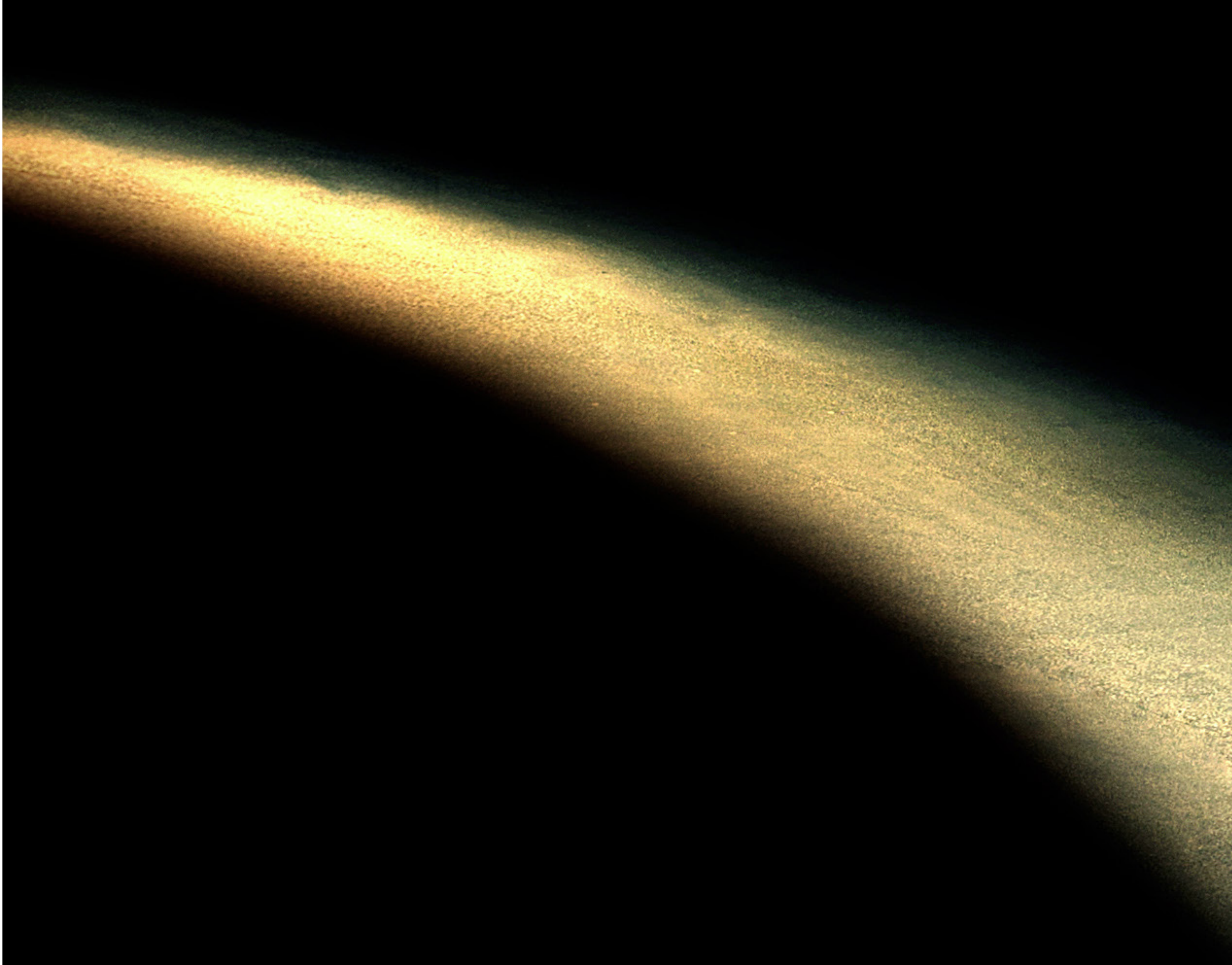

Forging ahead

Leaping sustainable reporting

The new International Sustainability Standards Board (ISSB), as announced during the most recent COP261, is currently developing IFRS Sustainability Disclosure Standards, and this heralds a significant step forward to creating a baseline of consistent, comparable information needed by capital markets

Sustainability reporting has, for a number of years, been defined by a fascinating kaleidoscope of multiple principles, standards, and guidance. In an attempt to capture ESG (environmental, social, and governance) information and present it in a format understandable to a wider range of users, some of these reporting initiatives have focused on guiding companies to prepare standalone sustainability reports, others have incorporated climate-related financial disclosures in the financial accounts, and yet more have sought to provide frameworks in which to integrate a variety of financial and non-financial information.

The new International Sustainability Standards Board (ISSB), as announced during the most recent COP26[1], is currently developing IFRS Sustainability Disclosure Standards, and this heralds a significant step forward to creating a baseline of consistent, comparable information needed by capital markets.

Here in the Middle East, regulators and stock exchanges across the region are watching developments carefully as they review and update their reporting guidance. To assist in the debate, Deloitte Middle East hosted a webinar earlier this year on the new International Sustainability Standards Board (ISSB) and the impact the standards will have on companies and stakeholders. Since that webinar, a number of key announcements have moved the whole agenda forward, and 2022 is turning out to be an exciting year for the development of sustainability reporting.

Our webinar, which involved a number of leading CFOs, Heads of Sustainability, and Deloitte practitioners from the Middle East, India, Singapore, UK, and USA, discussed a number of related topics as outlined:

1. Sustainability disclosures are increasing in importance

ESG considerations already apply to existing financial reporting requirements, particularly where an entity is required to consider ESG matters when they have a material effect on the financial statements. This is especially true where judgement and estimates are required; for example, in assessing impairment of long-life assets.

However, climate change is an urgent existential issue that is relevant to companies in all sectors and across all jurisdictions. Furthermore, much of the value of a business today is non-financial, represented by technology, intellectual capital, human capital, and the social license to operate.[2]

As Kristen Sullivan, Deloitte Global Audit & Assurance Climate Services Leader notes, "As we look at where the investment marketplace is moving, we've seen over the years that many of the large global institutional investors are putting a real clear emphasis on the importance of sustainability disclosures."

Investors and others need insight into all these factors in order to understand how climate and sustainability risks and opportunities affect enterprise value and financial performance. The demand for sustainability-related disclosures is increasing as a result.

2. A consolidation of sustainability reporting standards is welcomed

A consolidation of standards relevant to ESG disclosures in the financial filings would hopefully help to rationalize the confusion of having so many sustainability reporting alternatives in the market: the current 'alphabet soup' of standards, known by their acronyms.

Whilst not intending to replace all sustainability reporting standards, the proposed IFRS Sustainability Disclosure Standards would provide a baseline for consistent and comparable approaches to mandatory sustainability-related disclosures across jurisdictions.

This is of great importance given a number of jurisdictions are already moving towards such reporting, such as those in Europe, which is developing its proposal for a Corporate Sustainability Reporting Directive (CSRD[3]), a new EU sustainability

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reporting standard by 2023, and the US where the SEC has recently issued proposals for registrants to disclose climate-related disclosures and metrics.[4]

When consolidation is finalized and the IFRS Sustainability Disclosure Standards are released, adoption is widely anticipated by regulators, stock exchanges, and companies. As Charlotte Drain, Deloitte UK Audit & Assurance Director notes, "In the UK, we have increasingly seen a trend - from standalone sustainability reports to integration of non-financial information into the annual report. However, I think we are going to see that pace of change really accelerate, particularly once jurisdictions implement the ISSB's standard which set out consistency requirements for the mainstream disclosure of material sustainability and climate-related information."

3. Robustness would be brought to reporting

A comprehensive set of sustainability reporting standards driven by an international accounting organization would bring a level of robustness to the reporting process, clarity to the professionals creating and assuring them, and responsibilities for the company governance overseeing their development and presentation.

Whilst many of the large global institutional investors are putting a clear emphasis on the importance of sustainability disclosures, many other users, from regulators to rating agencies, shareholders to suppliers, and consumers to civil society, are all looking at companies' published data and expecting the same level of quality that they see in audited financial numbers.

Although 90% of S&P companies were reporting ESG metrics by the end of 2019, according to a 2020 BlackRock survey of clients, 53% of global respondents cited "poor quality or availability of ESG data and analytics" and another 33% cited "poor quality of sustainability investment reporting" as the two biggest barriers to adopting sustainable investing.[5]

4. Internal coordination would be highly likely

In order to comply with the standards, significant coordination would most likely be needed between a company's Sustainability team and the Financial Reporting team. Given the increasing technical nature of the collation calculation, and reporting of sustainability information and its presentation alongside the financial statements, firms will increasingly look to utilize the professional skills of the financial department to oversee the collation of such data, as they do already with financial information.

It has an important role to not just understand ESG but to establish the key aspects in driving transparent reporting that supports countries to drive sustainable models

"The role of the Financial Reporting team is extremely important when it comes to ESG and disclosures or even when it comes to assurance on the published reports,' notes Pratiq Shah, Deloitte India Audit & Assurance Partner, 'It has an important role to not just understand ESG but to establish the key aspects in driving transparent reporting that supports countries to drive sustainable models."

Some firms are already moving the Sustainability team from its existing position under the reporting lines of Strategy, Investor Relations, Communications, or HR to now sit under the finance function in recognition of this move.

5. The GRI would most likely continue as a distinct reporting standard

One of the current sustainability reporting standards, the Global Reporting Initiative (GRI), is likely to continue to exist given the wide accessibility of its reporting format. Currently the world's most widely used sustainability reporting standard, popular across the Middle East and mandatory for listed firms in the UAE, it covers the breadth of ESG in a standalone report that focuses on the impact companies have on the economy, environment, and people. This differs to the climate-related financial disclosures approach which focuses more on the material impacts on enterprise value and financial performance, as proposed by the IFRS, and which will be presented in the financial statements.

Recent announcements

Since the Deloitte Middle East webinar, a number of important announcements were made during March 2022.

Firstly, the International Sustainability Standards Board (ISSB) launched a consultation on its first two proposed standards:[6]

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

- The proposed IFRS S1 sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it.

2) IFRS S2 Climate-related Disclosures

- The proposed IFRS S2 sets out the requirements for identifying, measuring, and disclosing climate-related risks and opportunities.

Secondly, the IFRS Foundation and Global Reporting Initiative (GRI) announced a collaboration agreement under which their respective standard-setting boards, the International Sustainability Standards Board (ISSB) and the Global Sustainability Standards Board (GSSB), will seek to coordinate their work programmes and standard-setting activities.

'By working together, the IFRS Foundation and GRI provide two 'pillars' of international sustainability reporting—a first pillar representing investor-focused capital market standards of IFRS Sustainability Disclosure Standards developed by the ISSB, and a second pillar of GRI sustainability reporting requirements set by the GSSB, compatible with the first, designed to meet multi-stakeholder needs." IFRS & GRI Announcement, March 2022[7]

Whilst there will be no single international sustainability reporting standard in the future, the new IFRS Sustainability Disclosure Standards will be a significant contribution to achieving a baseline of consistent, comparable information needed by capital markets, demonstrating climate and sustainability-related impacts on the companies and their financial statements. Through alignment with the continued jurisdiction-led developments in local sustainability reporting, it will help to ensure comparability. The continuation of GRI, which itself focuses more on the outward impact by the company, will provide accessible reporting to multi-stakeholders.

Collectively, these initiatives demonstrate that the future of sustainability reporting appears to be leaping forward to providing more consistent, robust, and relevant reporting for a more sustainable future.

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Endnotes

1. The Conference of Parties held in the UK 2021 (COP26), an annual summit bringing together parties to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change
2. Globally Consistent ESG Reporting | Deloitte global
3. EFRAG publishes due process procedures for its SRB (iasplus.com)
4. SEC proposes climate-related disclosure requirements (iasplus.com)
5. BlackRock, Sustainability goes mainstream: 2020 Global Sustainable Investing Survey
6. Deloitte iGAAP in Focus — Sustainability reporting — ISSB proposes global baseline of sustainability disclosure standards for capital markets (iasplus.com)
7. IFRS Press Release, 24 March 2022 IFRS - IFRS Foundation and GRI to align capital market and multi-stakeholder standards to create an interconnected approach for sustainability disclosures

The continuation of GRI, which itself focuses more on the outward impact by the company, will provide accessible reporting to multi-stakeholders