SUSTAINABILITY REPORTING AND ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG)

ESG

What is ESG?
ESG stands for environmental, social, and governance, and covers each organization's responsibilities beyond taking care of their bottom line.

ESG reflects the fact that businesses have responsibilities beyond financial performance, where it is operating in a sustainable fashion, taking evolving societal pressures and expectations into account, or complying with increasing disclosure requirements.

In short, businesses today need to meet their financial and other goals while also doing the right thing, and that is the core idea behind environmental, social, And governance management.
ESG management helps organizations evaluate their sustainability and societal impact by identifying how environmental, social, and governance factors affect their business.

It answers the following questions as examples:
Is there a major source of pollution or poor labour practices somewhere in your supply chain?
Does the organization have policies to indicate whether it is committed to diversity and inclusion?
Are there glaring differences in compensation structure tied to factors like race or gender?

Organizations are focusing on ESG to meet these evolving stakeholder expectations as their awareness of their responsibilities toward these issues grows.

ESG RISKS

What are ESG Risks?
ESG risk is the potentially negative impact of environmental, social, and governance factors on an organization. Whether this risk is external or internal, it can significantly impact an organization's reputation, operational efficiency, and financial performance. ESG risks are different from other types of risk organizations manage, such as financial risk, operational risk, third-party risk, or legal risks, but it also ties into each of these other types of risk in various ways. These types of risks are explained below.

What are Environmental risks?
Environmental risks arise from an organization's impact on the natural environment and span issues such as climate change, resource depletion, and pollution. Climate change-related risks include extreme weather events, resource scarcity, and regulatory changes impacting carbon emissions. Supply chain risks may involve issues like deforestation, unethical sourcing, or disruptions due to environmental factors. Pollution risks encompass air and water pollution, waste management challenges, and hazardous materials handling.

What are Social risks?
Thes are risks which arise from a company's relationships with employees, customers, communities, and other stakeholders. These risks are related to things like labour standards, diversity and inclusion, and data privacy. Labor standards risks include poor working conditions, human rights violations, child labour, and forced labour within the company's operations or supply chain. Data privacy risks arise from poor

handling of or unauthorized access to customer data, leading to reputational damage and legal consequences.

What are Governance risks?

These risks stem from an organization's internal processes and structures, such as leadership, ethics, and transparency. Diversity risks arise when organizations lack diverse representation in leadership positions or fail to promote inclusivity and equal opportunities. Ethical risks involve fraud, bribery, corruption, and unethical business practices. Compensation risks include excessive executive compensation or a mismatch between executive pay and performance.

ESG RELATED ISSUES

What are ESG related Issues?

There is certainly no shortage of existing and emerging ESG issues out there, but here are a few that are drawing the most attention right now:

- **Climate change and sustainability:** Climate risk and increased regulatory and consumer pressure to reduce emissions and improve environmental standards and stewardship is impacting how companies operate, making improving sustainability of operations an imperative. Climate-related weather events and other issues are also requiring organizations to pay more attention to business continuity and operational resiliency.
- **Diversity, equity, and inclusion:** DEI issues are on everyone's mind, with investors, employees, activists, and the public demanding improved hiring practices, fair pay, and more diverse workplaces.
- **International conflicts and war:** International conflicts, such as the ongoing war in Ukraine, inject uncertainty on oil and gas prices, fuel social pressure and hacktivist campaigns against organizations doing business with one side or the other, add financing pressure, and limit business opportunities.
- **Supply chain ethics and sustainability:** Consumers are paying increased attention to supply chains and demanding more ethical practices. Companies are being scrutinized and those that allow poor labour conditions, low pay, or environmentally damaging sourcing practices are being penalized both financially and reputationally.

ESG REVIEW

What are the benefits of ESG review?

Frequent ESG review provide transparency on environmental, social, and governance risks and opportunities, allowing companies and organizations to benefit from stakeholder confidence, regulatory compliance, and an enhanced reputation.

Benefits related to ESG review include:

- **Building investor and consumer confidence:** Demonstrating commitment to ESG standards and transparently reporting performance builds stakeholder trust and confidence.

- **Avoiding reputational damage:** ESG audits help identify and address potential risks before they escalate, protecting reputation and brand value, and generating positive publicity.
- **Attracting and retaining talent:** Today's workforce values companies that prioritize sustainability and social responsibility. ESG audits showcase an organization's commitment to these values, making attracting and retaining top talent easier.
- **Improving compliance with ESG-focused regulations:** ESG standards and regulations are on the rise globally, varying by industry and geography. Countries such as the US, UK, and Singapore are or have enacted mandatory ESG reporting. As regulations evolve, conducting ESG audits ensures compliance and avoids legal and regulatory repercussions.
- **Strengthening social and environmental stewardship:** Embracing ESG values goes beyond compliance to positively impact society and the environment. ESG audits demonstrate commitment to an organization's responsibility to society and the environment.

How to perform ESG review?

An effective ESG review requires buy-in from multiple stakeholders, adherence to specific ESG standards, and detailed reporting. Using an ESG checklist makes it easier to identify, understand, and manage ESG risk.

Understanding of ESG risk exposure

To effectively identify and manage ESG risk, one needs to understand where they exist in the organization. This requires interviewing internal and external stakeholders to fully understand how ESG factors impact the organization, and digging into ESG data.

A comprehensive risk assessment should include everyone in the company's sphere of influence, including senior management, customers, suppliers, investors, and employees, and should reveal the most critical ESG issues and areas where the organization may be falling short.

Need to select an appropriate ESG review framework

There are a number of accepted frameworks that can help evaluate ESG risks, such as ISO, SASB, TCFD, and GRI.

- **GRI:** The most popular or well-known of these frameworks comes from the Global Reporting Initiative (GRI). This framework is focused on sustainability and impact reporting.
- **ISO Standards:** The International Organization for Standardization, or ISO, offers multiple internationally accepted frameworks that outline best practices in different domains. Some useful ISO standards that provide ESG audit frameworks include ISO 26000 (Social Responsibility), ISO 14001 (Environmental Management Systems), and ISO 45001 (Occupational Health and Safety).
- **SASB:** Industry-specific ESG standards issued by the Sustainability Accounting Standards Board offer ESG frameworks that focus on subsets of environmental, social and governance issues most relevant to financial performance and enterprise value.

- **TCFD:** Finally, the Task Force on Climate-Related Financial Disclosures (TCFD) also offers an ESG audit framework for climate-related financial disclosures which can be used across different industries and jurisdictions.

As some frameworks address a specific aspect of ESG, one may want to consider whether using or combining parts of multiple frameworks makes sense.

Setting up reporting and develop ESG KPIs

Measuring, tracking, and reporting ESG goals and initiatives is critical to a successful ESG risk management program — one needs to be able to prove that the program applied is working.

Using key performance indicators (KPIs) to communicate progress on ESG goals helps align the organization and build stakeholder support. Examples of ESG KPIs include carbon emissions reduction targets, diversity and inclusion metrics, and employee health and safety indicators.

After determining the appropriate KPIs for each ESG goal, identify the root contributors and desired outcomes. Centralized repository and reporting dashboards, such as those found in modern GRC software can help track and communicate ESG review results and measure progress on ESG goals.

Automate for continuous review and evidence collection

ESG review is never a one-and-done activity. New ESG-related issues are emerging all the time, and one needs to be constantly performing reviews to ensure the organization is on staying top of all of them.

Continuous review of this sort can be done through automated evidence collection and reporting via a modern risk management platform. Manual data collection and processing introduces the potential for human error, inconsistency, and inefficiency, while automated evidence collection ensures accurate collection of ESG data, supports centralized risk reporting, eliminates siloed communications, and frees up resources to help the organization achieve its ESG goals. Automation also strengthens review results and ensures accurate reporting.

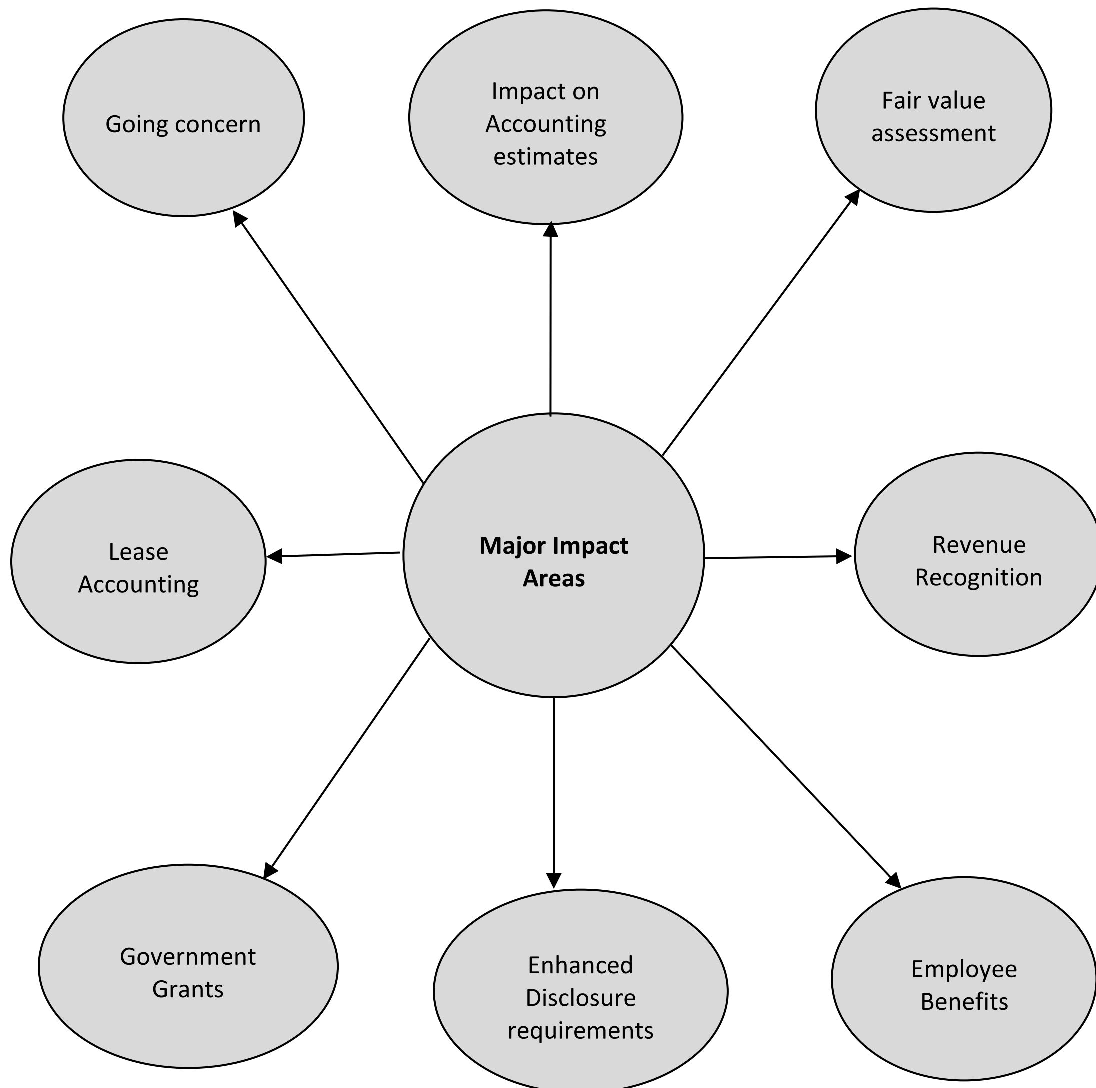
Determine where ESG risks fit into your overall risk management program

Recognize the interconnectedness of ESG risks with other types of risks across the organization, such as cybersecurity and third-party risk. Engage the appropriate people to ensure everyone is aware of and buys into ESG strategy and goals. Incorporate the findings from ESG audits into the broader risk management framework to inform decision-making and prioritize risk mitigation efforts.

SUSTAINABILITY REPORTING

What are the impact areas in Sustainability disclosures under Financial Reporting?

The major impact areas related to Financial Reporting of all the above are shown in the chart below:



What are the impact areas on sustainability in presentation of Financial Statements?

(i) Breach of loan covenants (including classification of liabilities into current and non-current)

Owing to uncertainties like the onset of the pandemic, war and climate change there may be instances of breach of loan covenants which may trigger the liability becoming due for payment and liability becoming current.

However, such a liability shall not be classified as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment because of the breach.

(ii) Sources of estimation uncertainty

Valuers need to evaluate the disclosures about the assumptions related to the future, and other major sources of estimation of uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The impact of pandemic, war and climate change may have created many uncertainties about the likely future scenarios which may affect the estimations of amounts recognised in the balance sheet as of reporting date.

(iii) Comparative information

Pandemic, war, and climate change may have materially affected the financial performance and financial position of entities. Therefore, one valuation consideration would be to evaluate comparative information with respect to financial position, performance and cash flows thereby showing impact of all the uncertainties mentioned above.

What are the impact areas on sustainability related to Going Concern assessment?

According to IAS 1, the financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. In carrying out this assessment, management considers all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

Financial statements along with its explanatory notes need to be evaluated on the impact of uncertainties arising out of pandemic, war and climate change and the measures taken on its ability to continue as a going concern.

IFRS does not prescribe the basis of accounting for an entity that is not a going concern. In such cases, financial statements might be prepared on a liquidation or break-up basis, but sometimes this will be inappropriate.

The measurement of assets and liabilities of an entity that is not a going concern, but continues to apply IFRS, might be affected by changes in judgements resulting from the entity's intention to liquidate or cease trading. For example, estimates of recoverable amounts of assets might be revised, potentially resulting in some assets being impaired.

It needs to be assessed whether the target entity has been valued on a liquidation basis and special emphasis needs to be given to the following areas:

- profit should not be recognised before an asset is sold, unless that asset is measured at fair value,
- an expected gain on disposal of one asset or cash-generating unit ('CGU') cannot be offset against the impairment of another asset or CGU;
- an entity should not recognize a liability (for example, in connection with restructuring or employee benefits) unless there is a present obligation at the reporting date; and
- an entity should consider whether executory contracts have become onerous.

What are the impact areas on sustainability in financial reporting related to post Balance Sheet events?

It needs to be reviewed whether the disclosures made in the report by the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise.

Entities must disclose significant recognition and measurement uncertainties that might have been created by the outbreak of the pandemic, war or climate change in measuring various assets and liabilities under IAS 10. This would provide insight into the risks of above uncertainties on the financial health of the target entity.

What are the impact areas on sustainability in financial reporting related to Property, Plant and Equipment and its impairment?

Owing to incidence of pandemic, war and impact of climate change, Property, Plant and Equipment can remain under-utilized or not utilized for a period. It may be noted that the IAS 16 requires depreciation charge even if the Property, Plant and Equipment remains idle.

Further, impact of all the above unforeseen events may have affected the expected useful life and residual life of PPE.

The management may review the residual value and the useful life of an asset due to pandemic, war or vagaries of climate change and, if expectations differ from previous estimates, it is appropriate to account for the change(s) as an accounting estimate in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

In accordance with IAS 36, Impairment of Assets require an entity to assess, at the end of each reporting period, whether there is any indication that non-financial assets may be impaired.

The impairment test only must be carried out if there are such indications. If any such indication exists, the valuer shall estimate the recoverable amount of the asset.

Owing to the continuing impact of pandemic, war and climate change, there might be temporary ceasing of operations or an immediate decline in demand or prices leading to lowering of revenues and profitability and reduced economic activity.

The following illustrative impairment indicators might be particularly relevant in the current economic climate:

- actual financial performance is significantly lower than the original budget,
- cash flow is significantly lower than earlier forecasts,
- material changes in mid-term and/or long-term growth rates as compared to the previous estimates,
- market capitalization less than book value of net assets,
- announced change in business model, restructuring, discontinued operations, etc,
- restrictions on operations such as inability to import, export, or travel,
- increase in the entity's cost of capital,
- change of market interest rates or other market rates of return,
- fluctuations in the foreign exchange rates or commodity prices that impact the entity's cash flows.
- deferral of investment projects; and
- significant or prolonged decrease in the entity's stock price.

What are the impact areas on sustainability in financial reporting related to measurement of inventories?

In accordance with IAS 2, Inventories are valued at cost or net realisable value whichever is lower. Under the circumstances, it may be necessary to write down inventories to net realisable value owing possible accumulation of stocks driven by reduced movement in inventory, decline in selling prices, or inventory obsolescence owing to lower-than-expected sales.

The relevant Accounting Standards stipulate that the allocation of fixed production overheads to the costs

of conversion is based on the normal production capacity.
The valuers need to evaluate whether the amount of fixed overhead allocated to each unit of production is not increased because of low production or idle plant and unallocated overheads are recognised as an expense in the period in which they are incurred.

What are the impact areas on sustainability in financial reporting related to provisions, contingent liabilities and contingent assets?

IAS 37 requires a provision to be recognized only:

- where an entity has a present obligation
- it is probable that an outflow of resources is required to settle the obligation; and
- a reliable estimate can be made.

Owing to incidence of war, pandemic and adverse impact of climate change there arises a need for exercising judgement in making provisions for losses and claims and this is an area which needs to be carefully evaluated the valuer.

A provision must be accounted for only to the extent that there is a present obligation for which the outflow of economic benefits is probable and can be reliably estimated. No provision is permitted for future operating costs or future business recovery costs.

What are the impact areas on sustainability in financial reporting related to revenue recognition?

Owing to the incidence of war, pandemic and client change there could be likely increase in sales returns, decrease in volume discounts, higher price discounts etc.
These factors need to be considered in estimating the amount of revenue to be recognised, i.e. measurement of variable consideration under IFRS 15.
The disclosure of information in this regard that allows users to understand the nature, amount, timing, and uncertainty of cash flows arising from revenue needs to be reviewed and revalidated.

Additionally, there could be losses from imposition of penalty owing to delay in supply of goods, which may need to be considered while evaluating the revenue for the target entity.

What are the impact areas on sustainability in financial reporting related to leases?

Owing to the incidence of pandemic, war and climate change there may be changes in the terms of lease arrangements or lessor may give some concession to the lessee with respect to lease payments, rent free holidays etc.
Such revised terms or concessions shall be considered while evaluating these leases, which may lead to the application of accounting related to the modification of leases with additional exposure if any.
Variable lease payments may be significantly impacted, especially those linked to revenues from the use of underlying assets due to contracted business activity.
Discount rate used to determine the present value of new lease liabilities may need to incorporate any risk associated with climate change, war or pandemic.

What are the impact areas on sustainability in financial reporting related to financial instruments and its impairment?

Financial Instruments within the scope of IFRS 9, such as Loans, Trade Receivables, Other Receivables, Investment in Debt instruments, Financial Guarantees and Loan Commitments not measured at fair value through profit or loss, Contract Assets and Lease Receivables are subject to impairment loss recognition and measurement based on an approach called Expected Credit Loss (ECL).
The widespread contraction in economic activity across the globe owing to the rapid spread of pandemic, or continuing war in Europe is likely to have an impact on the quantification of ECL and classification of financial assets into 3

buckets for recognition and measurement of impairment losses.
The critical factors that the valuer needs to bear in mind are:
Recognition of 12 months ECL versus Lifetime ECL is based on segregation of credit exposures into 3 buckets viz.

- Stage 1- those with no significant increase in credit risk,
- Stage 2 - those with significant increase in credit risk and
- Stage 3- Credit impaired.

In case of certain financial assets such as Trade Receivables where the simplified approach is applicable, this segregation of credit exposures is not required.
According to IFRS 9, the measurement of ECL is expected to consider current as well as forecasted macro-economic conditions and entities may need to develop one or more scenarios considering the potential impact of pandemic.
Measurement of ECL will impact of the following credit risk parameters:
Increase in risk of default owing to reduced economic activity,
Estimated loss in the event of default,
Owing to substantial business dislocation during this period, borrowers may tend to fully utilise undrawn limits and loan commitments, which in turn would impact another credit risk parameter i.e. exposure at default.
The relevant Ind AS stipulates that a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flow of the financial asset have occurred.
In this regard, the valuer may look for any impact the target entity had of any Prudential Regulatory actions to sustain the economy such as loan repayment holidays, reduction in interest rates etc.

DISCLOSURE OF SUSTAINABILITY RELATED FINANCIAL INFORMATION

What are the general requirements related to disclosure of sustainability related Financial Information?

IFRS Foundation has come up with IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.

What are the objectives related to disclosure of sustainability related Financial Information?

The objective of IFRS S1 General Requirements for Disclosure of Sustainability related Financial Information is 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.

This Standard requires an entity to disclose information about all *sustainability-related risks and opportunities* that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium, or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'

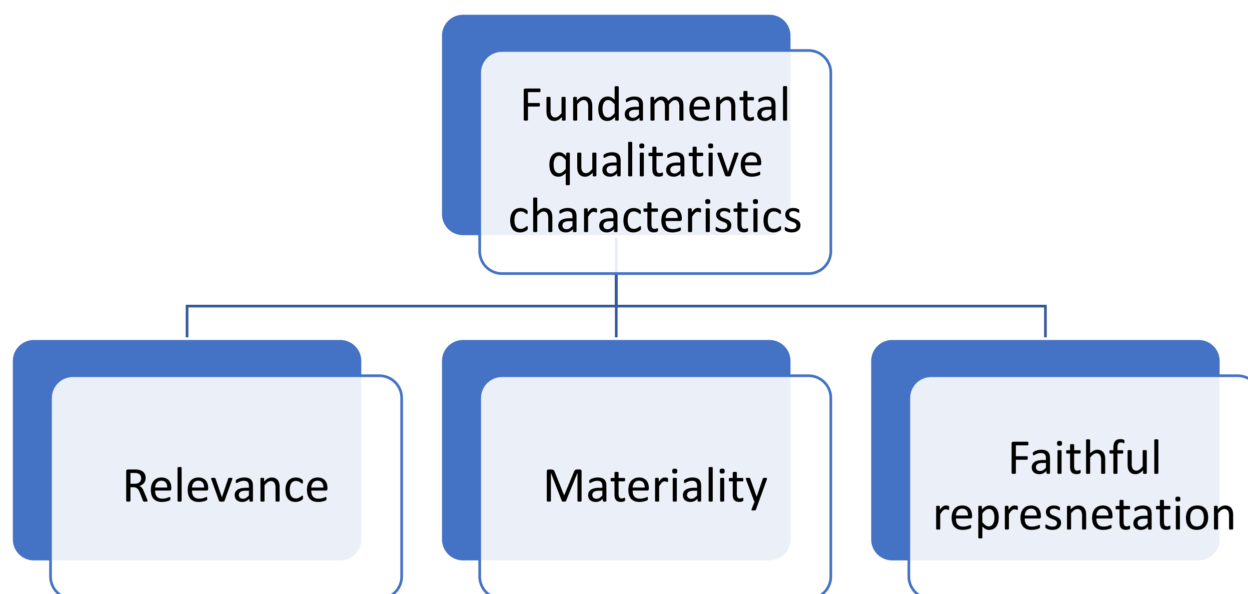
What is the scope related to disclosure of sustainability related Financial Information?

An entity shall apply this Standard in preparing and reporting sustainability-related financial disclosures in accordance with IFRS Sustainability Disclosure Standards.

An entity may apply IFRS Sustainability Disclosure Standards irrespective of whether the entity's related general purpose financial statements (referred to as 'financial statements') are prepared in accordance with IFRS Accounting Standards or other generally accepted accounting principles or practices (GAAP).

What are the fundamental characteristics related to disclosure of sustainability related Financial Information?

The fundamental characteristics related to disclosure of sustainability related financial information are as follows:



Relevance

In accordance with para D4, relevant sustainability-related financial information is capable of making a difference in the decisions made by primary users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Sustainability-related financial information can make a difference in decisions made by users if it has predictive value, confirmatory value, or both.

According to para D5, sustainability-related financial information has predictive value if it can be used as an input to processes employed by primary users to predict future outcomes. Sustainability-related financial information need not be a prediction or forecast to have predictive value.

Sustainability-related financial information with predictive value is employed by primary users in making their own predictions. For example, information about water quality, which can include information about the water

being polluted, could inform the expectations of users about the ability of an entity to meet local water-quality requirements.

Pursuant to para D6, Sustainability-related financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

Paragraph D7 explains the relationship between predictive value and confirmatory value. The predictive value and confirmatory value of sustainability-related financial information are interrelated. Information that has predictive value often also has confirmatory value. For example, information for the current year about greenhouse gas emissions, which can be used as the basis for predicting greenhouse gas emissions in future years, can also be compared with predictions about greenhouse gas emissions for the current year that were made in past years. The results of those comparisons can help a user to correct and improve the processes that were used to make those previous predictions.

Materiality

According to para-D8, Information is material if omitting, misstating, or obscuring that information could reasonably be expected to influence decisions that the primary users of general-purpose financial reports make based on those reports, which provide information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance. The materiality of information is assessed in the context of an entity's sustainability-related financial disclosures and is based on the nature or magnitude of the item to which the information relates, or both.

Faithful representation

Sustainability-related financial information represents phenomena in words and numbers. To be useful, the information must not only represent relevant phenomena, it must also faithfully represent the substance of the phenomena that it purports to represent. (D 9)

To be a faithful representation, a depiction would be complete, neutral, and accurate. The objective of general-purpose financial reports is to maximize those qualities to the extent possible. (D 10)

According to D12, sustainability-related financial information shall be neutral. A neutral depiction is one without bias in the selection or disclosure of information. Information is neutral if it is not slanted, weighted, emphasised, de-emphasized, or otherwise manipulated to make it more likely that primary users will receive that information favorably or unfavorably. Neutral information is not information without purpose or without influence on

behavior. On the contrary, relevant information is, by definition, capable of making a difference in users' decisions.

Also, neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. (D 14)

Pursuant to D15, sustainability-related financial information shall be accurate.

Information can be accurate without being perfectly precise in all respects. The precision needed and attainable, and the factors that make information accurate, depend on the nature of the information and the nature of the matters to which it relates. For example, accuracy requires that:

(a) factual information is free from material error;

(b) descriptions are precise;

(c) estimates, approximations and forecasts are clearly identified as such;

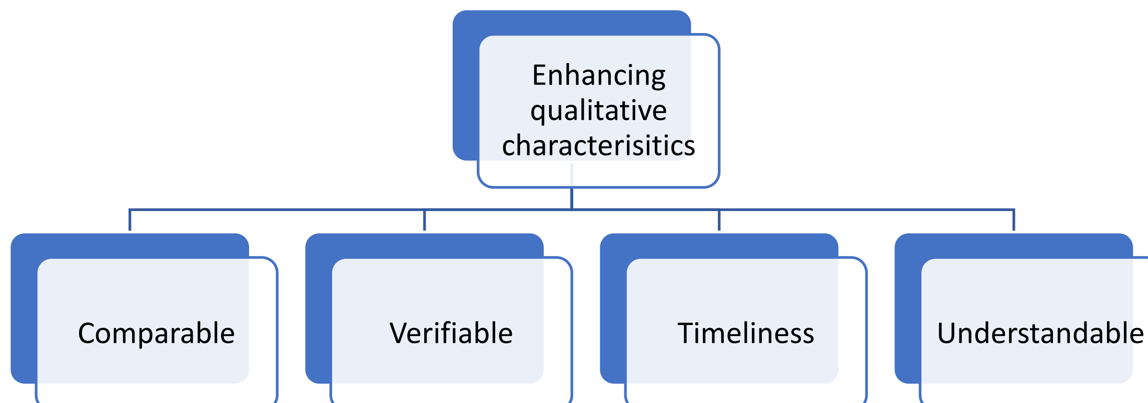
(d) no material errors are made in selecting and applying an appropriate process for developing an estimate, approximation or forecast;

(e) assertions and inputs used in developing estimates are reasonable and based on information of sufficient quality and quantity; and

(f) information on judgements about the future faithfully reflects both those judgements and the information on which they are based.

What are the enhancing characteristics related to disclosure of sustainability related Financial Information?

The usefulness of sustainability-related financial information is enhanced if it is comparable, verifiable, timely, and understandable.



These qualitative characteristics are summarized below.

Comparability

Comparability is the characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items. Information is more useful to users if it is also comparable, that is, if it can be compared with:

(a) information provided by the entity in previous periods; and

(b) information provided by other entities, in particular those with similar activities or operating within the same industry. (D17)

Para D19 elucidates on consistency. Consistency is related to, but is not the same as, comparability. Consistency refers to the use of the same approaches or methods for providing disclosures about the same sustainability-related risks and opportunities, from period to period, both by a reporting entity and other entities. Comparability is the goal; consistency helps to achieve that goal.

Verifiability

According to para D21, verifiability assists in providing users confidence that information is complete, neutral, and accurate. Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. Verifiable information is more useful to primary users than information that is not verifiable.

Sustainability-related financial information shall be provided in a way that enhances its verifiability. Verifiability can be enhanced by, for example:

(a) including information that can be corroborated by comparing it with other information available to primary users about an entity's business, about other businesses or about the external environment in which the entity operates;

(b) providing information about inputs and methods of calculation used to produce estimates or approximations; and

(c) providing information reviewed and agreed by the entity's board, board committees or equivalent bodies. (D23)

Timeliness

In accordance with para D25, timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older information is, the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

Understandability

According to para D26, sustainability-related financial information shall be clear and concise. For sustainability-related financial disclosures to be concise, they need:

(a) to avoid generic information, sometimes called 'boilerplate', that is not specific to the entity;

(b) to avoid duplication of information in the general-purpose financial reports, including unnecessary duplication of information also provided in the related financial statements; and

(c) to use clear language and clearly structured sentences and paragraphs.

What is the core content related to disclosure of sustainability as per IFRS Standard?

According to para 25, unless another IFRS Sustainability Disclosure Standard permits or requires otherwise in specified circumstances, an entity shall provide the following disclosures:

(a) ***governance***—the governance processes, controls, and procedures the entity uses to monitor and manage sustainability-related risks and opportunities (see paragraphs 26–27);

(b) ***strategy***—the approach the entity uses to manage sustainability related risks and opportunities (see paragraphs 28–42);

(c) ***risk management***—the processes the entity uses to identify, assess, prioritise, and monitor sustainability-related risks and opportunities (see paragraphs 43–44); and

(d) ***metrics and targets***—the entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation (see paragraphs 45–53)

What is the core content related to disclosure of sustainability related disclosures related to Governance?

Governance

The objective of sustainability-related financial disclosures on governance is to enable users of general-purpose financial reports to understand the governance processes, controls, and procedures an entity uses to monitor, manage, and oversee sustainability-related risks and opportunities (para 26)

To achieve the above objective, an entity shall disclose information about:

(a) the governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of sustainability-related risks and opportunities. Specifically, the entity shall identify that body(s) or individual(s) and disclose information about:

(i) how responsibilities for sustainability-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s)

(ii) how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to sustainability-related risks and opportunities;

(iii) how and how often the body(s) or individual(s) is informed about sustainability-related risks and opportunities;

(iv) how the body(s) or individual(s) considers sustainability-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities; and

(v) how the body(s) or individual(s) oversees the setting of targets related to sustainability-related risks and opportunities, and monitors progress towards those targets (see paragraph 51), including whether and how related performance metrics are included in remuneration policies.

(b) management's role in the governance processes, controls and procedures used to monitor, manage, and oversee sustainability-related risks and opportunities, including information about:

(i) whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and

(ii) whether management uses controls and procedures to support the oversight of sustainability-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.

What is the core content related to disclosure of sustainability related disclosures related to Strategy?

Strategy

In accordance with para 28, the objective of sustainability-related financial disclosures on strategy is to enable users of general-purpose financial reports to understand an entity's strategy for managing sustainability-related risks and opportunities.

Specifically, an entity shall disclose information to enable users of general-purpose financial reports to understand:

(a) the ***sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects***. Under this category, an entity shall disclose information that enables users of general-purpose financial reports to understand the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Specifically, the entity shall:

> (a) describe sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects;
>
> (b) specify the time horizons—short, medium, or long term—over which the effects of each of those sustainability-related risks and opportunities could reasonably be expected to occur; and
>
> (c) explain how the entity defines 'short term', 'medium term' and 'long term' and how these definitions are linked to the planning horizons used by the entity for strategic decision-making.

(b) ***the current and anticipated effects of those sustainability-related risks and opportunities on the entity's business model and value chain***. Specifically, the entity shall disclose:

> (a) a description of the current and anticipated effects of sustainability related risks and opportunities on the entity's business model and value chain; and
>
> (b) a description of where in the entity's business model and value chain sustainability-related risks and opportunities are concentrated (for example, geographical areas, facilities, and types of assets)

(c) ***the effects of those sustainability-related risks and opportunities on the entity's strategy and decision-making***. Specifically, the entity shall disclose information about:

> (a) how the entity has responded to, and plans to respond to, sustainability-related risks and opportunities in its strategy and decision-making;

(b) the progress against plans the entity has disclosed in previous reporting periods, including quantitative and qualitative information; and

(c) trade-offs between sustainability-related risks and opportunities that the entity considered (for example, in deciding on the location of new operations, an entity might have considered the environmental impacts of those operations and the employment opportunities they would create in a community).

(d***) the effects of those sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period***, and their anticipated effects on the entity's financial position, financial performance, and cash flows over the short, medium, and long term, taking into consideration how those sustainability-related risks and opportunities have been factored into the entity's financial planning. Specifically, an entity shall disclose quantitative and qualitative information about:

(a) how sustainability-related risks and opportunities have affected its financial position, financial performance, and cash flows for the reporting period;

(b) the sustainability-related risks and opportunities identified in (a) above for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;

(c) how the entity expects its financial position to change over the short, medium, and long term, given its strategy to manage sustainability related risks and opportunities, taking into consideration:

(i) its investment and disposal plans (for example, plans for capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas, and asset retirements), including plans the entity is not contractually committed to; and

(ii) its planned sources of funding to implement its strategy; and

(d) how the entity expects its financial performance and cash flows to change over the short, medium, and long term, given its strategy to manage sustainability-related risks and opportunities.

According to para 37, in preparing disclosures about the anticipated financial effects of a sustainability-related risk or opportunity, an entity shall:

(a) use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort (see paragraphs B8–B10); and

(b) use an approach that is commensurate with the skills, capabilities and resources that are available to the entity for preparing those disclosures.

However, according to para 40, If an entity determines that it cannot provide quantitative information about the current or anticipated financial effects of a sustainability-related risk or opportunity, the entity shall:

(a) explain why it has not provided quantitative information;

(b) provide qualitative information about those financial effects, including identifying line items, totals and subtotals within the related financial statements that are likely to be affected, or have been affected, by that sustainability-related risk or opportunity; and

(c) provide quantitative information about the combined financial effects of that sustainability-related risk or opportunity with other sustainability-related risks or opportunities and other factors unless the entity determines that quantitative information about the combined financial effects would not be useful.

(e) ***the resilience of the entity's strategy and its business model to those sustainability-related risks.***

An entity shall disclose information that enables users of general-purpose financial reports to understand its capacity to adjust to the uncertainties arising from sustainability-related risks.

An entity shall disclose a qualitative and, if applicable, quantitative assessment of the resilience of its strategy and business model in relation to its sustainability-related risks, including information about how the assessment was carried out and its time horizon.

When providing quantitative information, an entity may disclose a single amount or a range (para 41)

What is the core content related to disclosure of sustainability related disclosures related to Risk Management?

Risk Management

Para 43 prescribes the objectives of sustainability-related financial disclosures on risk management which is to enable users of general-purpose financial reports:

(a) to understand an entity's processes to identify, assess, prioritise, and monitor sustainability-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process; and

(b) to assess the entity's overall risk profile and its overall risk management process

According to para 44, to achieve the objective, an entity shall disclose information about:

(a) the processes and related policies the entity uses to identify, assess, prioritise, and monitor sustainability-related risks, including information about:

(i) the inputs and parameters the entity uses (for example, information about data sources and the scope of operations covered in the processes);

(ii) whether and how the entity uses scenario analysis to inform its identification of sustainability-related risks;

(iii) how the entity assesses the nature, likelihood, and magnitude of the effects of those risks (for example, whether the entity considers qualitative factors, quantitative thresholds, or other criteria); (iv) whether and how the entity prioritises sustainability-related risks relative to other types of risk;

(v) how the entity monitors sustainability-related risks; and

(vi) whether and how the entity has changed the processes it uses compared with the previous reporting period;

(b) the processes the entity uses to identify, assess, prioritise, and monitor sustainability-related opportunities; and

(c) the extent to which, and how, the processes for identifying, assessing, prioritizing, and monitoring sustainability-related risks and opportunities are integrated into and inform the entity's overall risk management process.

What are metrics and target related to disclosure of sustainability related disclosures as per IFRS Standards?

Metrics and target

Para 45 specifies the objective of sustainability-related financial disclosures on metrics and targets which is to enable users of general-purpose financial reports to understand an entity's performance in relation to its sustainability-related risks and opportunities, including progress towards any targets the entity has set, and any targets it is required to meet by law or regulation.

An entity shall disclose, for each sustainability-related risk and opportunity that could reasonably be expected to affect the entity's prospects:

(a) metrics required by an applicable IFRS Sustainability Disclosure Standard; and

(b) metrics the entity uses to measure and monitor:

(i) that sustainability-related risk or opportunity; and

(ii) its performance in relation to that sustainability-related risk or opportunity, including progress towards any targets the entity has set, and any targets it is required to meet by law or regulation.

Metrics disclosed by an entity as mentioned above, shall include metrics associated with particular business models, activities or other common features that characterize participation in an industry.

According to para 50, if a metric has been developed by an entity, the entity shall disclose information about:

(a) how the metric is defined, including whether it is derived by adjusting a metric taken from a source other than IFRS Sustainability Disclosure Standards and, if so, which source and how the metric disclosed by the entity differs from the metric specified in that source;
(b) whether the metric is an absolute measure, a measure expressed in relation to another metric or a qualitative measure (such as a red, amber, green—or RAG—status);
(c) whether the metric is validated by a third party and, if so, which party; and
(d) the method used to calculate the metric and the inputs to the calculation, including the limitations of the method used and the significant assumptions made.

Also, in accordance with para 51, an entity shall disclose information about the targets it has set to monitor progress towards achieving its strategic goals, and any targets it is required to meet by law or regulation. For each target, the entity shall disclose:

(a) the metric used to set the target and to monitor progress towards reaching the target;

(b) the specific quantitative or qualitative target the entity has set or is required to meet;

(c) the period over which the target applies;

(d) the base period from which progress is measured;

(e) any milestones and interim targets;

(f) performance against each target and an analysis of trends or changes in the entity's performance; and

(g) any revisions to the target and an explanation for those revisions.

What are the provisions on the application of judgement related to sustainability related disclosures under IFRS Standards SS1?

Judgements

According to Para 74, an entity shall disclose information to enable users of general-purpose financial reports to understand the judgements, apart from those involving estimations of amounts (see paragraph 77), that the entity has made in the process of preparing its sustainability-related financial disclosures and that have the most significant effect on the information included in those disclosures.

Para 75 specifies that, in the process of preparing sustainability-related financial disclosures, an entity makes various judgements, apart from those involving estimations, that can significantly affect the information reported in the entity's sustainability related financial disclosures. For example, an entity makes judgements in:

(a) identifying sustainability-related risks and opportunities that could be reasonably expected to affect the entity's prospects;

(b) determining which sources of guidance to apply in accordance with paragraphs 54–58;

(c) identifying material information to include in the sustainability related financial disclosures; and

(d) assessing whether an event or change in circumstances is significant and requires reassessment of the scope of all affected sustainability related risks and opportunities throughout the entity's value chain (see paragraph B11).

Para B11 of Appendix B prescribes that, on the occurrence of a significant event or significant change in circumstances, an entity shall reassess the scope of all affected sustainability related risks and opportunities throughout its value chain.

A significant event or significant change in circumstances can occur without the entity being involved in that event or change in circumstances or as a result of a change in what the entity assesses to be important to users of general-purpose financial reports.

For example, such significant events or significant changes in circumstances might include:

(a) a significant change in the entity's value chain (for example, a supplier in the entity's value chain makes a change that significantly alters the supplier's greenhouse gas emissions);
(b) a significant change in the entity's business model, activities, or corporate structure (for example, a merger or acquisition that expands the entity's value chain); and
(c) a significant change in an entity's exposure to sustainability-related risks and opportunities (for example, a supplier in the entity's value chain is affected by the introduction of a new regulation that the entity had not anticipated).

What are the provisions on measurement of uncertainty on sustainability related disclosures under IFRS Standards SS1?

Measurement uncertainty

An entity shall disclose information to enable users of general-purpose financial reports to understand the most significant uncertainties affecting the amounts reported in its sustainability-related financial disclosures. (Para 77).

According to para 78, an entity shall:

(a) identify the amounts that it has disclosed that are subject to a high level of measurement uncertainty; and
(b) in relation to each amount identified in paragraph 78(a), disclose information about:
(i) the sources of measurement uncertainty—for example, the dependence of the amount on the outcome of a future event, on a measurement technique or on the availability and quality of data from the entity's value chain; and
(ii) the assumptions, approximations, and judgements the entity has made in measuring the amount.

In accordance with para 81, the type and extent of the information an entity might need to disclose vary according to the nature of the amount reported in the sustainability-related financial disclosures—the sources of and the factors contributing to the uncertainty and other circumstances.

Examples of the type of information an entity might need to disclose are:

(a) the nature of the assumption or other source of measurement uncertainty;

(b) the sensitivity of the disclosed amount to the methods, assumptions and estimates underlying its calculation, including the reasons for the sensitivity;

(c) the expected resolution of an uncertainty and the range of reasonably possible outcomes for the disclosed amount; and

(d) an explanation of changes made to past assumptions concerning the disclosed amount, if the uncertainty remains unresolved

What are the provisions on reporting of errors on sustainability related disclosures under IFRS Standards SS1?

Errors

An entity shall correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed unless it is impracticable to do so. (Para 83).

Pursuant to Para 84, prior period errors are omissions from and misstatements in the entity's sustainability-related financial disclosures for one or more prior periods. Such errors arise from a failure to use, or the misuse of, reliable information that:

(a) was available when the sustainability-related financial disclosures for that period(s) were authorised for issue; and

(b) could reasonably be expected to have been obtained and considered in the preparation of those disclosures. Corrections of errors are distinguished from changes in estimates.

Estimates are approximations that an entity might need to revise as additional information becomes known. If an entity identifies a material error in its prior period sustainability-related financial disclosures, it shall apply paragraphs B55–B59.

According to B55 – B59 Of Appendix B, Paragraph 83 requires an entity to correct material prior period errors as shared below.

B55. Paragraph 83 requires an entity to correct material prior period errors.

B56. Such errors include: the effects of mathematical mistakes, mistakes in applying the definitions for metrics or targets, oversights or misinterpretations of facts, and fraud.

B57. Potential reporting period errors discovered in that period are corrected before the sustainability-related financial disclosures are authorised for issue. However, material errors are sometimes not discovered until a subsequent period.

B58. If an entity identifies a material error in its prior period(s) sustainability related financial disclosures, it shall disclose:

(a) the nature of the prior period error;

(b) the correction, to the extent practicable, for each prior period disclosed; and

(c) if correction of the error is impracticable, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

B59. When it is impracticable to determine the effect of an error on all prior periods presented, the entity shall restate the comparative information to correct the error from the earliest date practicable.

CLIMATE RELATED DISCLOSURES (IFRS S2)

What are the objectives of Climate related disclosures under IFRS S2?

The objective of IFRS S2 Climate-related Disclosures is to require an entity to disclose information about its 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.

This Standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium, or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

What is the scope of Climate related disclosures under IFRS S2?

This Standard applies to:

(a) climate-related risks to which the entity is exposed, which are:

(i) climate-related physical risks; and

(ii) climate-related transition risks; and

(b) climate-related opportunities available to the entity.

Climate-related risks and opportunities that could not reasonably be expected to affect an entity's prospects are outside the scope of this Standard.

What is meant by Carbon credit?

An emissions unit that is issued by a carbon crediting programme and represents an emission reduction or removal of greenhouse gases. Carbon credits are uniquely serialized, issued, tracked and cancelled by means of an electronic registry.

What is meant by Climate resilience?

The capacity of an entity to adjust to climate-related changes, developments, or uncertainties. Climate resilience involves the capacity to manage climate-related risks and benefit from climate-related opportunities, including the ability to respond and adapt to climate-related transition risks and climate related physical risks. An entity's

climate resilience includes both its strategic resilience and its operational resilience to climate-related changes, developments, and uncertainties.

How do we define Climate related physical risks?

Risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, drought, or heatwaves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and temperature which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity.

These risks could carry financial implications for an entity, such as costs resulting from direct damage to assets or indirect effects of supply-chain disruption. The entity's financial performance could also be affected by changes in water availability, sourcing, and quality; and extreme temperature changes affecting the entity's premises, operations, supply chains, transportation needs and employee health and safety.

How do we define Climate related transition risks?

Risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technological, market and reputational risks.

These risks could carry financial implications for an entity, such as increased operating costs or asset impairment due to new or amended climate-related regulations.

The entity's financial performance could also be affected by shifting consumer demands and the development and deployment of new technology.

How do we define Co2 equivalent?

The universal unit of measurement to indicate the global warming potential of each greenhouse gas, expressed in terms of the global warming potential of one unit of carbon dioxide. This unit is used to evaluate releasing (or avoiding releasing) different greenhouse gases against a common basis

What are Greenhouse gases?

The seven greenhouse gases listed in the Kyoto Protocol— carbon dioxide (CO_2); methane (CH_4); nitrous oxide (N_2O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF_3); perfluorocarbons (PFCs) and sulphur hexafluoride (SF_6)

What is Scope I Greenhouse emission?

Direct greenhouse gas emissions that occur from sources that are owned or controlled by an entity

What is Scope II Greenhouse emission?

Indirect greenhouse gas emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by an entity. Purchased and acquired electricity is electricity that is purchased or otherwise brought into an entity’s boundary. Scope 2 greenhouse gas emissions physically occur at the facility where electricity is generated.

What is Scope III Greenhouse emission?

Indirect greenhouse gas emissions (not included in Scope 2 greenhouse gas emissions) that occur in the value chain of an entity, including both upstream and downstream emissions. Scope 3 greenhouse gas emissions include the Scope 3 categories in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).

Scope 3 greenhouse gas emissions are categorized into these 15 categories—as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011):

(1) purchased goods and services;

(2) capital goods;

(3) fuel- and energy-related activities not included in Scope greenhouse gas emissions or Scope 2 greenhouse gas emissions;

(4) upstream transportation and distribution;

(5) waste generated in operations;

(6) business travel;

(7) employee commuting;

(8) upstream leased assets;

(9) downstream transportation and distribution;

(10) processing of sold products;

(11) use of sold products

(12) end-of-life treatment of sold products

(13) downstream leased assets

(14) franchises; and

(15) investments.

What is Global Warming potential?

A factor describing the radiative forcing impact (degree of harm to the atmosphere) of one unit of a given greenhouse gas relative to one unit of CO2.

What are indirect Greenhouse emissions?

Emissions that are a consequence of the activities of an entity, but occur at sources owned or controlled by another entity

What is meant by internal carbon price?

Price used by an entity to assess the financial implications of changes to investment, production, and consumption patterns, and of potential technological progress and future emissions abatement costs. An entity

can use internal carbon prices for a range of business applications. Two types of internal carbon prices that an entity commonly uses are:

(a) a shadow price, which is a theoretical cost or notional amount that the entity does not charge but that can be used to understand the economic implications or trade-offs for such things as risk impacts, new investments, the net present value of projects, and the cost and benefit of various initiatives; and

(b) an internal tax or fee, which is a carbon price charged to a business activity, product line, or other business unit based on its greenhouse gas emissions (these internal taxes or fees are similar to intracompany transfer pricing)

What is the core content of Climate disclosure standards under IFRS S2?

The core content of Climate disclosure standards is governance and strategy.

What are the disclosure requirements related to Governance under IFRS S2?

The objective of climate-related financial disclosures on governance is to enable users of general-purpose financial reports to understand the governance processes, controls, and procedures an entity uses to monitor, manage, and oversee climate-related risks and opportunities. (Para 5)

To achieve this objective, an entity shall disclose information about:

(a) the governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of climate-related risks and opportunities. Specifically, the entity shall identify that body(s) or individual(s) and disclose information about:

(i) how responsibilities for climate-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s);

(ii) how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to climate related risks and opportunities;

(iii) how and how often the body(s) or individual(s) is informed about climate-related risks and opportunities;

(iv) how the body(s) or individual(s) considers climate related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities; and

(v) how the body(s) or individual(s) oversees the setting of targets related to climate-related risks and opportunities, and monitors progress towards those targets (see paragraphs 33–36), including whether and how related performance metrics are included in remuneration policies (see paragraph 29(g)).

(b) management's role in the governance processes, controls and procedures used to monitor, manage, and oversee climate-related risks and opportunities, including information about:

(i) whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and

(ii) whether management uses controls and procedures to support the oversight of climate-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions. (Para 6).

What are the disclosure requirements related to Strategy under IFRS S2?

The objective of climate-related financial disclosures on strategy is to enable users of general-purpose financial reports to understand an entity's strategy for managing climate-related risks and opportunities.

Specifically, an entity shall disclose information to enable users of general-purpose financial reports to understand:

(a) the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects (see paragraphs 10–12);

(b) the current and anticipated effects of those climate-related risks and opportunities on the entity's business model and value chain (see paragraph 13);

(c) the effects of those climate-related risks and opportunities on the entity's strategy and decision-making, including information about its climate-related transition plan (see paragraph 14);

(d) the effects of those climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period, and their anticipated effects on the entity's financial position, financial performance, and cash flows over the short, medium and long term, taking into consideration how those climate-related risks and opportunities have been factored into the entity's financial planning (see paragraphs 15–21); and

(e) the climate resilience of the entity's strategy and its business model to climate-related changes, developments, and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities (see paragraph 22).