Sustainability Related Disclosures

Trainer

Umasudhan Subramaniam

FCCA, CPA, CFA, FRM, ACMA, MSc

info@umindmapper.com

www.universalmindmapper.com

Sustainability Disclosures

Sustainability reports are voluntary disclosures published by entities about their sustainability-related issues, strategies, aspirations, and progress toward their goals.

The disclosures broadly cover environmental, social, and governance (ESG) aspects of the entity

These disclosures are aimed at communicating with the general users of the financial statements (example: shareholders, investors, general public)

Sustainable business practices of an entity target long-term sustainable performance of the company

Relevance of Sustainability Disclosures in Today’s Business Landscape

Relevance of sustainability continues to increase in today’s business landscape due to the following reasons

- Increase in sustainability-related risks and opportunities and their impact on the performance and future business prospects of an entity. This necessitates sustainability to be integrated with business strategies

- Sustainability/ESG-focused investing is gaining momentum and investors are interested in evaluating an entity’s current performance and future prospects in terms of sustainability-related risks and opportunities.

- Increase in legal and regulatory targets which promote sustainable business practices. Government incentives for investments in clean energy technologies. Users of general-purpose financial reports are interested in knowing about an entity’s progress toward sustainability targets.

- Increasing awareness about sustainability among the general public. Sustainable business practices enhance the image of an entity. This assists in attracting and retaining customers and employees, and building goodwill and brand image.

Shortcomings in the Existing Sustainability Disclosures

- Poor use of metrics and data leads to greenwashing, and disclosures lack credibility
- The absence of standardized sustainability disclosures makes it incomplete and difficult for users to compare and evaluate the entity’s performance and future prospects
- Lack of commitment from business leaders due to limited understanding of sustainability-related risks and opportunities. Further, insufficient evidence to support the value offered by sustainability practices makes it difficult for business leaders to justify incremental investments in sustainability-related practices and disclosures
- Insufficient data and expertise to present effective sustainability disclosures. Investments in technology to obtain relevant data and consultancy support to gain expertise would be costly

Future Challenges in Implementing Sustainability Disclosures

- Costs involved in establishing the technology, expertise, control procedures, and reporting infrastructure necessary for sustainability-related practices and disclosures

- Integrating sustainable business practices into organizational strategies, deriving shareholder value, and justifying the strategies to investors and shareholders

- Lack of high-quality data, subjective nature of issues, difficulties in quantifying metrics and targets, assumptions and the judgments used decreases the credibility of sustainability disclosures

In June 2023, the International Sustainability Standards Board (ISSB) issued its inaugural global sustainability disclosure standards

IFRS S1 and IFRS S2

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

IFRS S2 Climate-related Disclosures

The Standards are expected to improve trust and confidence in company disclosures about sustainability and help to make informed investment decisions

Standards are effective for annual reporting periods beginning on or after 1 January 2024 with earlier application permitted as long as both IFRS S1 and IFRS S2 are applied

Standards are not mandatory and the application is voluntary

An entity whose sustainability-related financial disclosures comply with all the requirements of IFRS Sustainability Disclosure Standards shall make an explicit and unreserved statement of compliance

IFRS S1

General Requirements for Disclosure of Sustainability-related Financial Information

Trainer

Umasudhan Subramaniam

FCCA, CFA, FRM, ACMA, MSc

info@umindmapper.com

www.universalmindmapper.com

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

- IFRS S1 requires an entity to disclose **information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects** such as the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.

- The information is useful to **users of general-purpose financial reports** in making decisions relating to providing resources to the entity.

- An entity shall disclose **material information**. The information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general-purpose financial reports make.

- An entity may apply IFRS Sustainability Disclosure Standards irrespective of whether the entity's financial statements are prepared in accordance with IFRS Accounting Standards or GAAP.

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

- An entity shall report its sustainability-related financial disclosures at the same time as its related financial statements, and it **shall cover the same reporting period as the related financial statements**.

- An entity **shall disclose comparative information** in respect of the preceding period for all amounts disclosed in the reporting period. The entity shall also disclose comparative information for narrative and descriptive sustainability-related financial information, if such information would be useful for an understanding of the sustainability-related financial disclosures for the reporting period.

- An entity shall **correct material prior period errors by restating** the comparative amounts for the prior period disclosed unless it is impracticable to do so.

- An entity shall **use the presentation currency of its related financial statements** in the sustainability-related financial disclosures.

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

An entity is required to provide disclosures about the below areas

Governance

The governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities

Strategy

The approach the entity uses to manage sustainability-related risks and opportunities

Risk Management

The processes the entity uses to identify, assess, prioritise, and monitor sustainability-related risks and opportunities

Metrics and Targets

The entity’s performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation

IFRS S1 Strategy

Objective: enable users of general-purpose financial reports to understand an entity's strategy for managing sustainability-related risks and opportunities.

An entity shall disclose information about:

- The sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects
- The current and anticipated effects of those sustainability-related risks and opportunities on the entity's business model and value chain
- The effects of those sustainability-related risks and opportunities on the entity's strategy and decision-making
- The effects of those sustainability-related risks and opportunities on the **entity's financial position, financial performance and cash flows for the reporting period**, and their **anticipated effects** on the entity's financial position, financial performance and cash flows **over the short, medium and long term, taking into consideration how those sustainability-related risks and opportunities have been factored into the entity's financial planning**
- The **resilience of the entity's strategy and its business model** to sustainability-related risks (a qualitative and, if applicable, a quantitative assessment of the resilience)

IFRS S1 Strategy

Quantitative and qualitative information about the effects on the entity's Financial position, financial performance and cash flows

In providing quantitative information, an entity may disclose a **single amount or a range.**

An entity **need not provide quantitative information** about the current or anticipated financial effects of a sustainability-related risk or opportunity **if the entity determines that those effects are not separately identifiable** or **the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful.**

An entity **need not provide quantitative information** about the anticipated financial effects of a sustainability-related risk or opportunity if **the entity does not have the skills, capabilities or resources** to provide that quantitative information.

When quantitative information is not provided, the entity shall **explain why it has not provided quantitative information** and **shall provide qualitative information about those financial effects.**

IFRS S2

Climate-related Disclosures

Trainer
Umasudhan Subramaniam
FCCA, CFA, FRM, ACMA, MSc

info@umindmapper.com
www.universalmindmapper.com

IFRS S2 Climate-related Disclosures

- IFRS S2 requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.

This Standard applies to:

- climate-related risks to which the entity is exposed
  - (i) climate-related physical risks
  - (ii) climate-related transition risks
- climate-related opportunities available to the entity

- Climate-related risks and opportunities that could not reasonably be expected to affect an entity's prospects are outside the scope of this Standard.

- When disclosing information on governance and risk management, an entity shall avoid unnecessary duplication in accordance with IFRS S1. Eg: if oversight of sustainability-related risks and opportunities are managed on an integrated basis, the entity would avoid duplication by providing integrated disclosures instead of separate disclosures for each sustainability-related risk and opportunity.

IFRS S2: Climate-related Disclosures

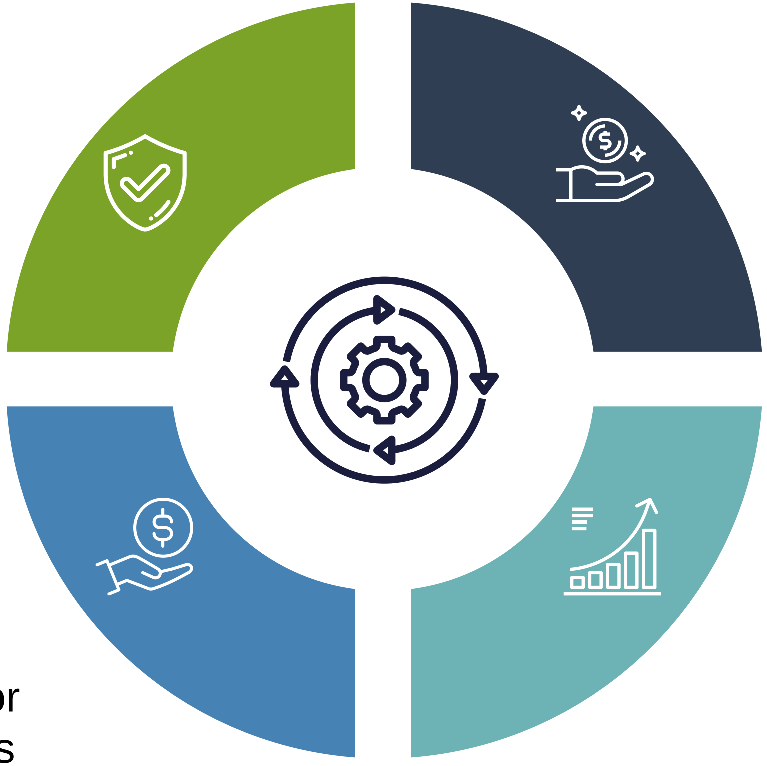
An entity is required to provide disclosures about the below areas

Governance

The governance processes, controls and procedures the entity uses to monitor and manage climate-related risks and opportunities

Strategy

The approach the entity uses to manage climate-related risks and opportunities



Risk Management

The processes the entity uses to identify, assess, prioritise, and monitor climate-related risks and opportunities

Metrics and Targets

The entity’s performance in relation to climate-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation

IFRS S2 Metrics and Targets Disclosure

Information relevant to the cross-industry metric categories

- Greenhouse gas emissions
- Climate-related transition risks: the amount and percentage of assets or business activities vulnerable to climate-related transition risks
- Climate-related physical risks—the amount and percentage of assets or business activities vulnerable to climate-related physical risks
- Climate-related opportunities—the amount and percentage of assets or business activities aligned with climate-related opportunities
- Capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities
- Internal carbon prices
- How climate-related considerations are factored into executive remuneration and the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations

Industry-based metrics (associated with particular business models, activities or other common features that characterize participation in an industry)

Targets set by the entity, and any targets it is required to meet by law or regulation

Role of Accountants in Sustainability Disclosures

- Develop and maintain awareness of sustainability-related issues
- Understand the regulatory, voluntary, and legal reporting environment and stay up-to-date on any changing requirements
- Develop frameworks to collect, measure, and analyse relevant information required for sustainability reporting. A proper framework and scientific approach would improve the credibility of sustainability disclosures
- Offer advisory support on risk management and risk reporting on sustainability issues
- Draft organizational policies and procedures to report sustainability issues
- Ensure sustainability-related information is clear, useful, and reliable for decision making

UNIVERSAL
MIND MAPPER
Transform your mind

Thank You

info@umindmapper.com
www.universalmindmapper.com