



The Institute of
Chartered Accountants
of Pakistan

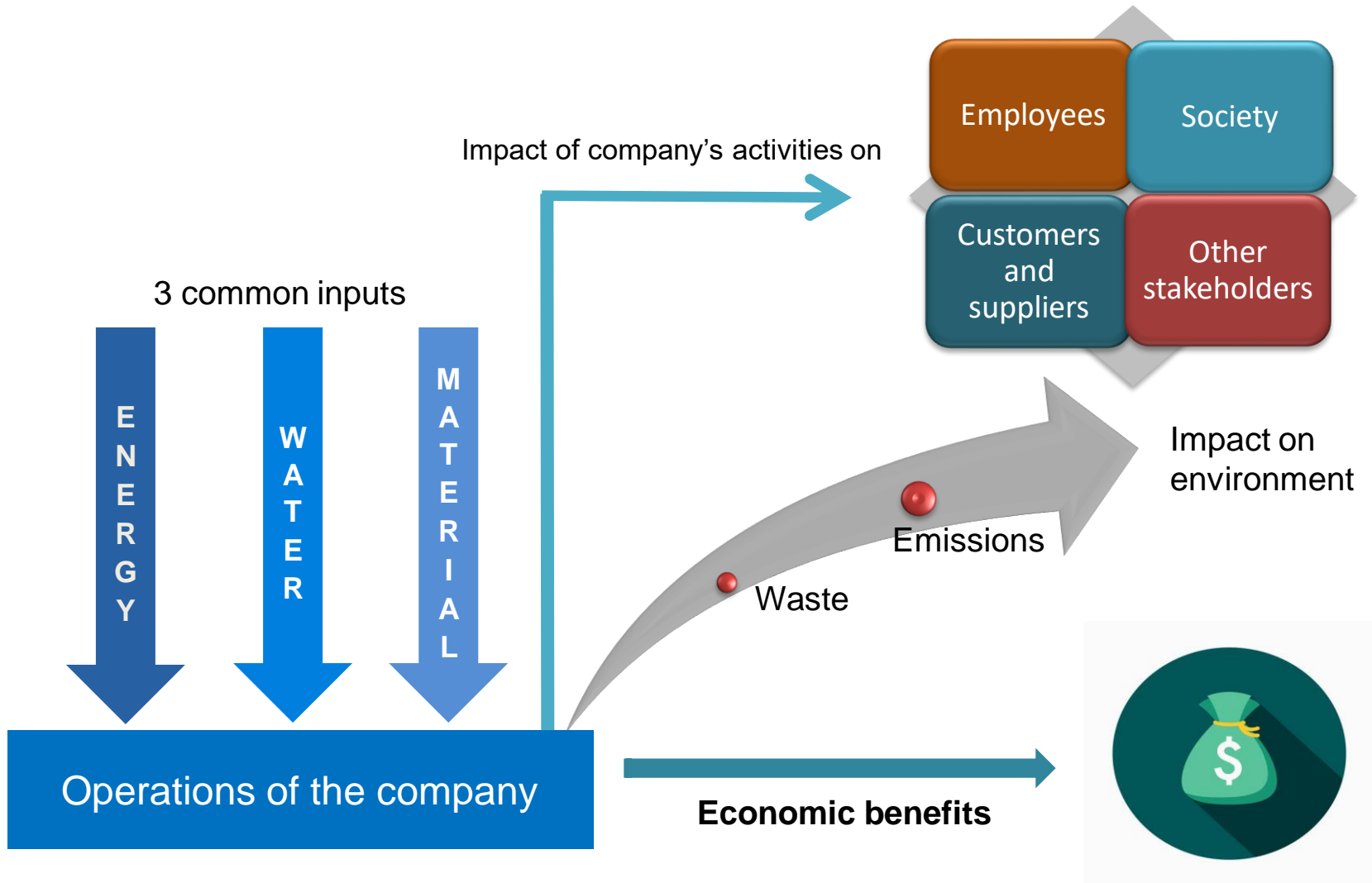
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Capacity Building Session on Sustainability Reporting

Sohail Malik

June 14, 2023

What it is all about



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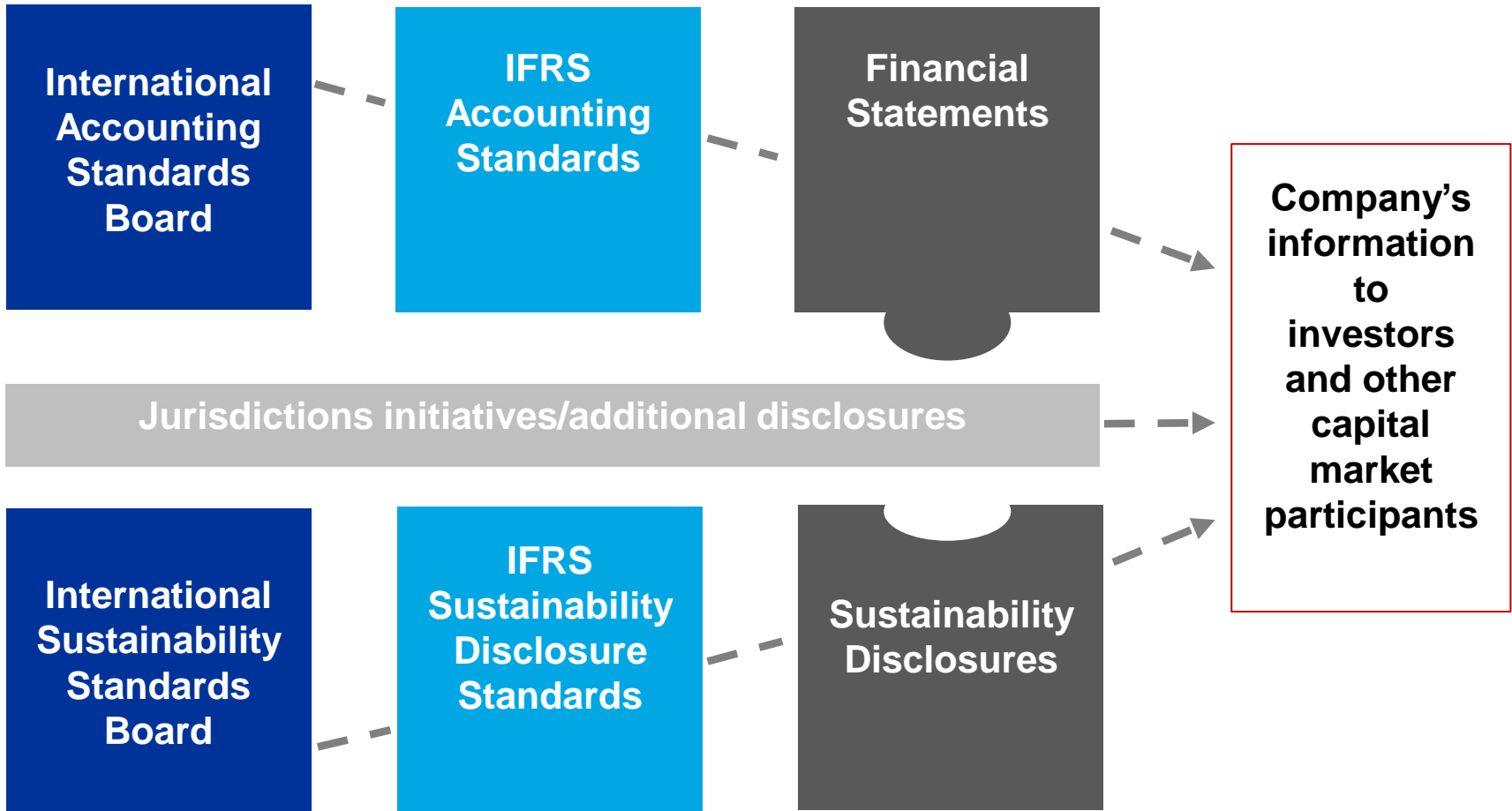
2



IFRS Sustainability Standards Board

- Develop standards for **global baseline for sustainability reporting**
- Meet information **need of investors**
- **Enable companies** to provide comprehensive sustainability information to capital markets
- Facilitate **addition of disclosures** that are jurisdiction specific

The building block approach of ISSB



The global baseline sustainability standards

General Requirements Standard
(i.e. IFRS S1)

**Thematic /
cross-industry
standards**
(i.e. IFRS S2)

**Industry-based
standards**



March 2022

Exposure Draft

IFRS® Sustainability Disclosure Standard

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

Comments to be received by 29 July 2022



General Requirements for Disclosure of Sustainability-related Financial Information

- Asks disclosure of **material information about sustainability-related risks and opportunities**
- Sets out **general requirements and guidance** (materiality, reporting entity, reporting period, correction of error)
- Points to **sources of guidances for the companies** - other standards and frameworks in the absence of a specific IFRS Sustainability Standard (**Shall consider SASB Standards**)
- **Equivalent to** IAS 1 and IAS 8 of IFRS Accounting Standards

Uses TCFD Framework

Governance

Disclose the entity's governance around sustainability related risks and opportunities

Strategy

Disclose how entity's strategy addresses significant sustainability-related risks and opportunities

Risk Management

Disclose how the entity identifies, assesses manages, and mitigates sustainability risks

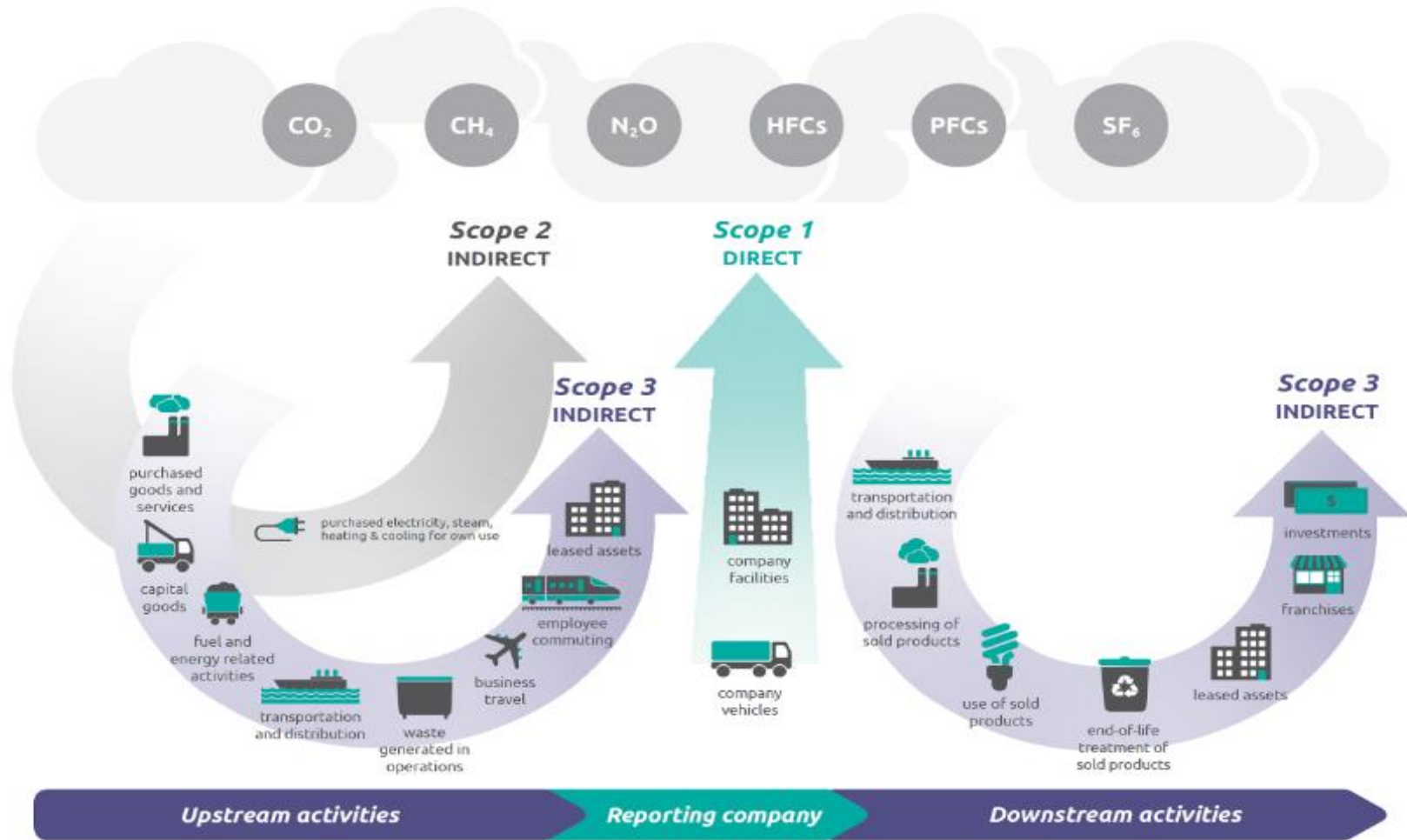
Metrics and targets

Disclose the metrics and targets used to manage and monitor the entity's performance in relation to sustainability related risk over time

Climate-related Disclosures

- Incorporates **TCFD recommendations**
- Includes **SASB's climate-related industry-based** requirements
- Requires **disclosure** of information about
 - **Physical risks** (e.g. floods, wildfires, increase in average temperatures)
 - **Transition risks** (e.g. legal and regulatory, market, technological, reputational)
 - **Climate-related opportunities** (warmer average temperatures allow new crops to grow, developing new technologies to facilitate climate change)
 - **Transition planning** (emission targets and how to achieve those targets)
 - **Climate resilience** (resilience of business strategy in multiple scenarios)
 - **Emissions** - Scope 1, Scope 2 and Scope 3

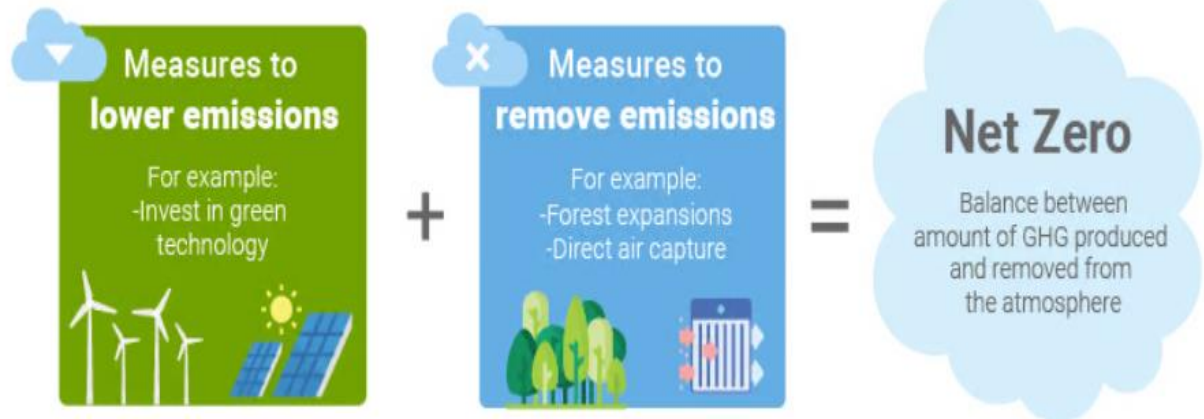
Emissions – Scope 1, 2 & 3





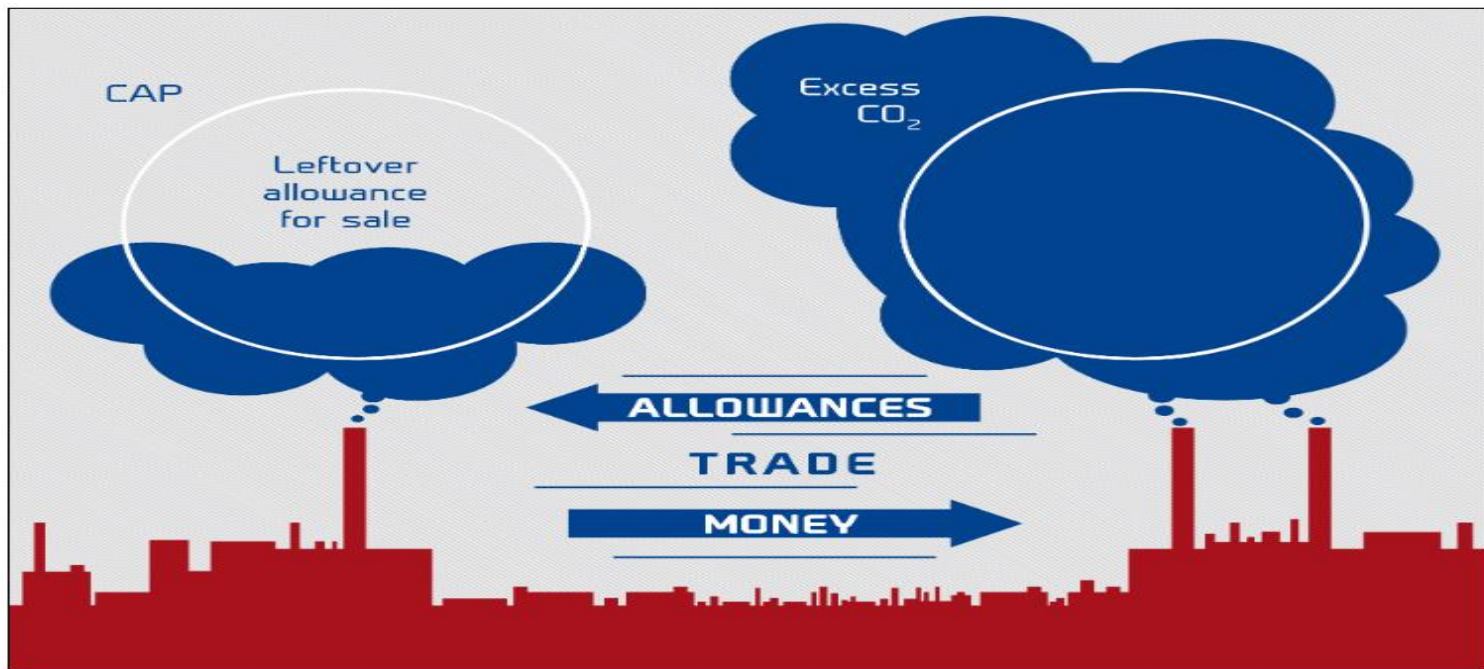
Net zero has emerged as the global narrative for action on climate change

What Is Net Zero?



Emission trading schemes

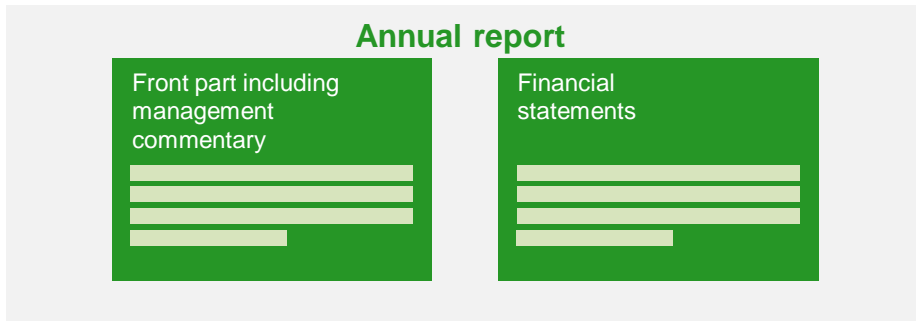
Emission trading schemes are a way of reducing emissions



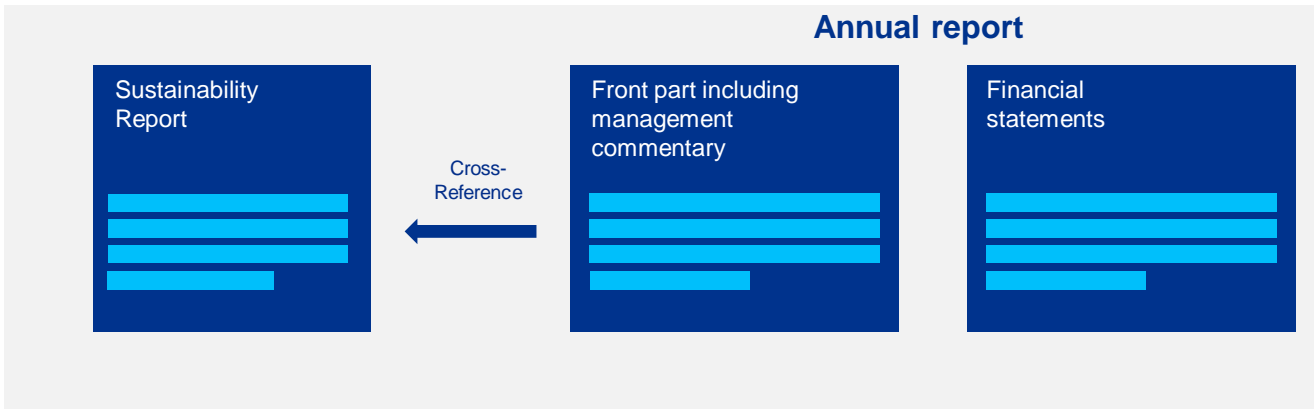
Timing and location of sustainability reporting

Sustainability reporting at the same time as financial statements

Example 1:
Integration of information in management commentary.



Example 2:
Separate report providing sustainability information, cross-referenced to and available on the same terms as management commentary



Complexity

Reporting of Emissions (specially Scope 2, Scope 3)

Lack of investor understanding/ awareness

Extended boundary of reporting

Disclosure of commercially sensitive information

Challenges for the auditors

Lack of capacity (knowledge and skill gap)

Reporting timelines at same time as financial statements

Need of a regulatory regime for adoption

Linkage between materiality, sustainability risks and financial statements

Use of other sources for disclosures

Need for more guidance, illustrative examples

Key stakeholders

13

Primary users of general purpose financial reporting—existing and potential investors, lenders and other creditors

Companies - Preparers of corporate reporting

SECP (Regulator of companies)

SBP (Regulator of banking sector)

Stock Exchange

Auditors & consultants

Professional body of accountancy

Government

The approach for adopting Sustainability Disclosure Standards

14

Consideration and tracking of international developments – ISSB Standards and EDs

Engagement of stakeholders - regulators, industry, practitioners, professional body

Awareness creation - through seminars, publications, roundtables

Development of a roadmap for adoption – Consultative approach

Education and capacity building – Education courses, Members workshops, E-learns

Consideration of feedback / readiness – of industry, regulator and practitioners

Adopt and implement the Sustainability Disclosure Standards

Impact on financial statements

- **Going concern** – material uncertainties, going concern issue
- **Inventories** – may become obsolete, costs of completion may increase
- **Deferred taxation** – Recognition and measurement of deferred tax
- **Property, plant & equipment and Intangible assets** – Impact on useful life, residual value, depreciation & amortization, Research & development activities and expenditure
- **Impairment of assets** – Recognition and measurement of impairment of goodwill, PPE, intangible assets
- **Liabilities and provisions** – Recognition, measurement and disclosure of liabilities (e.g. levies imposed by government, restructurings or redesign of products, regulatory requirements to remediate environmental damage)
- **Financial instruments** – Risks arising from financial instruments (credit risk, market risk), Loan terms could be linked to climate-related targets, lender's exposure to credit losses
- **Fair value** – Impact on fair value of assets and liabilities

<https://www.ifrs.org/groups/international-sustainability-standards-board/>

<https://www.iaasb.org/consultations-projects/sustainability-assurance>

<https://www.icap.net.pk/publication-guidance>

<https://www.sasb.org/>

<https://www.fsb-tcf.org/>

