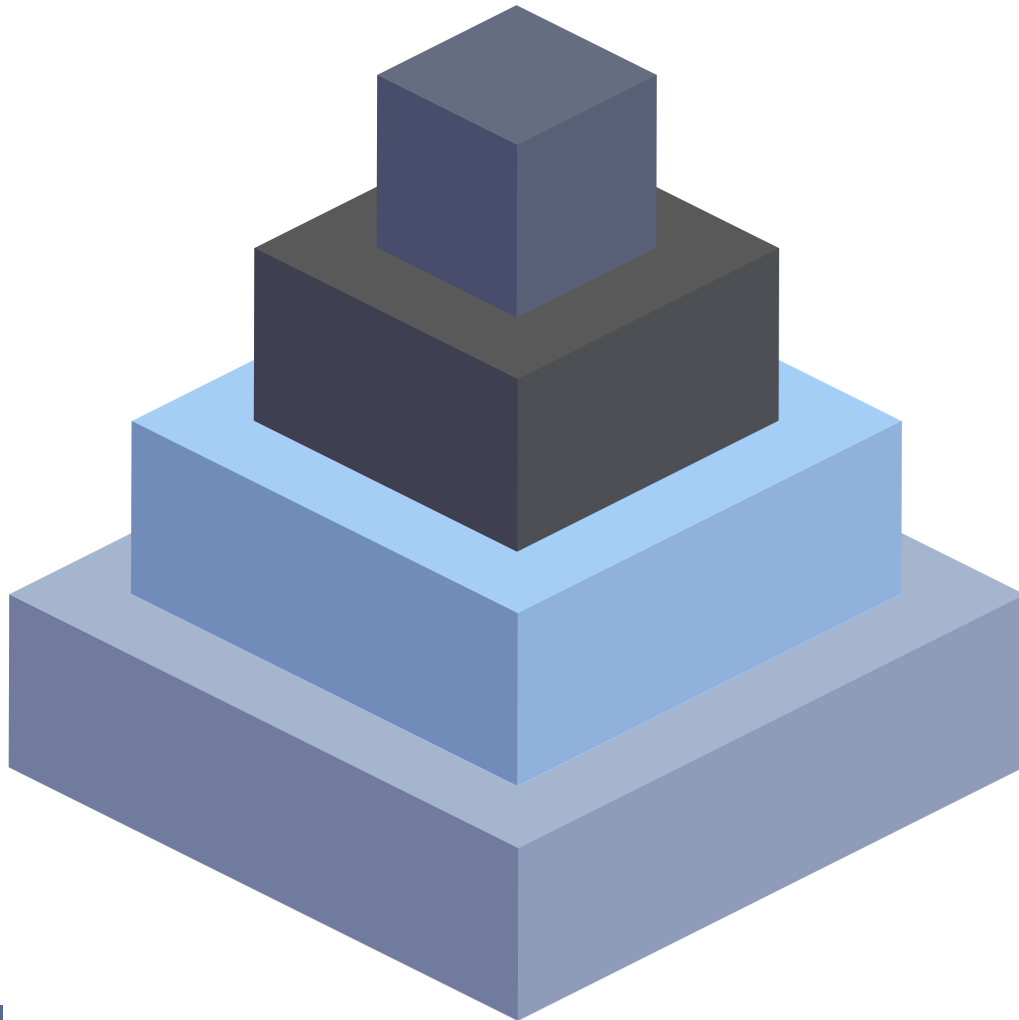
| Limited Assurance  |   | Reasonable Assurance   |
|--|---|--|
| <p>Nature, Timing &amp; Extent (NTE) are focused on the Disclosure where Material Misstatements are likely to arise</p> <ul style="list-style-type: none"> <li>• Tests of Controls- ONLY IF- Obtaining evidence about Operating Effectiveness</li> <li>• Substantive Procedures</li> </ul>   | <p><b>Designing / Performing further Procedures</b></p> | <p>NTE Responsive to the Assessed Risks of Material Misstatement at the Assertion Level</p> <ul style="list-style-type: none"> <li>• Tests of Controls- ONLY IF- Obtaining evidence about Operating Effectiveness</li> <li>• Substantive Procedures</li> </ul>   |
| <p>Overall Response ONLY IF:</p> <ol style="list-style-type: none"> <li>1) The Practitioner identifies           <ul style="list-style-type: none"> <li>• Control Deficiencies in the control environment that undermine the other Internal Control Components</li> <li>• Identified or suspected Fraud or NOCLAR (Non-Compliance with Laws and Regulations)</li> <li>• Material Misstatements that are likely to arise pervasively throughout the SI</li> </ul> </li> </ol> | <p><b>Overall Responses</b></p>                         | <p>Overall Response to address ROMM ONLY IF:</p> <ol style="list-style-type: none"> <li>1) Practitioner's Evaluation of the Control Environment indicates:           <ul style="list-style-type: none"> <li>• No culture of honesty and ethical behavior</li> <li>• Control Environment does not provide and appropriate foundation for the other internal control components</li> <li>• Control Deficiencies identified in the control environment undermine the other components</li> </ul> </li> <li>2) The practitioner identifies:           <ul style="list-style-type: none"> <li>• Identified or Suspected Fraud or NOCLAR</li> <li>• Identified ROMM pervasively throughout the SI</li> </ul> </li> </ol> |



**What can professionals do for  
Sustainability and ESG reporting?**



# Possible Services



## GRC Services

- Develop & Implement ESG Strategies & SOPs.
- Assist in setting meaningful targets.
- Design KPIs for measuring sustainability performances.
- Integrate ESG related Risks & Opportunities.

## Automate Data Points

Assist companies in automating the process to collate data required for BRSR.

## Value Chain Partners

- Assist in validation of the reports provided by the value chain partners for clients.
- Assist companies to collate / validate the BRSR submitted by their value chain partners.

## Assurance Services

- Provides assurance and verification services for ESG and BRSR reports, enhancing the credibility and reliability of the information disclosed.
- This is as per the SSAE / ISAE 3000 standards.



THANK YOU



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