SUSTAINABILITY REPORTING

FREQUENTLY ASKED QUESTIONS (FAQs)

SAICA
DIFFERENCE MAKERS™

February 2024

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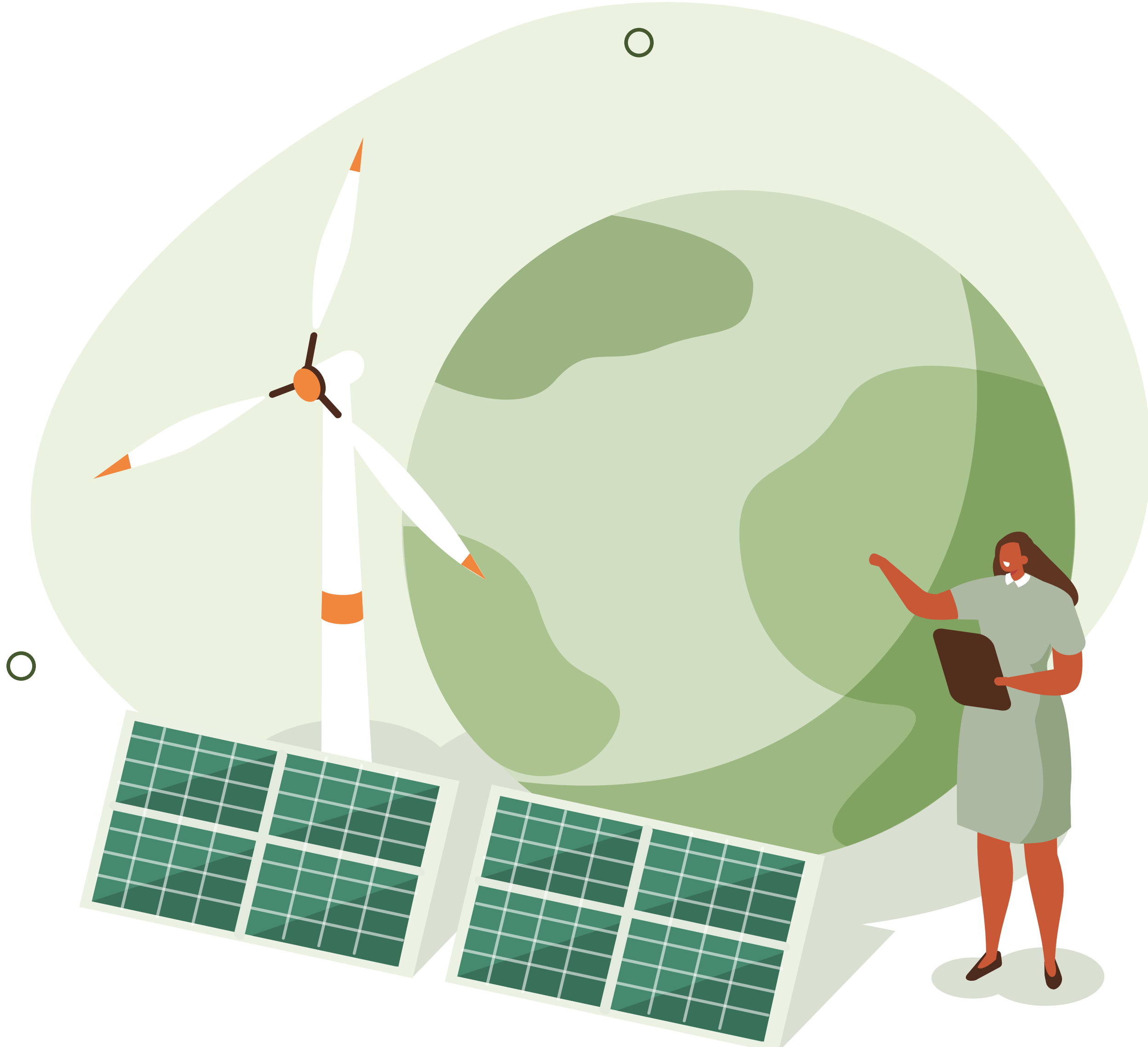

1. FOREWORD

High-quality sustainability reporting, integrated in a meaningful way with financial reporting, is critical for driving transparency, decision-making in support of long-term sustainable value creation and positive organisational change.

The emerging developments seen in the sustainability reporting world, including among others the ISSB (International Sustainability Standards Board) and ESRS (European Sustainability Reporting Standards), are welcomed as these serve to provide further guidance and direction in driving high-quality and consistent sustainability-related information to meet users' needs.

In response to these developments, SAICA is proud to introduce its first sustainability-related frequently asked questions guide (FAQ). With the oversight of SAICA's Sustainability Technical Committee (STC), this FAQ provides guidance on the sustainability reporting landscape, both globally and in South Africa.

This first edition of the FAQ provides an overview of key sustainability reporting-related questions and supporting information and resources and will be updated from time to time to reflect the continuing developments in this space. The developments in sustainability reporting and assurance are undergoing rapid and significant changes. Members are therefore encouraged to seek out the most up-to-date and relevant requirements.

The FAQ:

- Depicts key sustainability reporting standards and frameworks, the use of these by international users and analysts and how it all interconnects.
- Provides details around the developments seen by three prominent global players in the sustainability reporting landscape, namely the ISSB, ESRS and GRI.
- Provides digital click through access to the respective standards and their tools to assist with more understanding, for support materials and access to additional insight.
- Assists to define and clarify some of the sustainability-related terminology.

SAICA is committed to the education, furtherance, and adoption of sustainability reporting in South Africa, and its incorporation into the corporate reporting environment, both locally and globally. The role of professional accountants within the sustainability landscape, including sustainability reporting, is vital and accountants are urged to take a leading role. Through its member reach of more than 55 000 members globally, as well as its global alliance partners and structures, SAICA is playing an influential role in taking sustainability forward for its members, society and country.

Should you have any further queries, please do not hesitate to contact the SAICA Standards Division.

Adjunct Professor Yvette Lange
STC Chairperson

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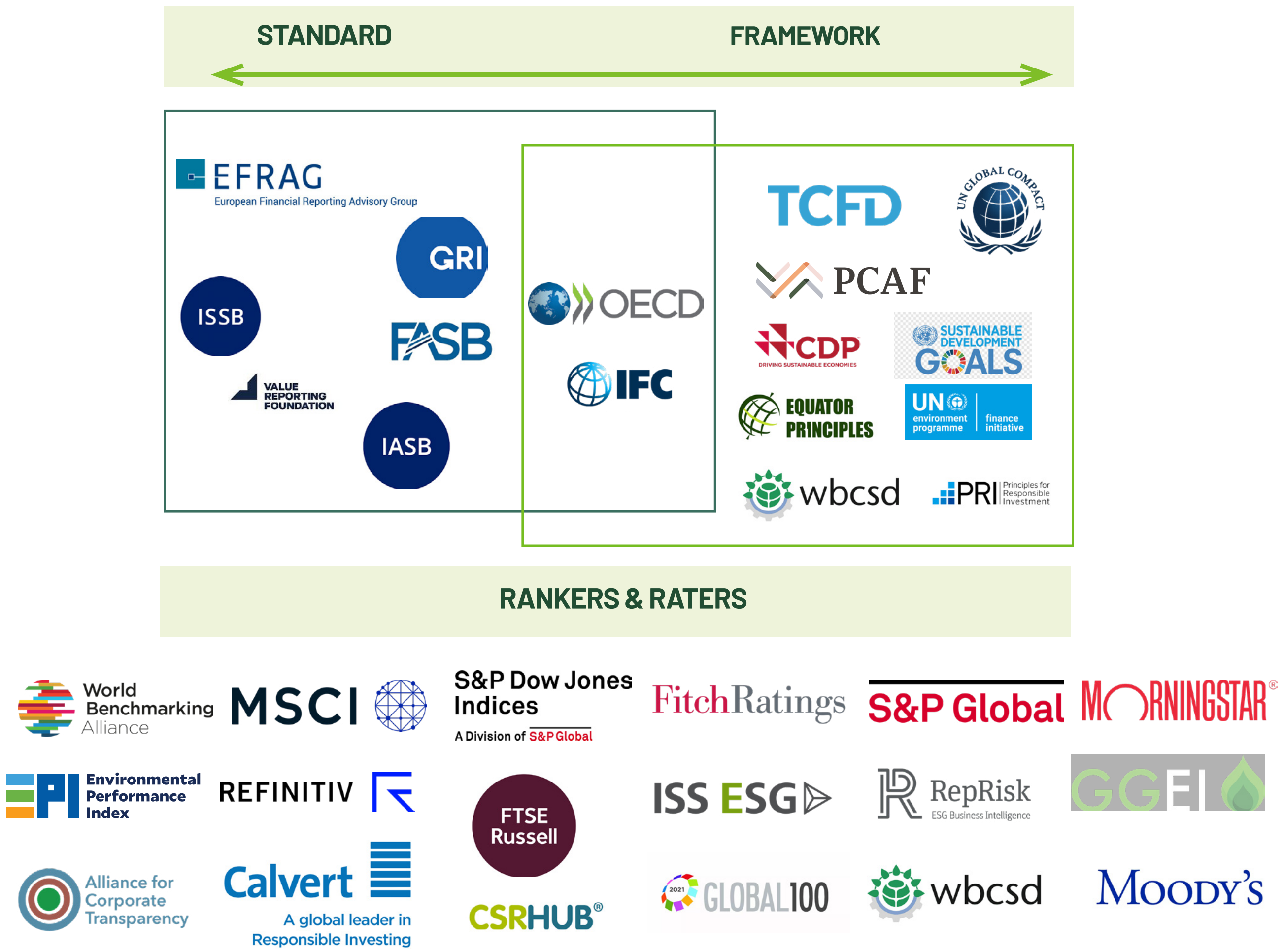
2. BACKGROUND

Introduction

Globally, Environmental, Social and Governance (ESG) reporting has shifted due to stakeholder expectations, with disclosure updates erupting in key investor markets in the past few years. More recently, sustainability standards such as the the IFRS International Sustainability Standards Board (ISSB), The European Sustainability Reporting Standards (ESRS) have become increasingly valuable in driving regulatory decision making and company strategies in enabling the sustainability agenda. These FAQs aim to create some clarity about the interconnections between the different standards and frameworks, as well as the purpose of each.

Standards and Framework

To understand how these standards and frameworks are connected to the different acronyms grouped into two categories (see Figure 1). The following diagram as a helpful illustration of the difference between ESG standards, reporting frameworks, and rankings/ratings.



Note: This list of standards is not exhaustive, as there are many different standards in the world, which differ per region. The infographic aims to help understand the underlying connections and principles in the sustainable reporting environment. Source: GRI

- **Standards**: Specific and detailed criteria on what should be reported.
- **Frameworks**: A set of guiding principles to frame, or contextualize, information.
- **Rankings and ratings:** A score of ESG performance based on information that companies disclose using reporting standards or frameworks. It is typically comprised of a quantitative score and a risk category.

The sustainability reporting landscape is still young and everchanging, but by navigating through the frameworks and regulations, a fundamental structure is becoming clear. Governance, strategy, risk management and targets with regards to sustainability reporting are becoming increasingly important. Companies should start with this basic agile structure of sustainability reporting and evolve from there. This will allow them to absorb regulatory and other changes over the next several years. An example of this is the ongoing development of biodiversity and water standards (e.g., TNFD)

This indicates that requirements are only going to become stricter, and the sooner companies start looking at all of their risks and mitigating them, the less of an obstacle it will be when reporting eventually becomes mandatory in South Africa.

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2. INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB)

What is ISSB?

The International Sustainability Standards Board (ISSB) is a standard-setting body established in 2021-2022 under the **IFRS** Foundation, whose mandate is the creation and development of sustainability-related financial reporting standards to meet investors' needs for sustainability reporting. The ISSB will work in close cooperation with the **IASB**, ensuring connectivity and compatibility between IFRS Accounting Standards and the ISSB's standards—IFRS Sustainability Disclosure Standards.

What are ISSB IFRS Sustainability Disclosure Standards?

The ISSB launched its first two IFRS Sustainability Disclosure Standards during June 2023:

- IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information; and
- IFRS S2 Climate-related Disclosures.

Both standards mirror the TCFD framework world renowned Strategy, Governance, Risks and Opportunities, and Metrics and Targets structure.

IFRS S1 sets out overall requirements for sustainability-related financial disclosures with the objective to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.

IFRS S2 sets out the requirements for identifying, measuring, and disclosing information about climate-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.

The International Sustainability Standards Board (ISSB) has approved a staff proposal to introduce a one-year transitional relief for entities adopting International Financial Reporting Standard S-1, the General Requirements for Disclosure of Sustainability-related Financial Information.

The relief will allow companies to report solely on climate-related risks and opportunities in accordance with IFRS S-2, Climate-related Disclosures, in their first year of applying the board's first two sustainability reporting standards.

What is the effective date of the IFRS Sustainability Disclosure Standards?

IFRS S1 and IFRS S2 are to be applied for reporting periods beginning on or after **1 January 2024**. Earlier application is permitted. If an entity applies IFRS S1 earlier, it must disclose this accordingly and apply IFRS S2 at the same time.

How to access IFRS Sustainability Disclosure Standards?

You can access IFRS Sustainability Disclosure Standard on the IFRS Foundation website (https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/).

If you are a member/associate of SAICA, you can access the documents via the IFRS Standards Navigator. The first time you access the IFRS Standards Navigator, you will be required to do so via the SAICA website to ensure that your details are registered on the IFRS.org website. You will be prompted to set up your profile before being directed to the IFRS Standards Navigator. Once registered on the ifrs.org website, you may either login via the SAICA website or directly through the ifrs.org website to access the IFRS Standards Navigator.

More details on the IFRS Standards Navigator can be found on this page (https://www.saica.org.za/members/member-exclusive-content/eifrs).

Are the IFRS Sustainability Disclosure Standards mandatory in South Africa?

The mandatory application of the ISSB standards is dependent on their adoption by a jurisdiction into applicable law.

Currently the ISSB standards **are not mandatory** in **South Africa**.

Section 29 of the Companies Act No 71 of 2008 only state that "in the case of financial reporting standards for public companies, must be in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) or its successor body ...". Companies Act will need to be amended to include the IFRS Sustainability Disclosure Standards as issued by the ISSB or remain as voluntary.

Why should companies (including SMEs) prepare to apply the IFRS Sustainability Disclosure Standards?

It isn't only regulatory adoption that should encourage the use of the Sustainability Disclosure Standards.

The Standards are designed to be cost-effective and have been developed with efficiency in mind, to help all companies report what is needed by investors across markets globally. The standards are set to be a global baseline for sustainability reporting, encouraging transparency, consistency, clarity and comparability.

The Standards are also intended to be decision-useful—providing the right information, in the right way, to support investor decision-making and facilitate international comparability to attract capital.

Furthermore, a company can avoid double-reporting by applying IFRS Sustainability Disclosure Standards. When jurisdictional requirements build on the global baseline, companies can meet jurisdictional requirements, while benefitting from the baseline's efficiency and comparability.

Are these applicable to SMEs in South Africa?

Even though the IFRS Sustainability Disclosure Standards are not mandatory in South Africa, the ISSB provides a solid foundation for improving sustainability reporting, enhancing business efficiency,

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and facilitating international growth.

The IFRS Sustainability Disclosure Standards can help SMEs improve their reporting processes, ensuring consistent, accurate and reliable information. This transparency enhances credibility and helps SMEs attract potential investors, financing and better opportunities of forming part of supply chain global players.

Aligning with the IFRS Sustainability Disclosure helps SMEs better manage risks by identifying how sustainability and climate issues may affect their prospects. It can help SMEs streamline their internal processes, making them more efficient and effective with improved decision-making, cost reduction, innovative and operational excellence.

Is there any local Sustainability Reporting guidance published for South African companies?

Yes, The JSE developed Sustainability Disclosure Guidance, including a Climate Change Disclosure Guidance, specifically tailored to the South African context. These guidelines were published during 2022 and aim to assist JSE-listed companies, institutional investors, and other stakeholders in understanding the climate crisis, identifying risks and opportunities, and linking sustainability disclosures to value creation.

The JSE Sustainability Disclosure Guide shows some alignment to the ISSB - IFRS S1 and IFRS S2, European Sustainability Reporting Standards (ESRS) and Global Reporting Initiatives (GRI).

https://www.jse.co.za/our-business/sustainability/jses-sustainability-and-climate-disclosure-guidance

Which African Countries have adopted the IFRS Sustainability Disclosure Standards?

Four early adopters of the ISSB sustainability standards in Africa are Nigeria, Zimbabwe, Ghana and Kenya. In the absence of a mandate, South African companies can voluntarily adopt the IFRS Sustainability Disclosure Standards.

Emerging economies such as Brazil have also recently adopted the ISSB standards for voluntary use in 2024 and they will become mandatory sustainability disclosures in January 2026.

3. EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)

What are ESRS?

ESRS is divided into two standards namely ESRS1 and ESRS 2, which apply to all sustainability matters.

ESRS 1 prescribes the mandatory concepts and principles to be applied when preparing sustainability statements under the Corporate Sustainability Reporting Directive (CSRD) An undertaking should disclose all material information about its sustainability-related impacts, risks and opportunities in accordance with the applicable ESRS. According to ESRS 1 all standards and all disclosure requirements and data points within each standard will be subject to materiality assessment by the undertaking, except for disclosure requirements specified in the "General Disclosures" standard (ESRS 2). A detailed explanation of the conclusions of the materiality assessment must be provided if an undertaking concludes that climate change is not material and therefore it does not report in accordance with ESRS E1.

ESRS 1 states that when an undertaking discloses information about policies, actions, and targets concerning a sustainability matter that has been determined to be material, it must include the information prescribed by all the Disclosure Requirements and data points within the applicable topical and sector-specific ESRS related to that specific matter, and in the corresponding Minimum Disclosure Requirement on policies, actions and targets required under ESRS 2. However, undertakings should also consider that the ESRS include several voluntary data points such as those referred to biodiversity transition plans, certain information related to non-employee workers and others. Under the ESRS, there are requirements to report standardized disclosures that apply to all entities (sector-agnostic standards) and those that will apply to entities doing business in one or several specific sectors (sector-specific standards).

ESRS 2 sets out the disclosure requirements of sustainability reporting that are cross-cutting. This includes general characteristics of the undertaking and an overview of the undertaking's business but also specific disclosures in relation to specific circumstances such as time horizons, value chain estimation, sources of estimation and outcome uncertainty, changes in preparation and presentation of sustainability information, or reporting errors in prior period. Additionally, disclosures about governance, strategy, impact, risk an opportunity management, including disclosures on the materiality assessment process, and metrics and targets are covered by ESRS 2. The structure and index in this standard replicate the four-pillar structure presented by TCFD/ISSB, improving alignment between different reporting standards.

When do companies have to apply ESRS?

Companies will have to start reporting under ESRS according to the following timetable:

- Companies previously subject to the Non-Financial Reporting Directive (NFRD) (large, listed companies, large banks and large insurance undertakings – all if they have more than 500 employees), as well as large non-EU listed companies with more than 500 employees: financial year 2024, with first sustainability statement published in 2025.
- Other large companies, including other large non-EU listed companies: financial year 2025, with first sustainability statement published in 2026.
- Listed SMEs, including non-EU listed SMEs: financial year 2026, with first sustainability statements published in 2027. However, listed SMEs may decide to opt out of the reporting requirements for a further two years. The last possible date for a listed SME to start reporting is financial year 2028, with first sustainability statement published in 2029.

In addition, non-EU companies that generate over EUR 150 million per year in the EU and that have in the EU either a branch with a turnover exceeding EUR 40 million or a subsidiary that is a large company or a listed SME will have to report on the sustainability impacts at the group level of that non-EU company as from financial year 2028, with first sustainability statement published in 2029. Separate standards will be adopted specifically for this case.

Who publishes the ESRS standards?

Developed by European Financial Reporting Advisory Group (EFRAG) and EFRAG will periodically publish additional non-binding technical guidance on the application of ESRS. Given its expertise and its role, set out in the Accounting Directive as amended by the CSRD, as the European Commission's technical advisor on the development of ESRS, EFRAG is very well placed to provide such guidance.

What will companies have to report on ESRS?

As required by the Accounting Directive, as amended by the CSRD, the ESRS take a "double materiality" perspective – that is to say, they oblige companies to report both on their impacts on people and the environment, and on how social and environmental issues create financial risks and opportunities for the company.

This first set of ESRS, comprising 12 standards, follow the CSRD regulation and cover environmental, social and governance matters. The set includes both cross cutting and topical standards. These standards are related to the reporting requirements under Article 19a and 29a of the CSRD-amended Accounting Directive. In addition, the standard's architecture foresees the publication of sector-specific standards and standards for SMEs that are still under development.

Which SA companies will be affected and eligible to apply ESRS?

In the short-term, South African subsidiaries of scoped-in EU groups would likely have expanded internal ESG reporting requirements for the EU parent to report on relevant group-wide disclosures.

This reporting may also need to be assured to provide comfort to the ultimate reporting entity and satisfy the requirements of the standards.

Already published — Coming later

Already published	Coming later
Cross-cutting standards	Sector-specific standards (coming later)
ESRS 1 General requirements	SMEs proportionate standards (coming later
ESRS 2 General disclosures	

Topical sector-agnostic standards		
Environmental	Social	Governance
ESRS E1 Climate change	ESRS S1 Own workers	ESRS G1 Business conduct
ESRS E2 Pollution	ESRS S2 Workers in the value chain	
ESRS E3 Water and mineral resources	ESRS S3 Affected communities	
ESRS E4 Biodiversity and ecosystems	ESRS E1 Consumers and end-users	
ESRS E5 Resource use and circular economy		

South African parents with scoped-in EU subsidiaries would need to closely monitor their requirements under the non-EU parent reporting standard being developed by the EFRAG. This is a specific disclosure standard for non-EU parent companies (subject to certain reporting exemptions).

Consolidated reporting scope:

Groups with an EU-based parent.

- EU-based parent companies of large groups will report for their consolidated group but can claim an exemption from preparing separate sustainability reporting at the parent level unless they are also a large Public Interest Entities.
- Many EU subsidiary companies will be able to rely on this consolidated parent report rather than reporting in their own right. This also allows intermediate parent companies to be exempt from preparing a sustainability statement for their subgroup.

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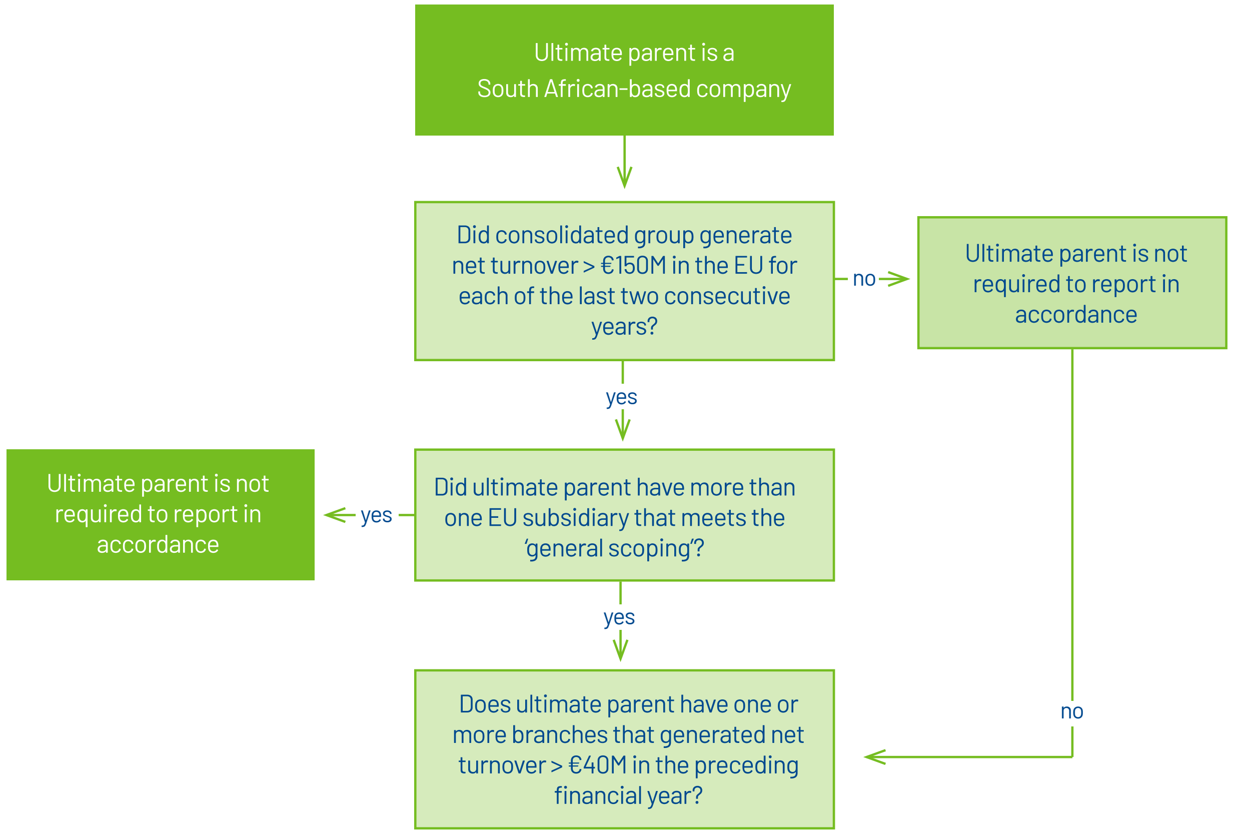
Groups with Non-EU-based parent.

- Non-EU- based companies may be required to report on stand-alone or consolidated basis if they have listed securities on EU-regulated markets.
- EU subsidiary companies may be able to apply the group exemption by relying on a consolidated parent's report that is made available voluntarily.
- From 2028, for an ultimate non-EU parent company that has substantial activity and a presence in the EU, reporting is required to cover the entire global group – i.e., from the perspective of the ultimate parent. This reporting would follow separate non-EU parent standards, yet to be published.

https://assets.kpmg.com/content/dam/kpmg/za/pdf/2023/KPMG_CSRD%20-%20the%20future%20of%20ESG%20Reporting.pdf

Scoping decision tree for South African company:



4. GLOBAL REPORTING INITIATIVE (GRI)

What is GRI?

The Global Reporting Initiative (known as GRI) is an international independent standards organization that helps businesses, governments, and other organizations understand and communicate their impacts on issues such as climate change, human rights, and corruption.

Since its first draft guidelines were published in March 1999, GRI's voluntary sustainability reporting framework has been adopted by multinational organizations, governments, small and medium-sized enterprises (SMEs), NGOs, and industry groups. Over 10,000 companies from more than 100 countries use GRI.

What are GRI Sustainability Disclosure Standards?

The GRI Standards is a modular system of interconnected standards. Three series of Standards support the reporting process: the GRI Universal Standards, which apply to all organisations; the GRI Sector Standards, applicable to specific sectors; and the GRI Topic Standards, each listing disclosures relevant to a particular topic. Using these Standards to determine what topics are material (relevant) helps organisations to achieve sustainable development.

GRI standards are used by more than 10,000 organisations in over 100 countries. The Standards are advancing the practice of sustainability reporting and enabling organisations and their stakeholders to take action that creates economic, environmental and social benefits for everyone.

As confirmed by 2022 research from KPMG, the GRI Standards remain the most widely used sustainability reporting standards globally.

Who publishes the GRI standards?

Developed by the Global Sustainability Standards Board (GSSB), the GRI Standards are the first global standards for sustainability reporting and are a free public good. The GRI Standards have a modular structure, making them easier to update and adapt.

Effective date for the GRI standards?

The first version of what was then the GRI Guidelines (G1) published and effective in 2000 – providing the first global framework for sustainability reporting.

All information published after the effective date of a Standard must make use of that Standard. For example, GRI 1: Foundation 2021 (Universal standards 2021) are effective date from 1 January 2023.

How to access GRI standards?

You can download the updated GRI Standards using the link below:

https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/

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Are GRI standards mandatory in South Africa?

GRI reporting standards are not mandatory in South Africa. While the GRI is voluntary, it is widely used, and it can help organisations improve their transparency, accountability, and stakeholder engagement on sustainability issues. GRI standards are based on the double materiality approach.

Which companies in SA can use the GRI standards?

GRI standards are designed to be used by any organisation, whether large or small, private or public, regardless of sector, location, and reporting experience. These entities can use the GRI standards to report on its impacts in a standardised and comparable way.

5. SUSTAINABILITY TERMINOLOGY

Term	Description
ESG	Environment, Social, Governance (ESG) refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business. https://en.wikipedia.org/wiki/Environmental,_social,_and_corporate_governance
Sustainability	A sustainable business is one that generates profit while improving societal and environmental conditions, "meeting our needs without stopping future generations meeting their needs." What is sustainability - ..rteredaccountants.ie (charteredaccountants.ie)
Greenwashing	A form of corporate misrepresentation where a company will present a green public image and publicize green initiatives that are false or misleading to persuade the public that an organisation's products, aims and policies are environmentally friendly in order to take advantage of the growing public concern and awareness for environmental issues, attract investors (especially those interested in socially responsible investing), create competitive advantage in the marketplace, convince critics that the company is well-intentioned, and access the fast-growing market for green products which present a huge potential for growth. Financial think-tank Planet Tracker has identified six types of greenwashing: Green crowding, Greenlighting, Green shifting, Green labelling, Green rinsing and Green hushing. What is Greenwashing - Chartered Accountants Worldwide
Net Zero	Net-zero means negating (making ineffective) the amount of greenhouse gases produced by human activity. Greenhouse gases are gases that are heating our planet (see above). There are many but the most common is carbon dioxide (CO2). For simplicity, the greenhouse gases are collectively counted as 'CO2e emissions'. The 'e' standards for 'equivalents'. The Science Based Targets Initiative (SBTi) has created a Corporate Net-Zero Standard. This provides the guidance and tools companies need to set science-based net-zero targets. The Corporate Net-Zero Standard - Science Based Targets

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Sustainability Stock Exchange Initiative (SSE)	The SSE initiative is a UN Partnership Programme organised by UNCTAD, the UN Global Compact, UNEP FI and the PRI. The SSE's mission is to provide a global platform for exploring how exchanges, in collaboration with investors, companies (issuers), regulators, policymakers and relevant international organizations, can enhance performance on ESG (environmental, social and corporate governance) issues and encourage sustainable investment, including the financing of the UN Sustainable Development Goals. The SSE seeks to achieve this mission through an integrated programme of conducting evidence-based policy analysis, facilitating a network and forum for multi-stakeholder consensus-building, and providing technical assistance and advisory services. https://sseinitiative.org/
EFRAG	The European Financial Reporting Advisory Group (EFRAG) is a private association established in 2001 with the encouragement of the EC to serve the public interest. EFRAG's mission is to serve the European public interest by developing and promoting European views in the field of financial reporting and ensuring these views are properly considered in the IASB standard-setting process and in related international debates. Under CSRD, EFRAG is developing the European Sustainability Reporting Standards (ESRSs). Home - EFRAG
ISSB	The International Sustainability Standards Board (ISSB) is a standard-setting body established in 2021-2022 under the IFRS Foundation, whose mandate is the creation and development of sustainability-related financial reporting standards to meet investors' needs for sustainability reporting. The ISSB will work in close cooperation with the **IASB**, ensuring connectivity and compatibility between IFRS Accounting Standards and the ISSB's standards—IFRS Sustainability Disclosure Standards. IFRS - International Sustainability Standards Board
Global Reporting Initiative (GRI)	GRI Sustainability Reporting Standards are the most widely used standards for reporting on ESG impacts globally and have been developed over many years through multi-stakeholder contributions. GRI Standards aim to meet the information needs of all stakeholders, and the modular structure supports both comprehensive reports and selected disclosures. https://www.globalreporting.org/
Task Force for Climate-related Financial Disclosures (TCFD)	TCFD is comprised of a set of recommendations for organisational disclosures which are designed to enable the effective monitoring, and reduce the financial risk, of climate change. It sets out a methodology for companies to incorporate and embed climate change risks and opportunities into their business strategies. https://www.fsb-tcfd.org/

UN Sustainable Development Goals (SDGs)	The SDGs are 17 sustainability-based goals to be met by 2030 with 171 targets, allowing reporters to integrate and align their business strategy and objectives. The SDGs allow reporters to demonstrate their commitment, and disclose their progress and performance towards meeting, the 2030 goals. The disclosures link national/regional reporters' sustainability performance with global challenges that have been identified by the United Nations. https://sdgs.un.org/goals
Climate Disclosure Standards Board (CDSB)	The CDSB Framework helps companies explain how environmental matters affect their performance and show how they are addressing associated risks and opportunities to investors in annual or integrated reports. www.cdsb.net
UN Global Compact (UNGC)	The Global Compact requires companies to commit to a set often universal principles concerning human rights, labour, environment, and anti-corruption. www.unglobalcompact.org
SASB (now consolidated into the **IFRS** Foundation)	Effective August 1, 2022, the Value Reporting Foundation–home to the SASB Standards–consolidated into the IFRS Foundation, which established the first International Sustainability Standards Board (ISSB). Before that, the Sustainability Accounting Standards Board (SASB), in 2018, published a set of standards for 77 different industries, which identify the minimal set of financially material sustainability topics and their associated metrics for a typical company in a given industry. Focusing on financially material issues for specific industries, SASB is more granular in scope than some of the other frameworks, such as the GRI. SASB
TNFD	The Task Force on Nature-related Financial Disclosures (TNFD) is an international initiative that builds on the model developed by the Taskforce on Climate-Related Financial Disclosures (TCFD). It develops and delivers a risk management and disclosure framework for organisations to report and act on evolving nature-related risks. The ultimate aim is to support a shift in global financial flows towards nature-positive outcomes. https://tnfd.global/

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