# COP28: Transparency drives sustainability reporting

In December 2023, over 75,000 individuals are expected to attend the United Nations Climate Change Conference (COP28) in the UAE, an annual gathering of countries seeking to tackle the global challenge of climate change. In addition to governmental representatives from nearly 200 countries and heads of state, they will also be joined by a large number of delegates from environmental NGOs, think tanks, the private sector, and other organizations.

The central theme of the two-week conference is climate change and the imperative for countries to confront the global climate challenge by fulfilling their commitments to reduce Greenhouse Gas (GHG) emissions. The conference aims to delve into strategies and actions that nations must undertake to effectively address climate change and honor their pledges for emissions reduction

A key contributing feature to the discussions will revolve around "transparency," the process of reporting and reviewing relevant climate information and data at a country level, as described by the UN entity tasked with overseeing the conference, the UN Climate Change secretariat. The arrangements that have been put in place seek to ensure the availability of regular data on countries' GHG emissions, policies and measures, progress towards targets, climate change impacts and adaptation, levels of support, and capacity-building needs. As stated, "By providing clear and robust data and information on climate action, transparency also serves to build trust, credibility, and accountability among all those involved."[1]

While the primary focus of the COP will be global climate change and key reporting of GHG emissions at a country level, many conference attendees will recognize the sentiment of transparency as being relevant also at a corporate level and to a wider range of ESG related topics and metrics. Over the past few years, the development of corporate sustainability reporting, covering an increasingly wider range of concerns beyond climate change and responding to an increasingly varied group of users, has been meteoric. Indeed, in certain jurisdictions, sustainability reporting is also moving from a voluntary to a mandatory reporting regime.

In 2023, significant steps forward were made, both internationally and regionally, which will help to "build trust, credibility, and accountability" between companies and their key stakeholders – investors, financers, consumers, suppliers, and the wider society.

**On the international front**

Internationally, there have been a number of milestones which have clarified the nature of sustainability reporting and its future direction:

- **Global Reporting Initiative (GRI):** In January 2023, the updated GRI Universal Standards became effective. The GRI has developed over 25 years and is the world's most widely used sustainability reporting standard. This year's update strengthens the standards intending to deliver the highest level of transparency for a company's impact on the economy, the environment, and people. As a stand-alone, impact-focused standard issued by a company and usually published on its website, it is readily accessible to a very wide group of stakeholders and explains a company's "outward" impact. GRI typifies the concept of a stand-alone sustainability report.

  GRI remains a key sustainability reporting standard, widely used across the Middle East and increasingly promoted by regional stock exchanges.

- **International Sustainability Standards Board (ISSB):** In June 2023, two new International Financial Reports Standards (IFRS S1 & S2) were launched by the ISSB, focusing on climate related financial disclosures.

  These standards intend to result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and financial markets. With their alignment to a company's financial statements, and being the product of a number of previous climate-related financial disclosure standards amalgamated together, they primarily report the impact on a company of climate-related change, i.e., "inward" impact.[2] This is of particular relevance to investors as being descriptive of the impact of climate change on enterprise value.

  Effective 1 January 2024 for jurisdictions that adopt them, these standards are currently undergoing scrutiny and consultation with regards to their practical application by those adoption bodies. Anecdotally, these standards are currently being considered by regulators across the Middle East and evaluated for their effective adoption and use in their local markets.

- **European Sustainability Reporting Standards (ESRS):** In July 2023, the European Commission adopted the ESRS. One of the central pillars of the Corporate Sustainability Reporting Directive (CSRD) is the requirement for in-scope companies to produce disclosures in accordance with the ESRS, which will involve reporting on a broad range of sustainability topics and applying a "double materiality" approach. This combines the "outward impact" reporting of GRI with the "inward impact" reporting of IFRS S1 & S2. The directive will also make it mandatory for reported sustainability information to be assured.

  According to the European Commission, approximately 50,000 companies are expected to be impacted by the requirements of CSRD, and the first wave of companies to be reporting will have to apply the new rules from as early as 2025, for financial years beginning on or after 1 January 2024.

  While not directly applicable to Middle East companies, ESRS will be relevant to those based outside of the EU but with operations within. Therefore, such entities will need to consider their footprint and determine whether or not they trigger the necessary criteria and are required to comply.

- **COSO Internal Controls for Sustainability Reporting (ICSR):** In March 2023, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released a landmark interpretive report on how the existing COSO Internal Control Framework can apply to sustainable business activities and information.

  Their report "Achieving Effective Internal Control Over Sustainability Reporting (ICSR)," illuminates how the COSO Framework's 5 components and 17 principles can help companies establish an effective and integrated system of internal control over their material or decision-useful sustainable business information.[3]

  Given the increase in expectation by users of the robustness and accuracy of a company's published sustainability information, the processes which create that information should be part of an effective internal controls environment; this is in-line with published financial information. The ICSR framework provides clear guidance on how such environments should be developed and maintained.

  Middle East entities that are more advanced in their sustainability reporting maturity and, in particular, are looking at preparing climate related financial disclosures, should consider developing an ICSR framework to help meet the level of quality and robustness expected for the reported information.

**On the regional front**

Regionally, there has been a noticeable increase in sustainability reporting activity, with regulators and stock exchanges supporting the development of such reporting practices. There is also a growing effort to synchronize these initiatives with international standards, reflecting a global commitment to fostering sustainable business practices.

- **GCC Exchanges Committee ESG metrics:** In January 2023, the Committee released a unified set of ESG Disclosure Metrics that includes 29 metrics aligned with the World Federation of Exchanges, the Sustainable Stock Exchanges Initiative, and GRI.

  The GCC ESG Disclosure Metrics are an important step towards standardizing ESG disclosure across the GCC region, which currently uses different approaches of reporting. The metrics are voluntary and serve as a guideline for companies, particularly those who have yet to start their ESG disclosure approaches. The metrics do not replace existing ESG disclosure guidelines that GCC stock exchanges have already issued.

- **Amman Stock Exchange (ASE):** In January 2023, the mandatory requirement for ASE listed companies in Jordan to create and publish a GRI sustainability report came into effect. It was previously announced in the ASE Guidance on Sustainability Reporting Guidance 2022.

- **Muscat Stock Exchange (MSX):** In September 2023, the MSX in Oman launched a new report providing guidelines for listed companies to deal with information and data related to basic elements of sustainability.

  The guidance included two key announcements: firstly, effective from January 2024, companies should consider reporting, on a voluntary basis, a set of ESG metrics, based the GCC ESG Disclosure Metrics and also issue a GRI Sustainability Report; but, effective from January 2025, both ESG metrics and the GRI Sustainability Report will be mandatory.

Previously, in 2021, the UAE's Securities and Commodities Authority made GRI reporting mandatory for listed companies on the Dubai Financial Market (DFM) and Abu Dhabi Securities Exchange (ADX); and in 2022 in Egypt, the Financial Regulatory Authority made Task Force on Climate-Related Financial Disclosures (TCFD) reporting mandatory for certain large listed companies. With the inclusion of both Jordan and Oman this year in making GRI Sustainability Reporting mandatory in due course, this demonstrates the commitment to international sustainability reporting standards by Middle East regulators and stock exchanges.

With COP28 being an event at which big announcements are often made, some Middle East countries may take the opportunity to publicly commit to adopting one of the standards mentioned above; and indeed, some organizations are likely to use the occasion to demonstrate how far in their sustainability reporting they have come. These are all positive moves in the drive towards "transparency," which will ultimately help in the objectives of the COP28 event.

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**Endnotes**

1. What is transparency? | UNFCCC - https://unfccc.int/process-and-meetings/transparency-and-reporting/about-transparency/what-is-transparency.
2. The ISSB has drawn on existing standards and frameworks that are used widely by companies, including IFRS Accounting Standards, the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations, the SASB Standards, the Integrated Reporting Framework CDSB Framework, and World Economic Forum metrics to streamline sustainability disclosures - IFRS - Ten things to know about the first ISSB Standards.
3. ICSR | COSO.