

A large crowd of people is gathered outdoors, likely at a protest or demonstration. In the foreground, a person's arm is raised, holding a cardboard sign that reads "WE NEED CHANGE" in bold, black, hand-painted letters. The person is wearing a green jacket. The background is filled with many other people, some holding signs, and a modern building is visible in the distance under a clear sky.

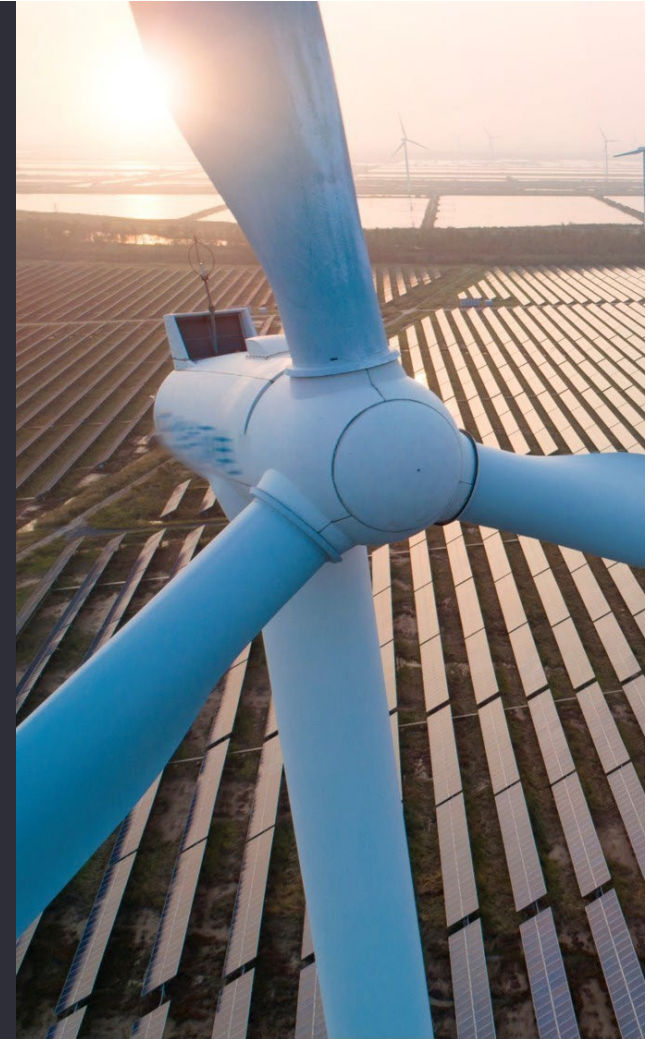
Global IFRS Executive Update 2022

Why sustainability could be the next frontier in reporting April 2022

June 2022

Today's agenda

- ▶ Current landscape in sustainability reporting
- ▶ ISSB update
- ▶ Challenges and opportunities for entities
- ▶ Assurance on sustainability information
- ▶ Conclusion



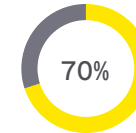
Current landscape in sustainability reporting

Businesses are facing increasing expectations from stakeholders to create sustainable, long-term value

Institutional investors

Expected to divest or vote against companies that fail to explain how they will deliver value across stakeholders

EY Investor survey 2021¹ reveals 86% of investors said a strong ESG program and performance would have a significant and direct impact on analyst recommendations today.



of employees consider a company's position on social issues when deciding to stay in their current job²



of consumers think sustainability to be important when making a purchasing decision³

Employees and consumers

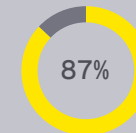
Rising employee expectations that employers take a position on social issues, and promote diversity and inclusion, mobility, flexibility and well-being. Consumers care more than ever about product sustainability, transparency and impact on society

Standard setters, governments and regulators

Ecosystem is rapidly evolving, with standard setters such as the Taskforce on Climate-related Financial Disclosures (TCFD) and IFRS issuing new guidance and standards, and regulators, such as the SEC and the European Commission, signaling possible new disclosure requirements focused on climate and human capital⁴



Increasing expectations that businesses create, protect and measure value delivered across stakeholders



of people across society agree that stakeholders, not shareholders, are most important to long-term company success⁵

Wider society

Increasing demand for business to contribute to resolving societal challenges under global public-private partnerships and initiatives, while trust in business is declining and there is greater scrutiny in the age of social media

1. Source: EY's Sixth global institutional investor survey

2. Source: Gartner Employee Engagement

3. Source: 2020 EY-Parthenon Sustainability Consumer Survey

4. Source: EY The Future of Sustainability Reporting Standards

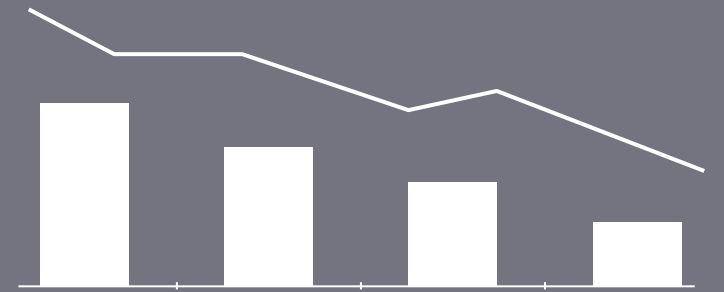
5. Source: 2020 Edelman Trust Barometer

COVID-19 becomes a turning point



attach greater **importance**
to ESG performance post
pandemic.

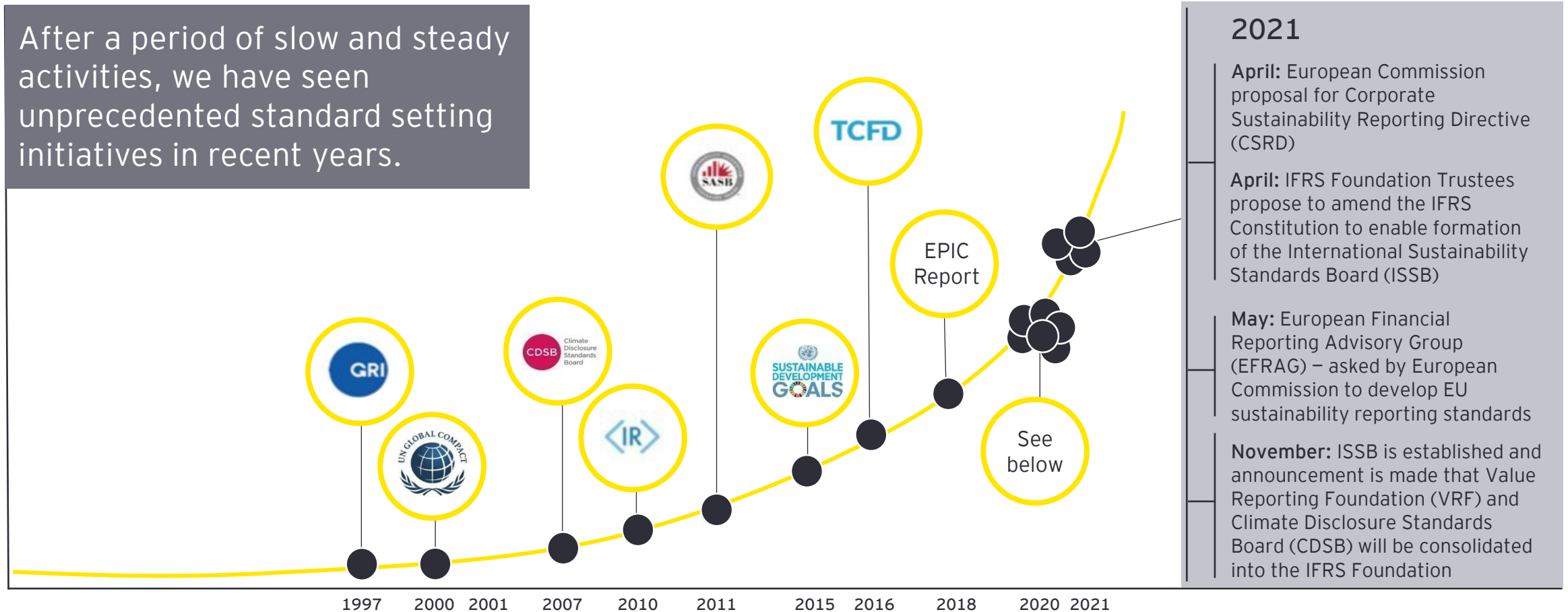
74% now more likely to
divest based on poor
ESG performance



Source: EY's Sixth global institutional investor survey, November 2021




Timeline of sustainability reporting activities

After a period of slow and steady activities, we have seen unprecedented standard setting initiatives in recent years.













- ▶ January 2020: WEF IBC consultation Released. February 2020: EU Non-financial reporting consultation released.
- ▶ August 2020: Climate Disclosure Project (CDP), CDSB, GRI, International Integrated Reporting Council (IIRC) and SASB Paper released. Also World Economic Forum (WEF) International Business Council (IBC) Paper released.
- ▶ September 2020: IFRS Foundation Consultation released IAASB Climate Alert. October 2020: Financial Reporting Council (FRC) Consultation released
- ▶ November 2020: IIRC and SASB announce intention to merge into the VRF.

And what about last quarter?

	1 January: Climate EU taxonomy alignment becomes applicable.
	January, February, March: EFRAG releases several working papers on the development of the future European Sustainability Reporting Standards (ESRS).
	23 February: European Commission adopts proposal for a Directive on corporate sustainability due diligence
	10 March: EFRAG announces the composition of its EFRAG Sustainability Reporting Board to enable its governance reform heading to the target date of 31 March 2022.
	15 March: The Taskforce on Nature-related Financial Disclosures (TNFD) releases its Beta Framework, inspired by the TCFD framework on climate.
	21 March: The US Securities and Exchange Commission proposes rules on climate-related disclosures in their registration statements and periodic reports.
 	24 March: IFRS Foundation and GRI announce a collaboration agreement, their sustainability boards (ISSB and GSSB) will seek to coordinate their programs and standard-setting activities.
	31 March: The ISSB publishes exposure drafts for climate and general sustainability disclosure standards.

Expected key global developments for the rest of 2022 and beyond

Q2		Q3–Q4		2023 and beyond	
	April		End of 2022		January '23
Introduction of mandatory TCFD-aligned disclosures in Strategic Reports of publicly quoted companies, large private companies and LLPs.		Initial plan for European Commission (EC) to adopt the first set of EU sustainability reporting standards (ESRS). CSRD expected to become mandatory for reporting in the following schedule as a result of a new proposed timeline: <ul style="list-style-type: none">▶ 1 January 2024 for undertakings already subject to the NFRD (reporting in 2025 on 2024 data)▶ 1 January 2025 for large undertakings currently not subject to the NFRD (reporting in 2026 on 2025 data)▶ 1 January 2026 for listed SMEs, small and non-complex credit institutions and for captive insurance undertakings (reporting in 2027 on 2026 data)		Environmental EU taxonomy alignment becomes applicable.	
	May				April '23
The SEC will conclude the public consultation period for its climate rule proposal				New expectation of EC and European Parliament (EP) to adopt the first set of ESRS.	
				January '24	
				New expectation of EC and EP to adopt the second set of ESRS (sector specific).	
				FY23–24+	
To be determined		Summer			FY23–24+
The SEC is expected to release proposed human capital and board diversity rules.		The Japanese government expected to draft human rights due diligence guidelines.		Expected introduction of SDR for corporates, asset managers and certain asset owners, including mandatory publication of transition plans.	
	End of June				FY23–24+
The Value Reporting Foundation, housing the <IR> Framework and SASB, will be consolidated into the ISSB.				The ISSB expected to publish exposure drafts for other sustainability topics.	

As of 3 March 2022 and subject to change – includes indicative and announced timelines of specific jurisdiction and global developments in sustainability reporting.

ISSB update

ISSB's proposed IFRS® Sustainability Disclosure Standards

Sue Lloyd, ISSB Vice-Chair
April 2022

Agenda

Introducing the ISSB

Exposure Draft 1 – General Requirements

Exposure Draft 2 – Climate

How to get involved

Next steps

International Sustainability Standards Board

Full complement



Emmanuel Faber
Chair



Sue Lloyd
Vice-Chair

+ 6

members

+ 6

members

Quorum

ISSB focus



Develop standards for global baseline of sustainability disclosures and a digital taxonomy to enable electronic tagging of disclosures



Focus on meeting the information needs of investors

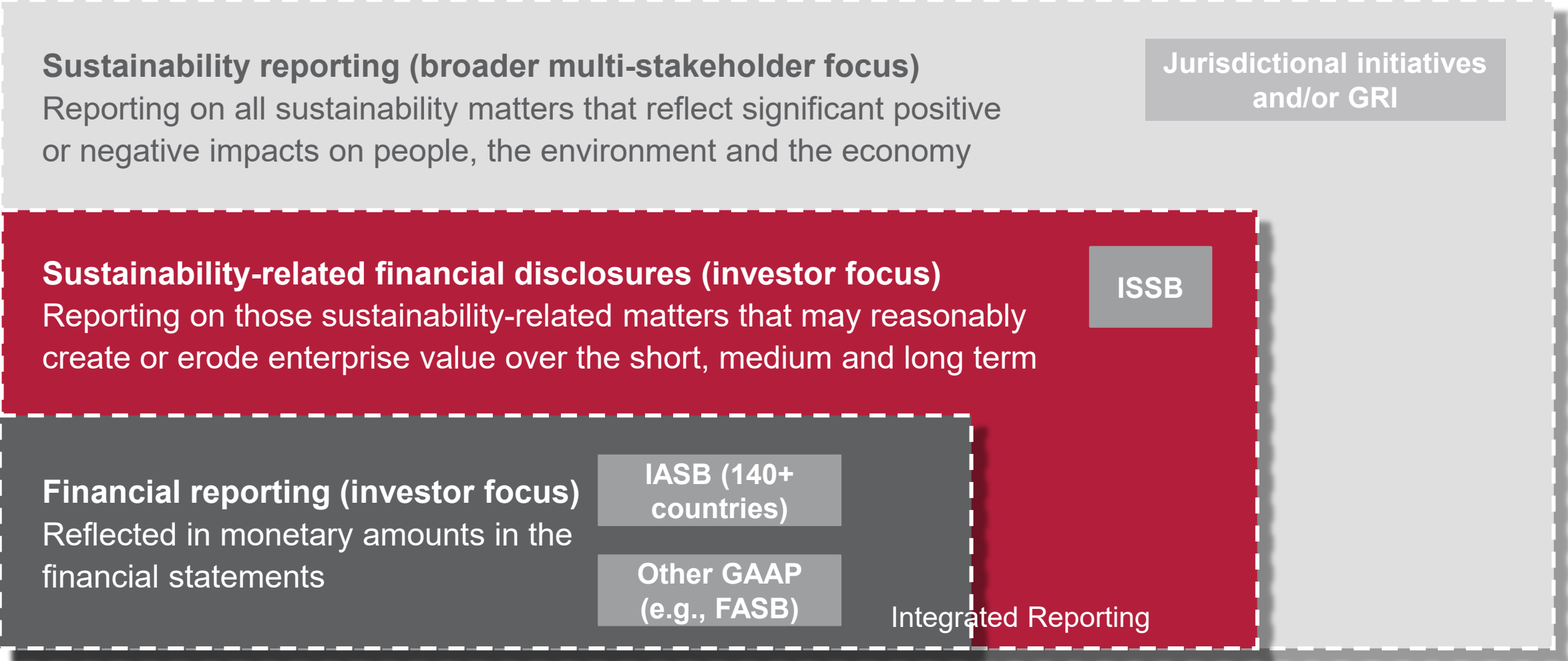


Will enable companies to provide comprehensive sustainability information for the global capital markets



Building blocks approach: facilitate the addition of requirements that are jurisdiction-specific or aimed at a broader group of stakeholders

Building blocks approach



Seeking compatibility between IFRS Sustainability Disclosure Standards and GRI Standards

Announcement of intent to collaborate

IFRS Foundation and GRI announced Memorandum of Understanding on 24 March 2022

First step

ISSB and GRI join each other's consultative bodies related to sustainability reporting activities

Future work plan

Align, where possible, terminology, standards structure and metrics, helping to reduce the reporting burden for companies

Recognised due process

- ISSB's due process aligned with IASB
 - Limited exception for initial documents with oversight by DPOC
 - Will consider any necessary adjustments in due course

- Process built on three principles



Transparency

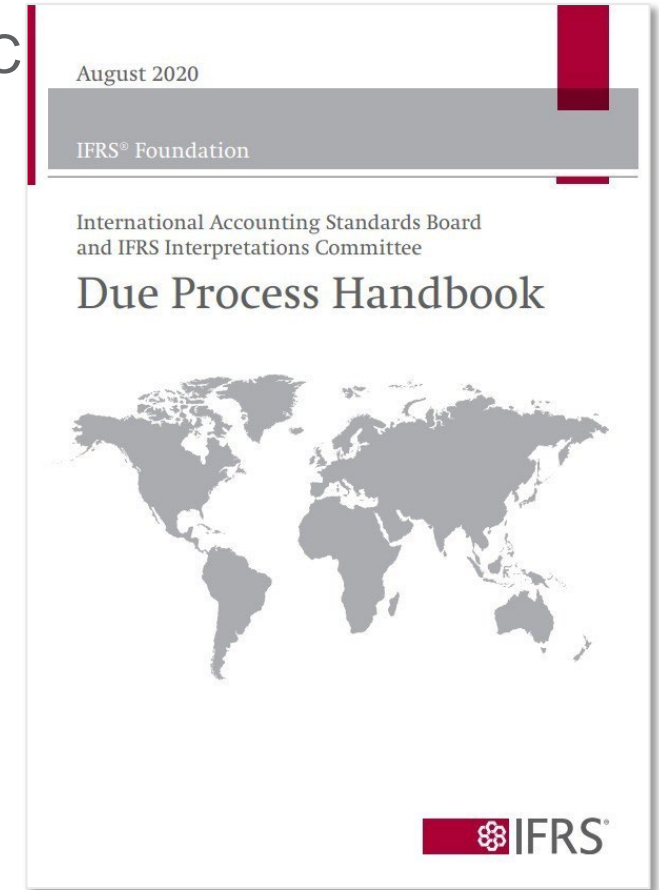


Full and fair consultation



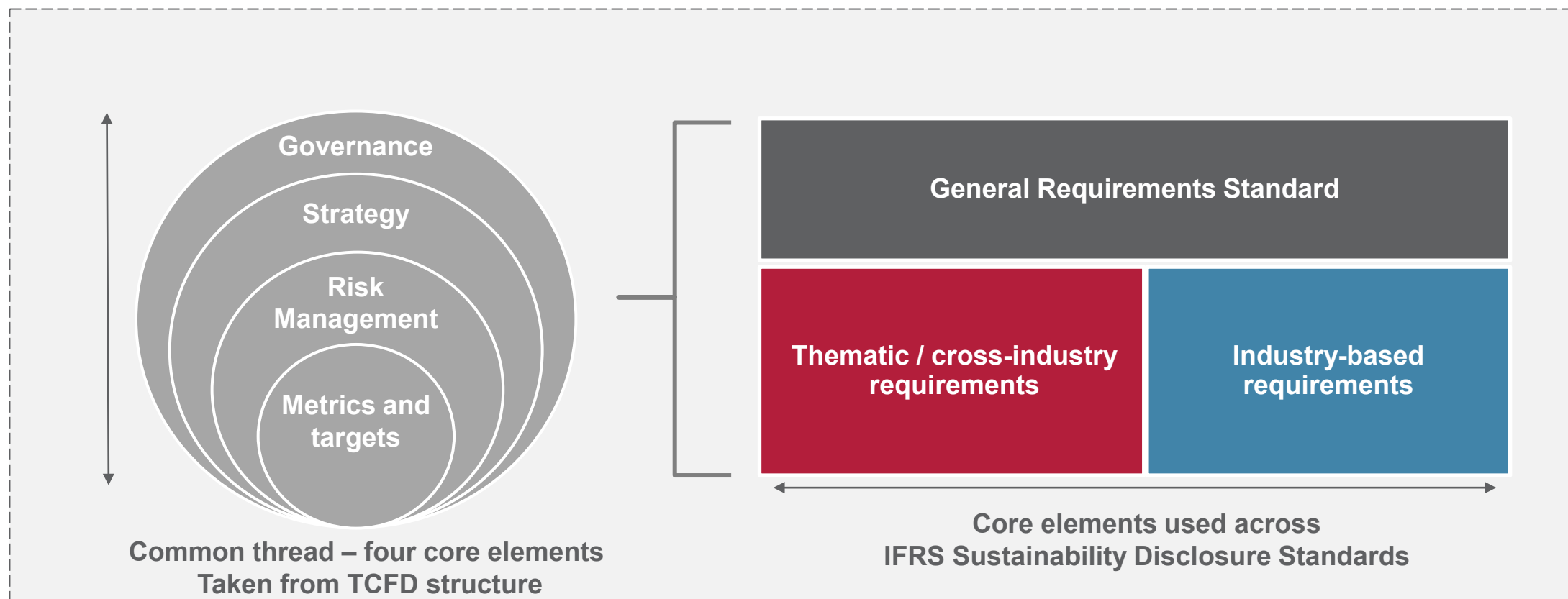
Accountability

- Process overseen by IFRS Foundation Trustees



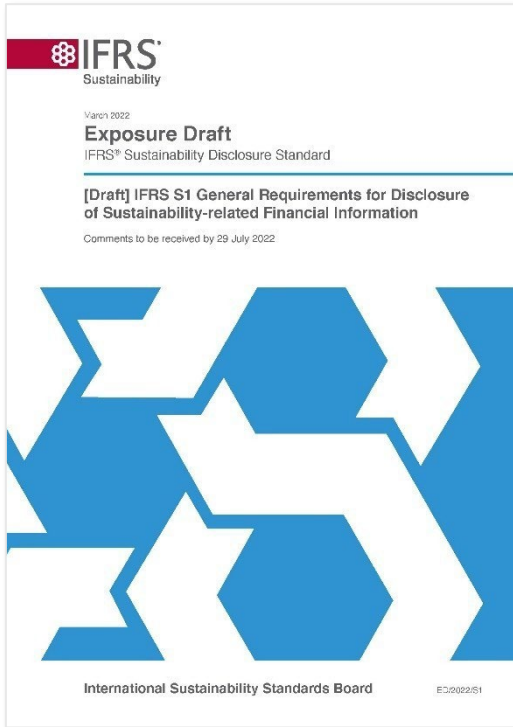
Standards architecture

Focus on investor audience and enterprise value



1

General Requirements Exposure Draft



Requires companies to provide material information on all significant sustainability-related risks and opportunities necessary to assess enterprise value

- Equivalent to IFRS Accounting Standards IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Core content - consistent with TCFD recommendations

Governance

The governance processes, controls and procedures a reporting entity uses to monitor sustainability-related risks and opportunities.

Strategy

How an entity's strategy addresses significant sustainability-related risks and opportunities.

Risk management

How sustainability-related risks are identified, assessed, managed and mitigated.

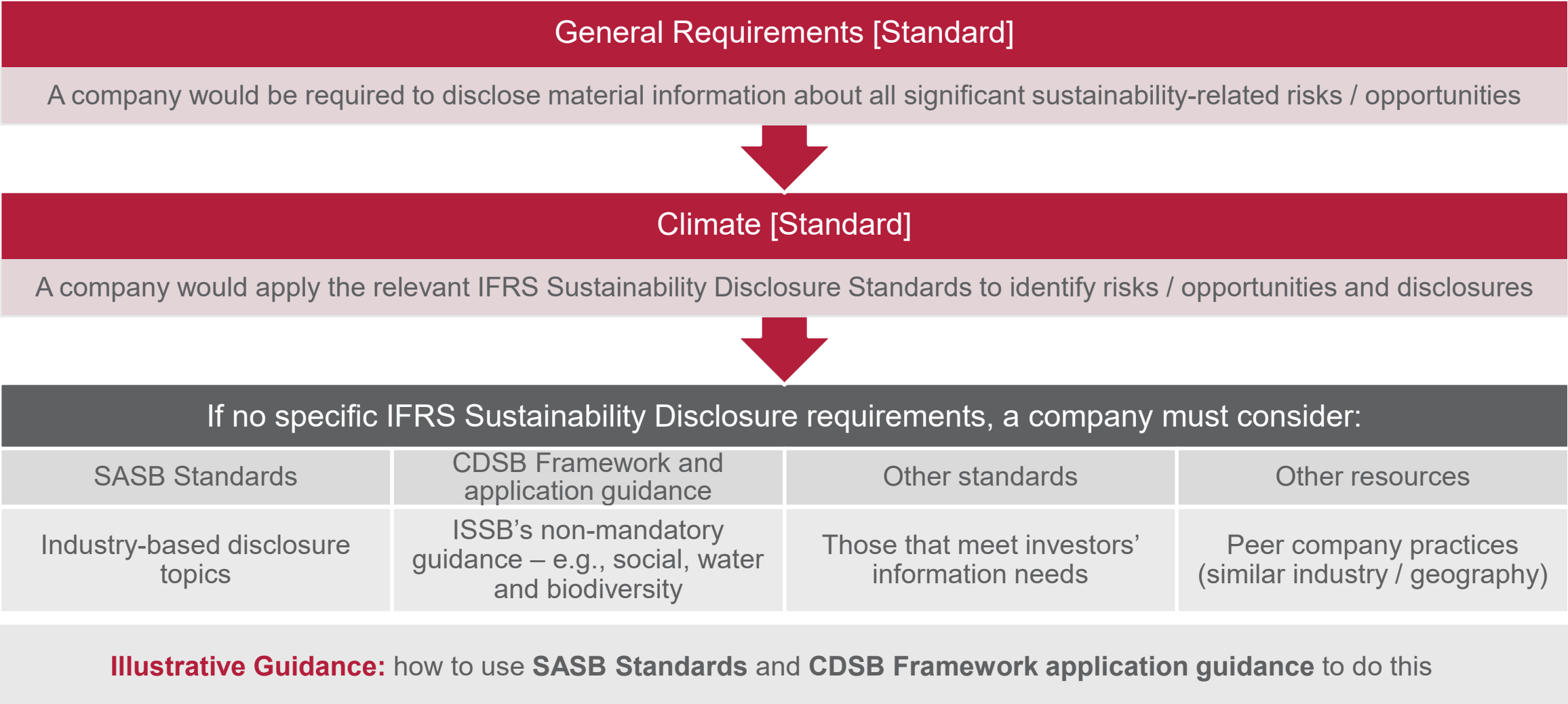
Metrics and targets

Information used to manage and monitor the entity's performance in relation to sustainability-related risks and opportunities over time.

Information for the capital markets

- Information provided must 'enable an assessment of the effects of sustainability-related risks and opportunities on a company's enterprise value' (the market value of its equity and net debt)
- focus is on **significant** sustainability-related risks and opportunities
- information required includes the impacts of a company on people, the environment and the planet **when** they affect assessments of enterprise value
- requires information that is **material** for a company, i.e., that could reasonably be expected to influence decisions that investors would make (in this case, when assessing enterprise value)

How to report on all risks and opportunities



Key features



Emphasises need for consistency and connections between financial statements and sustainability reporting by requiring companies to

- explain linkages in information
- use consistent assumptions when relevant



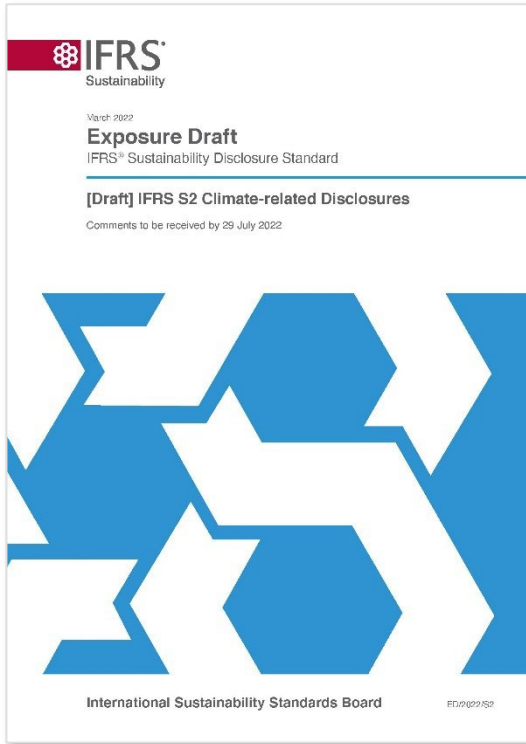
Requires financial statements and sustainability disclosures to be published at the same time



Facilitates application in different jurisdictions by

- not specifying a particular location for sustainability information
- allowing additional information to be provided

2 Climate Exposure Draft



Requirements for disclosure of material information about significant climate-related risks and opportunities

- Incorporates TCFD recommendations
- Includes SASB's climate-related industry-based requirements
- Requires disclosure of information about;
 - physical risks (e.g., flood risk)
 - transition risks (e.g., regulatory change)
 - climate-related opportunities (e.g., new technology)

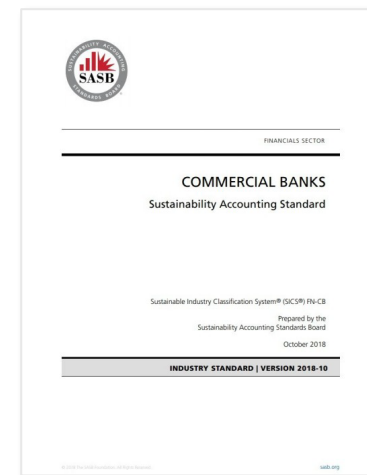
Requires information that enables investors to...

- determine the effects of climate-related risks and opportunities on the company's enterprise value
- understand the company's response to and strategy for managing its climate-related risks and opportunities
- evaluate the ability of the company to adapt its planning, business model and operations to climate-related risks and opportunities

Consistent with the General Requirements Exposure Draft

- focus is on significant climate-related risks and opportunities
- information provided must be material for assessments of enterprise value

Relation to TCFD recommendations and SASB Standards



Consistent with TCFD

- Governance
- Strategy
- Risk management
- Cross-industry metrics and targets
- Illustrative guidance

Builds on SASB Standards

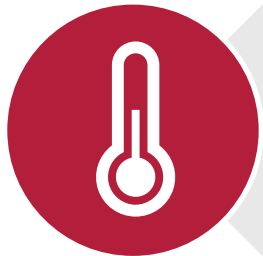
- Industry-based disclosures in Appendix B derived from SASB Standards
- Proposed changes to:
 - Internationalise metrics
 - Add financed emissions disclosures

Key features



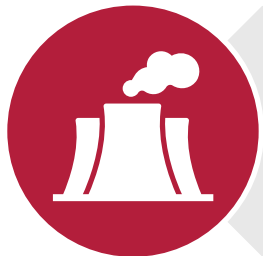
Transition planning

Emissions targets and use of carbon offsets



Climate resilience

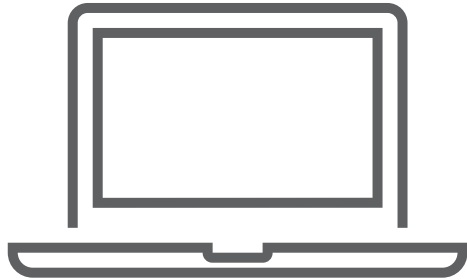
Resilience of business strategy in multiple scenarios



Scope 1-3 emissions

Requirement to disclose GHG emissions

How to comment on the proposals?



Survey

or



Comment letter

Deadline:
29 July 2022

Visit:
ifrs.org/projects/open-for-comment/

Comments are published on ifrs.org

Other technical priorities

Taxonomy

Publish Taxonomy proposals to facilitate electronic tagging and presentation of disclosures

SASB Standards

Improve international applicability of the SASB Standards

Assume responsibility for SASB standards on consolidation of VRF

Work plan

Public consultation on future agenda, including

- Sustainability-related risks and opportunities the ISSB should prioritise
- Delivery plan for current SASB Standards projects

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International Accounting Standards Board



International Sustainability Standards Board

Business Perspective

Benefits for management

- ▶ Internal management and better insight in performance
- ▶ Continue on path toward long-term value
 - ▶ Positive contribution to climate risks and opportunities
 - ▶ Reduce resource usage – energy, water, waste
 - ▶ Differentiate and innovate product offerings
 - ▶ Improve well-being and safety
- ▶ External communication to address increasing stakeholder demand and preventing stakeholder disconnect
 - ▶ Shareholders and investors
 - ▶ Employees including recruitment
 - ▶ Benchmarking against peers
- ▶ Value protection, lower funding costs




External costs and challenges

- ▶ Multiple reporting frameworks in different regions
 - ▶ Some reporting frameworks very technical and extensive
- ▶ Maturity usually not on par with financial information
 - ▶ Extensive use of spreadsheets
 - ▶ Less sophisticated internal control cycle
- ▶ Relating sustainability performance to financial performance and risks needs a different mindset



A proper C-suite dialogue along the different aspects of sustainability is a key prerequisite to initiate effective embedding in the organisation

Prioritising features over others shall be accommodated by an internal dialogue on questions from stakeholders and a clear view on regulatory deadlines

	Chief Compliance Officer	Chairperson	Product Management	Chief Investment Officer	Head of Reporting
	How do I know we will be compliant with the EU Action Plan (and all the other standards) requirements?	How will climate change and other sustainability areas affect the future of our company and how can we benefit from related opportunities?	How to position our products with regard to negative impacts and promoting ESG?	How do I incorporate ESG into our investment strategy and position for the upside opportunities?	Will we implement TCFD principles in reporting? Will we communicate and measure against a carbon neutrality goal or ESG footprint goals?
	Chief Risk Officer	Chief Financial Officer	Chief Executive Officer	Head of Sustainability	Chief Data Officer
	What are our key ESG transition and physical risks and can we mitigate them? What is the financial implication of climate change and how do we quantify our climate exposure to risk? Have we already re-evaluated our existing risk inventory based on sustainability risks (e.g., credit, market and reputational risks)?	How do I build a business case and transformation program that delivers our sustainability ambition? How do I build an integrated and efficient approach to non-financial reporting for both today's and tomorrow's needs?	How do I create a sustainability strategy and ambition that delivers competitive advantage and creates and protects value for stakeholders? How do I understand all stakeholders needs so that I can deliver on their expectations?	How aligned are our business activities with external developments such as the objectives of the Paris Agreement or industry initiatives? Will we buy or make our ESG research? Are we aware of our ESG rating and how we rank among your peers? What can we do about this? What is my journey to net zero (scope 1, 2 & 3)?	Do we believe that the data we have today will allow us to manage our sustainability risks in the next five years?

Assurance Perspective

International Auditing and Assurance Standards Board (IAASB)

IAASB formed a Sustainability Assurance Consultation Group (SACG) to undertake information gathering and research activities related to:

- ▶ Understanding the topics, aspects about the topics, mechanism for reporting, and reporting standards underlying sustainability/ ESG reporting.
- ▶ Understand the challenges in performing assurance engagements on sustainability/ESG reporting, and the urgency and priority of these challenges.
- ▶ Identify and prioritise possible actions the IAASB should take in addressing assurance on sustainability/ ESG reporting

Topics (Underlying Subject Matter)	Information Disclosed About the Topics (the Resulting Subject Matter Information)	Mechanism for Reporting (the Collation and Presentation of the Subject Matter Information)
<ul style="list-style-type: none">▶ Climate, including emissions▶ Economic impacts, such as government assistance, tax strategy, anti-competitive behaviour and market presence▶ Labour practices, such as diversity and equal opportunity and training and education▶ Human rights and community relations, such as local community engagement, impact assessments and development programs▶ Water and effluents, such as water consumption and water discharge▶ Energy, such as type of energy and consumption▶ Biodiversity, such as impacts on biodiversity or habitats protected and restored	<ul style="list-style-type: none">▶ Depending on the criteria, information about the topics may relate to elements such as:<ul style="list-style-type: none">▶ Governance▶ Strategy and business model▶ Risks and opportunities▶ Risk management or mitigation▶ Innovation to address risks and opportunities▶ Metrics and key performance indicators▶ Targets▶ Internal control over monitoring and managing risk▶ Scenario analysis▶ Impact analysis, including magnitude of impact	<ul style="list-style-type: none">▶ Integrated report▶ Sustainability report▶ CSR Report▶ ESG Report▶ Annual report▶ Management commentary related to the financial statements

IAASB

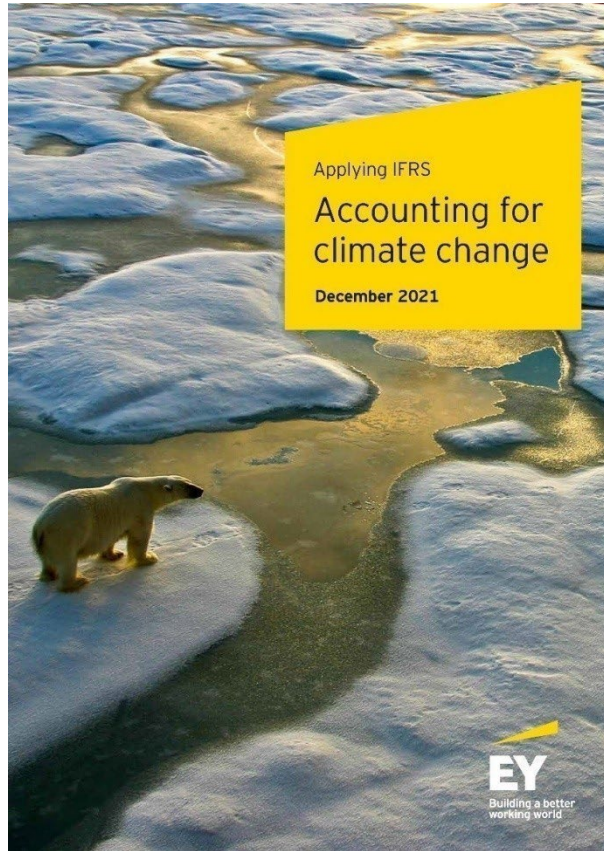
SACG discussion points

Focal points of the Sustainability Assurance Consultation Group

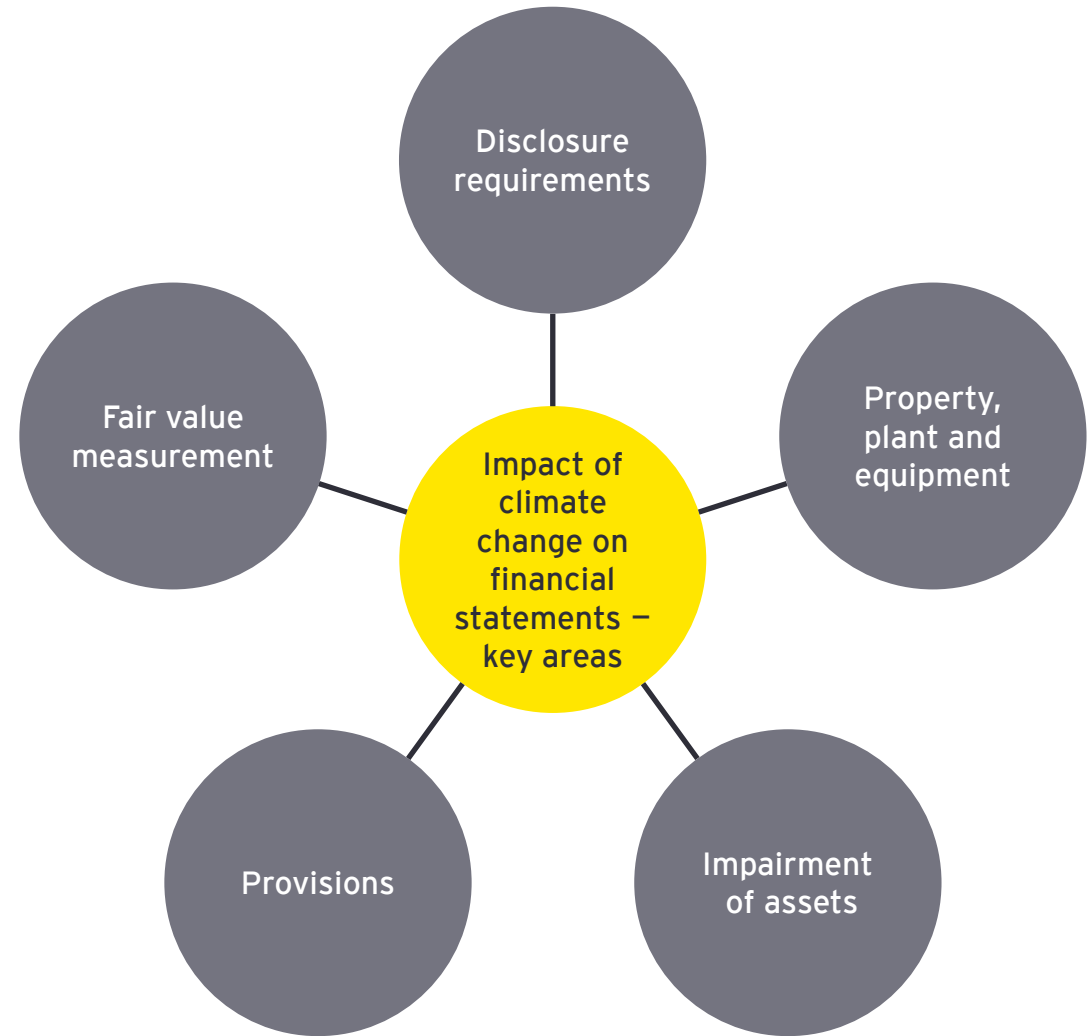
Project proposal expected late 2022

Auditing Standards Project	Address challenges in reporting
Current guidance	Matters under consideration
<ul style="list-style-type: none">▶ ISAE 3000 (Revised)▶ ISAE 3410▶ Extended External Reporting (EER) – provides guidance on non-financial reporting about ESG matters	<ul style="list-style-type: none">▶ Suitability of criteria▶ Double materiality▶ Sufficiency of evidence▶ Achievement of limited and reasonable assurance▶ Use of experts▶ Acceptance and performance execution considerations <p>Address the most pressing challenges</p>
Project considerations	
<ul style="list-style-type: none">▶ Development of a new standard▶ Additional non-authoritative guidance	
Project challenges	
<ul style="list-style-type: none">▶ Speed to produce a standard▶ Standard's scope is broad but yet appropriately specific▶ IAASB must act to avoid fragmentation	

Applying IFRS – Accounting for Climate Change



Applying IFRS – Accounting for Climate Change



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