SAICA

DIFFERENCE MAKERS™

IFRS Sustainability Disclosure

Standards Application

Report on the training programme on the IFRS sustainability disclosure standards, hosted by SAICA and the Johannesburg Stock Exchange and presented by the United Nations Sustainable Stock Exchanges Initiative, along with partners at the IFC and the IFRS Foundation, on 1 August 2024.

FORWARD

Introduction

The role of accountants has significantly evolved. Members of the profession are no longer just stewards of financial integrity but also strategists and catalysts for change and organisational transformation.

> **"The conversation has shifted from justifying the need to focus on sustainability to how we implement it effectively in our organisations and professions,"**

said **Patricia Stock**, **CEO of SAICA**, in welcoming delegates to the training on IFRS Sustainability Disclosure Standards.

Achieving sustainable development and practices requires collaboration across different professions, she added. "Accountants are well-positioned to integrate sustainability into financial decision-making and reporting, and investors and banks are increasingly looking to the profession to facilitate the movement of capital towards sustainable initiatives."

Capital markets play a crucial role in this journey, influencing investors and ensuring a focus on integrating both financial and sustainability aspects in investments. Future success will not be measured solely by financial outcomes but will increasingly include non-financial aspects. This shift has already begun.

To drive this change, several questions must be asked:

- Who should be placing value on environmental impact if not accountants?
- Who should define the key successes for the future in various organisations as they set their strategies?
- How can capital be shifted from non-sustainable to sustainable outcomes?
- How should Africa's natural capital be valued?

Africa, particularly South Africa, is in a fortunate position regarding non-financial reporting practices, especially in integrated reporting, Stock added. "The gains we have made should not be lost. We need to build upon existing disciplines while advocating for the adoption of standards like ISSB S1 and S2 as a baseline for sustainability reporting without losing integrated reporting disciplines."

Stock stressed that the importance of sustainable development goals can never be overstated. "Our focus today will shape the world for tomorrow. We need to lead the change desperately needed globally, so that we can safeguard the future for generations to come."

The **purpose** and **market drivers** for **sustainability reporting**

The UN-supported Principles for Responsible Investment (PRI) shows significant investor interest in ESG, with over **5,000** signatories representing **$121 trillion** in assets.

Morgan Stanley Study found

74%

of investors in sustainable investments do so for financial performance, not just philanthropy.

"Considering financial effects and risks is crucial," - said *Tiffany Grabski, SSE Academy Head.*

"**The World Economic Forum's Global Risk Report** highlights that climate risks dominate long-term risk perceptions. These risks are interconnected, requiring comprehensive and forward-looking strategies. Understanding and communicating these connections, along with opportunities, is vital for effective sustainability reporting."

The evolution of **reporting standards**

A significant consolidation of leading reporting initiatives has occurred under the IFRS Foundation, creating a robust foundation for IFRS sustainability disclosure standards. Key frameworks like the Climate Disclosure Standards Board, Integrated Reporting Framework, and SASB standards have all been integrated into the IFRS Foundation.

The Task Force on Climate-Related Financial Disclosures (TCFD) recommendations have also been incorporated into IFRS standards. Furthermore, CDP has announced that its climate questionnaire aligns with IFRS S2.

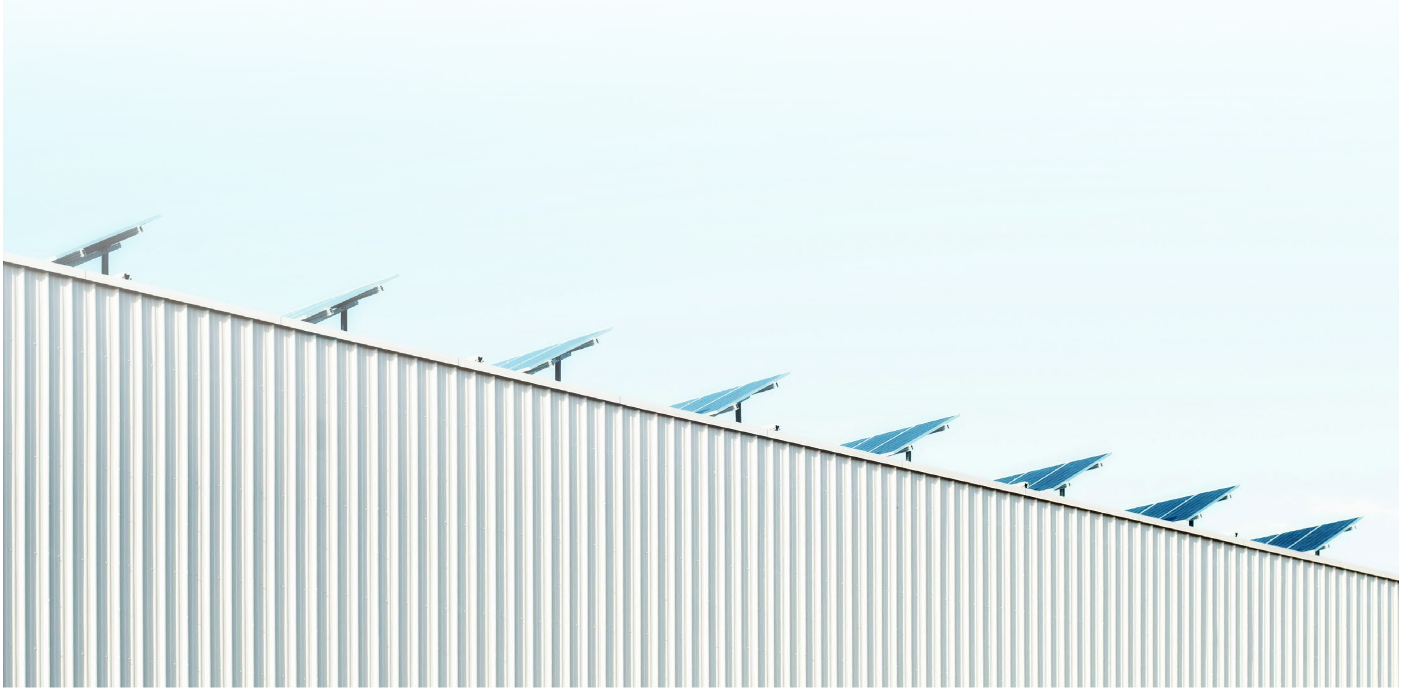
"Although TCFD's work is now part of IFRS S2, there are notable differences," said ***Lois Guthrie*****,** ***Senior Specialist, SSE Academy.*** "Sometimes, it's just a matter of different wording to capture similar information. However, in other cases, S2 demands more detailed disclosures, such as information on carbon offsets, and includes additional requirements and guidance not covered by TCFD."

ISSB as a global baseline

The IFRS ISSB was formed in 2021 and released its first standards in 2023. The governance of these bodies is provided by trustees who are accountable to a monitoring board of public authorities. The IASB and ISSB work closely to ensure their standards complement each other.

One of ISSB's objectives is to set a global baseline for sustainability information, enabling comparable and consistent sustainability disclosures across capital markets. Regulators and exchanges can add their own building blocks to this global baseline to meet specific jurisdictional requirements, provided they do not obscure the information required by ISSB standards.

"With this global baseline, there has been global backing," Guthrie said. "In July 2023, the International Organisation of Securities Commissions (IOSCO) endorsed the ISSB standards, asking its 130 members to consider incorporating ISSB standards into their regulatory frameworks. The development of audit standards to support sustainability disclosure assurance is ongoing, and jurisdictions are considering how to adopt the standards. Market participants can also voluntarily opt to apply the standards, supported by ISSB's capacity-building programmes."



An Overview of **S1 and S2**

Terms like "**sustainability-related financial information**" and "sustainability-related risks and opportunities" refer to a broad range of issues, including climate change, nature, biodiversity, and social aspects, said Jarlath Molloy, Director of Strategic Affairs, SSE Academy. "This information is useful to primary users of general-purpose financial reports in making decisions about providing resources to a company."

General purpose financial reports include a company's general financial statements and sustainability-related financial disclosures. Management commentary or similar reports might be known by various names, such as management report, management discussion, operating financial review, or strategic report.

"Anyone familiar with **TCFD** will recognise the same four core pillars: governance, strategy, risk management, and metrics and targets." Molloy added. "For each of these areas, there are key disclosures to be addressed. The standards provide detailed guidance on each requirement."

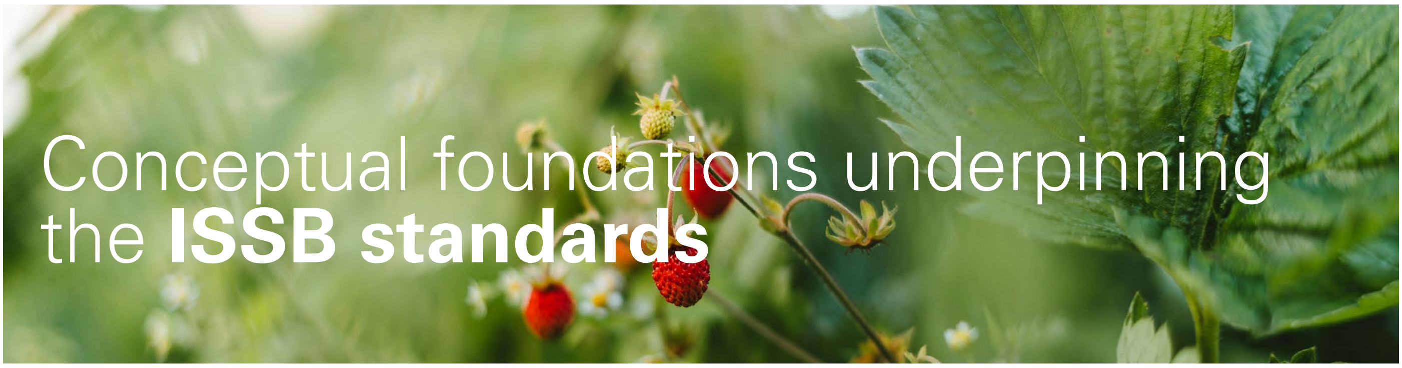
IFRS S1 - General Requirements for Disclosure of Sustainability-related Financial Information

S1 sets out general requirements for the content and presentation of sustainability-related risks and opportunities. It asks preparers to refer to the SASB standards and other sources for further guidance. These standards are organised by industry, helping companies identify applicable disclosure topics and metrics. S1 can be used with any accounting requirements.

IFRS S2 - Climate-related Disclosures

S2 focuses on climate-related disclosures, building on the same foundations as S1. It fully incorporates TCFD recommendations and requires disclosure of material information about climate-related risks and opportunities, including physical and transition risks. S2 also requires disclosure of both cross-industry and industry-specific information.

"A common question is whether S1 or S2 can be used on their own," Molloy said. "The answer is no; they are designed as a package and must be applied together. Even if a company is only reporting climate-related risks, it must apply S1 to ensure the information is decision-useful for investors."



Conceptual foundations underpinning the **ISSB standards**

Fair presentation requires disclosure of relevant and faithfully represented information. This includes a complete, neutral, and accurate description of sustainability-related risks and opportunities. The reporting entity for sustainability-related financial disclosures must be the same as for financial statements. Connected information is another important concept, requiring clear identification of key connections between risks, opportunities, and the four core content areas.

Materiality

Molloy explained that the standards are built on the concept of materiality, which *refers to information that influences the investment decisions of primary users of general-purpose financial reports, mainly investors.*

"During the International Sustainability Standards Board (ISSB) ISSB consultation on the exposure drafts, key feedback was the importance of supporting preparers, especially those with limited resources and in emerging markets. Educational resources were published, including the **Knowledge Hub** launched last December. We are also gathering examples and case studies to add to the Knowledge Hub."

While the emphasis in on investor interest, it's also crucial to recognise that enhanced disclosure can make organisations more resilient and better prepared for risks and opportunities. This preparedness is part of why investors are so keen to understand how organisations handle these risks and opportunities.

"Remember to use the ISSB standards as a baseline and build on top of that," Molloy added. "Another key point is the importance of being clear about your audience. It's crucial to note that these standards primarily cater to providing information to investors, as they come from the IFRS."

Who are you communicating to?

1. **Top from the Top:** Identify who in the organisation, at the top level (C-suite and board), will oversee and ensure alignment.
2. **Integration Throughout:** Identify which teams are already familiar with the evaluation and management of sustainability-related risks and opportunities and which teams will need additional capacity building.
3. **Negotiation:** Determine who will provide what information to whom, how it will be collected, and who will manage it. This often involves negotiation to ensure all necessary parties are involved.

SAICA
DIFFERENCE MAKERS™

Governance, strategy, risk management, and metrics and targets

1 **Governance:** How to apply the standards and integrate additional disclosures relevant to geography, jurisdiction, or sector

Governance includes all aspects related to the governance body in the organisation and the application of management practices.

Key questions to ask include:

What are the roles and responsibilities of members of governing bodies or committees responsible for overseeing sustainability-related risks and opportunities?

- What skills and competencies do these members possess?
- How and where do they obtain information about sustainability risks and opportunities?
- What types of decisions are they making, such as setting targets to manage these risks and opportunities?
- Who is responsible for managing, monitoring, and overseeing these risks and opportunities?
- What processes and controls are used for managing sustainability-related risks and opportunities?

2 **Strategy:** where companies can see the benefits of sustainability-related opportunities and being prepared for risks

There are three high-level areas to focus on in the strategy content area:

- Risks and opportunities
- Effects on the business model, supply chain, strategy, financials and cash flows
- Resilience

"Starting with sustainability-related risks and opportunities, IFRS S1 and S2 disclosure requirements on strategy are designed to help users understand a company's strategy for managing these risks and opportunities," Grabski explained.

Questions to ask internally to build up information for these disclosures include:

- What risks and opportunities could reasonably be expected to affect the company's prospects?
- What is the time horizon for these risks and opportunities (short, medium, long-term)?
- For climate-related risks and opportunities, what categories are used (e.g., physical or transition risks)?
- Does the company use industry-based guidance to identify relevant topics and metrics?

Looking at the current and anticipated effects of these risks and opportunities, questions include:

- What are the current and anticipated effects?
- Where in the business will these effects occur?
- What are the actual and planned responses to these effects?

When discussing resilience, companies should consider their processes and practices to assess resilience and make strategic adjustments. Disclosure should include information on the type of assessment used, scenario analysis, and the company's capacity to adjust and adapt over time.

When it comes to climate-specific considerations for strategy, S2 requires more detailed information on the effects of climate-related risks and opportunities on the business model, value chain, and financial results. This includes additional disclosures related to a company's GHG emissions and a scope 3 measurement framework.

"Regarding scenarios, S2 requires companies to use climate scenarios for resilience assessments but does not specify which scenarios to use," Guthrie said. "It requires additional information about the company's resilience assessment, such as areas of significant uncertainty, the company's capacity to adjust its strategy, and the basis and timing of the scenario analysis."

S2 also requires companies to disclose details of any climate transition plans, which should align with the company's overall strategy and external goals. The transition plan should include long-term goals, mitigation and adaptation activities, targets and milestones, dependencies, risks, challenges, and the treatment of unabated GHG emissions.

"There are several resources available to help with transition planning, including the Transition Plan Taskforce Disclosure Framework and resources from the Glasgow Financial Alliance for Net Zero," Guthrie added.

3 Risk Management: Disclosures focus on processes and integration into the company's overall processes

Key questions include:

- What processes and policies are used to **identify**, **assess**, **prioritise**, and **monitor** sustainability-related risks and opportunities?
- Is the sustainability-related risk and opportunity management integrated into the overall enterprise risk management process?

Climate-specific considerations for risk management

S2 requires more detailed information on the input parameters used for risk identification, the use of climate-related scenario analysis, and any changes to risk management processes. It also provides definitions for climate-related risks, categorised as transition risks (policy and legal, technological, market, reputational) and physical risks (acute and chronic).

"Ensuring that the information is presented in a way that shows the connections between governance, strategy, risk management, and metrics and targets is crucial," said Guthrie. "For instance, if a company identifies a significant climate risk, it should be clear how this risk affects the strategy, what metrics are used to monitor it, and how the risk management process is implemented.

4

Metrics and targets:

This area focuses on the specific metrics and targets a company uses to manage and measure sustainability-related risks and opportunities.

Key disclosures include:

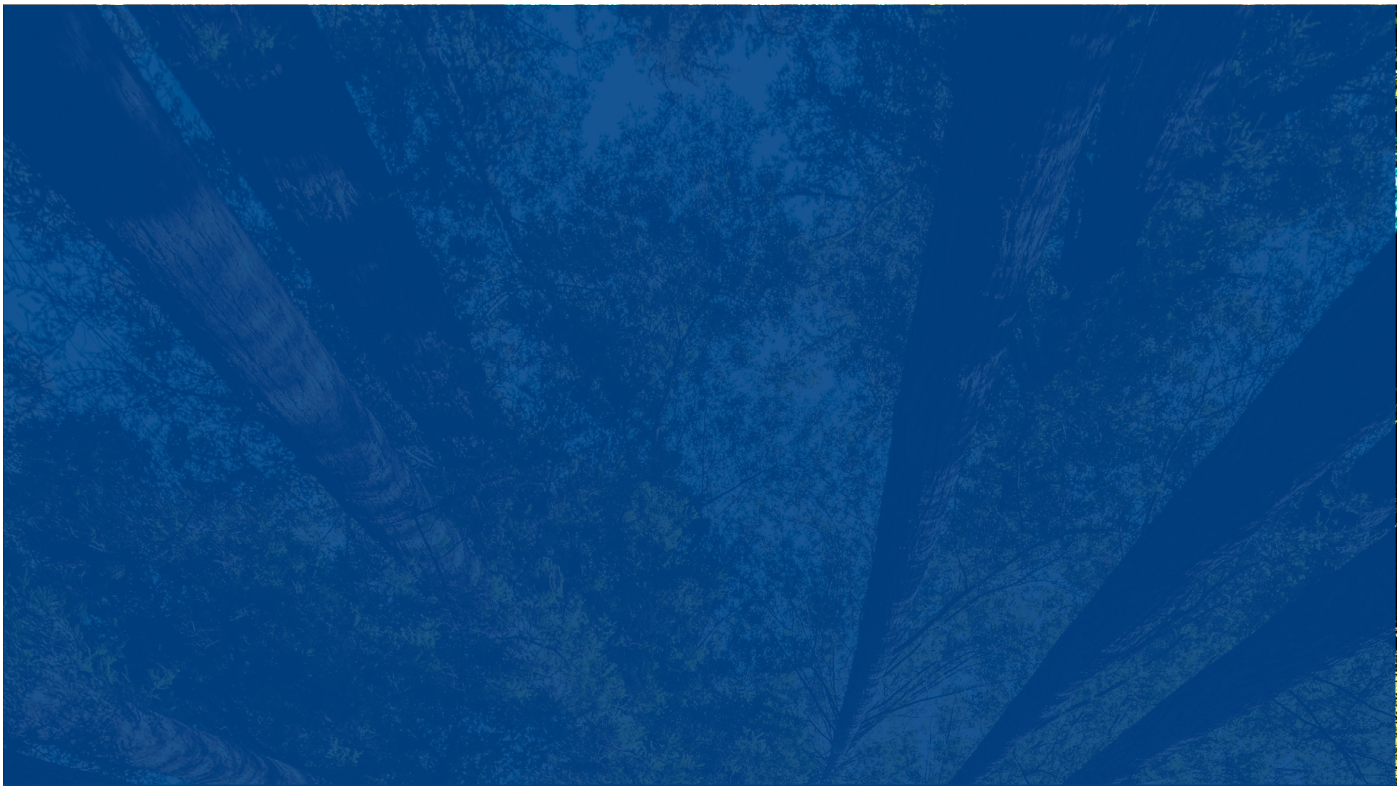
- Metrics used to assess and manage sustainability-related risks and opportunities.
- The targets set for these metrics, including how they are determined and the time frames for achieving them.
- The performance against these targets.

"For example, a company might disclose its greenhouse gas (GHG) emissions metrics, including scope 1, 2, and 3 emissions," said Tim Kasim, Technical Staff, SSE Academy. "It should also disclose any targets it has set for reducing these emissions, the basis for these targets, and progress toward achieving them."

Guthrie noted that the standards emphasis the need for connected information, ensuring that disclosures across governance, strategy, risk management, and metrics and targets are integrated and tell a coherent story. This helps investors understand the full picture of how sustainability-related risks and opportunities are managed.

"The ISSB standards are designed to provide a comprehensive framework for sustainability-related disclosures, said Kassim. "By focusing on governance, strategy, risk management, and metrics and targets, companies can provide clear, comparable, and decision-useful information to investors. Remember to use the standards as a baseline and build on them to meet the specific needs of your organisation and stakeholders."

Compiled by: Monique Verduyn



About SAICA

The South African Institute of Chartered Accountants (SAICA), South Africa's pre-eminent accountancy body, is recognised as the world's leading accounting institute and is home to the leading CA designation in the world The Institute provides a wide range of support services to more than 60 000 members and associates who are chartered accountants (CAs[SA]), as well as associate general accountants (AGAs[SA]) and accounting technicians (ATs[SA]), who hold positions as CEOs, MDs, board directors, business owners, chief financial officers, auditors and leaders in every sphere of commerce and industry, and who play a significant role in the nation's highly dynamic business sector and economic development.

SAICA is a member of Chartered Accountants Worldwide (CAW), a global family that connects over 1,8 million fellow Chartered Accountants and students in more than 190 countries. Together, we support, develop, and promote the role of Chartered Accountants as trusted business leaders, difference makers, and advisers.

SAICA Standards Contacts

Nomsa Nkomo: **Nomsan@saica.co.za**
Project Director: Sustainability and Integrated Reporting/Thinking
SAICA Sustainability Division

Tsabo Makoloane: **Tsabom@saica.co.za**
Project Manager: Sustainability and Integrated Reporting/Thinking
SAICA Sustainability Division