

# **Adopting and Implementing Sustainability Reporting Standards: IFRS S1 and IFRS S2**

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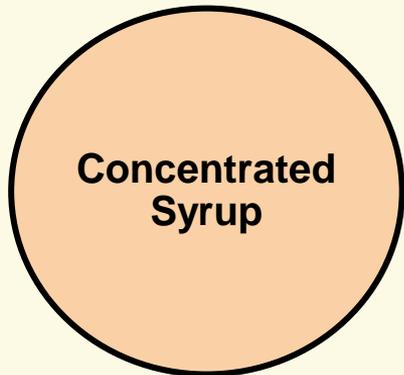
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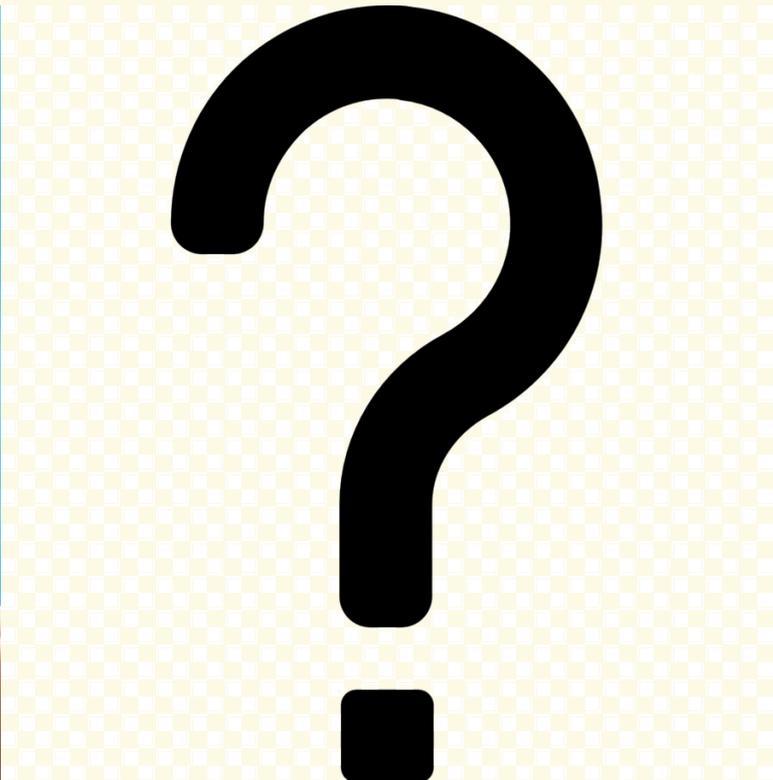


**01**

# About Sustainability

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# Water + Syrup = Soft Drinks

When a company's business model depends on a natural resource, for example, water, business of the company it is likely to be affected by:

- changes in the quality of water,
- availability of water
- pricing of that resource.

• Connecting the dots ... how can sustainability - related risks and opportunities affect a company's prospects?

# What Sustainability deals with

Sustainability reporting is a tool to increase transparency and accountability in the issues that traditional financial reporting is not dealing with. These include the linkages between environmental, social and governance issues in a long-term perspective.

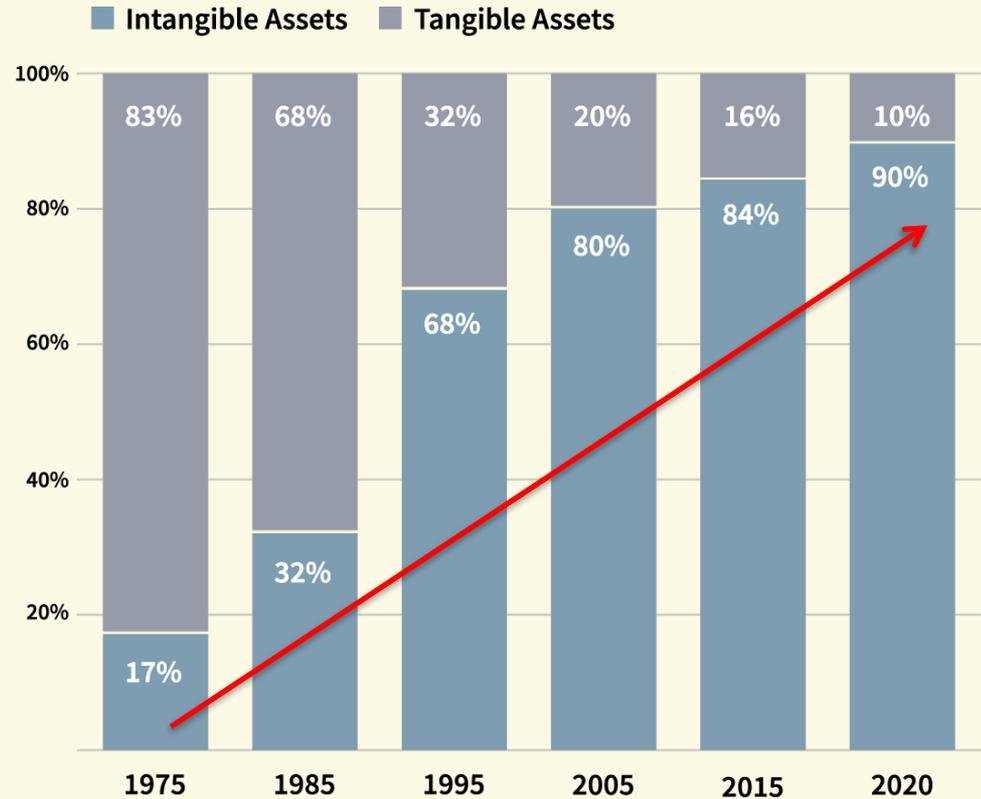
Corporate decision-making is often heavily reliant on financial information, although this information may not give a complete picture about an organization and the environment in which it operates.

The success of an organization might not only depend on its financial results, but also on its capacity to reduce waste or its efficient use of resources.

- Environmental and sustainability issues are not only a moral concern, but are increasingly important because of their financial significance.

# Need for Information

The changing components of S&P 500 **Market Value** means **broader information set** required to understand risk.



# Subsets of Sustainability



## Environment

This has to do with an organisation's impact on the planet.

- corporate climate policies,
- energy use,
- waste,
- pollution,
- natural resource conservation,
- greenhouse gas emissions,



## Social

This has to do with the impact an organisation has on people, including staff and customers and the community.

- diversity,
- inclusion,
- community-focus,
- social justice,
- fighting against racial, gender, and sexual discrimination.



## Governance

This has to do with how an organisation is governed.

- Is it governed transparently?
- Does it report honestly and clearly on its activities?
- Pursues integrity and diversity selecting its leadership?
- Is accountable to shareholders?
- Companies avoid conflicts of interest ?

# Differences between sustainability reporting and financial reporting

<b><u>Basis</u></b>	<b><u>Emphasis in financial reporting</u></b>	<b><u>Emphasis in sustainability reporting</u></b>
<b>Time-scale</b>	The reported year	Future orientation
<b>Focus</b>	Issues that organization directly controls	Wider sustainability impacts
<b>Economic view</b>	Material	Intangible
<b>Data</b>	Financial	Non-financial
<b>Materiality</b>	Financial significance	Any information that is significant to readers
<b>Users</b>	Shareholders and investors	Stakeholders



**02**

## **Why Sustainability Reporting?**

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**Sustainability reporting means that sustainability data is presented in a systematic way so that it can be compared with the past and progress concerning the selected targets can be measured.**

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# Market drivers

The existing sustainability disclosure landscape wasn't delivering.

## Voluntary initiatives

- Incomplete application
- Multiple standard available
- Need for rationalisation.

**More than 200  
voluntary reporting  
schemes**

**More than 300 mandatory  
reporting schemes**

## Mandatory jurisdictional initiatives

- Different jurisdictions, different requirements
- Differences in scope, ambition, pace.

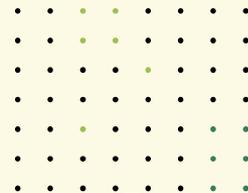
# Better information for better decisions

Global **capital markets demand** more **consistent, comparable and verifiable** information about companies' exposure to, and management of, **sustainability - related risks and opportunities**.

Having this information will enable investors to make **more informed decisions** relating to providing resources to companies. The ISSB was created to meet this demand.

The Trustees of the IFRS Foundation announced the creation of the ISSB at the United Nations Climate Change Conference (COP26) in November 2021.

The ISSB aims to establish a **comprehensive global baseline** of sustainability - related financial disclosures to meet the needs of capital markets.



# Simplifying the sustainability disclosure landscape

*Consolidated into the IFRS Foundation*



Climate  
Disclosure  
Standards  
Board



*IFRS Sustainability Disclosure Standards built off market-leading, widely adopted frameworks and standards.*



\*Integrated Reporting integration goes beyond IFRS Sustainability Disclosure Standards. It will be used to drive connectivity between IFRS Accounting Standards and IFRS Sustainability Disclosure Standards



**Sustainability reporting  
is non financial  
disclosure that has  
maximum financial  
impacts.**

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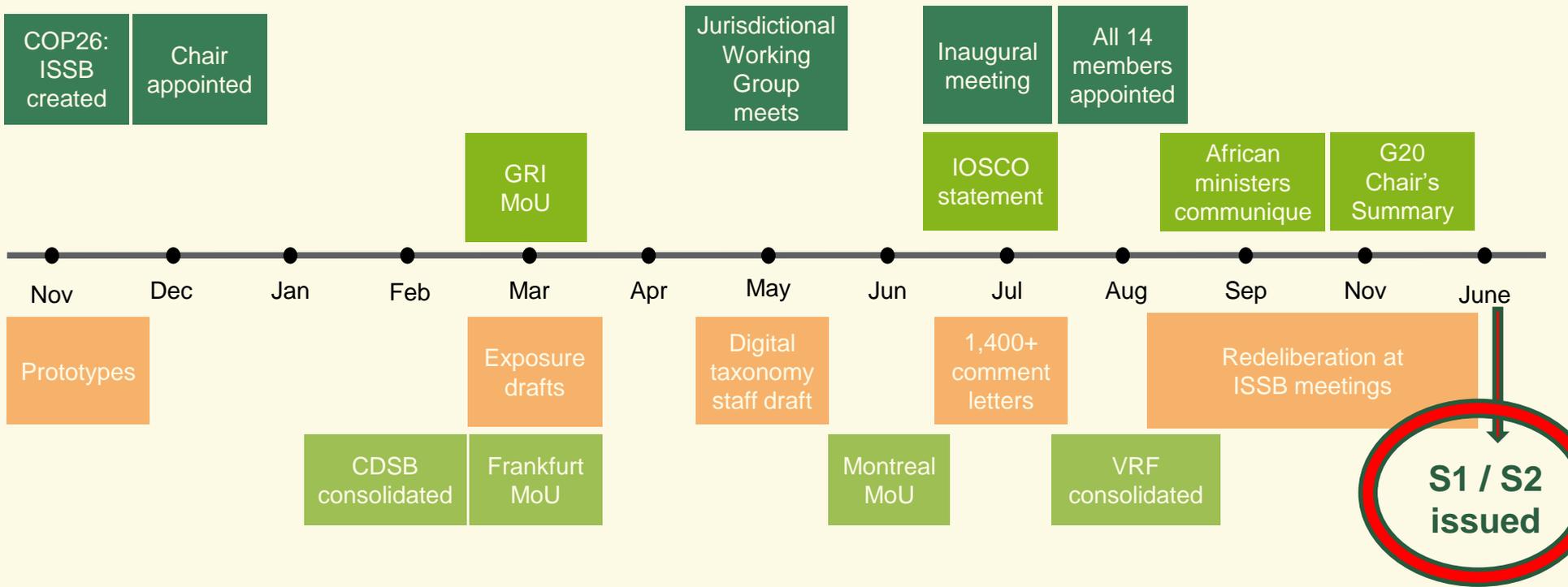
**03**

## **Need for S1 and S2**

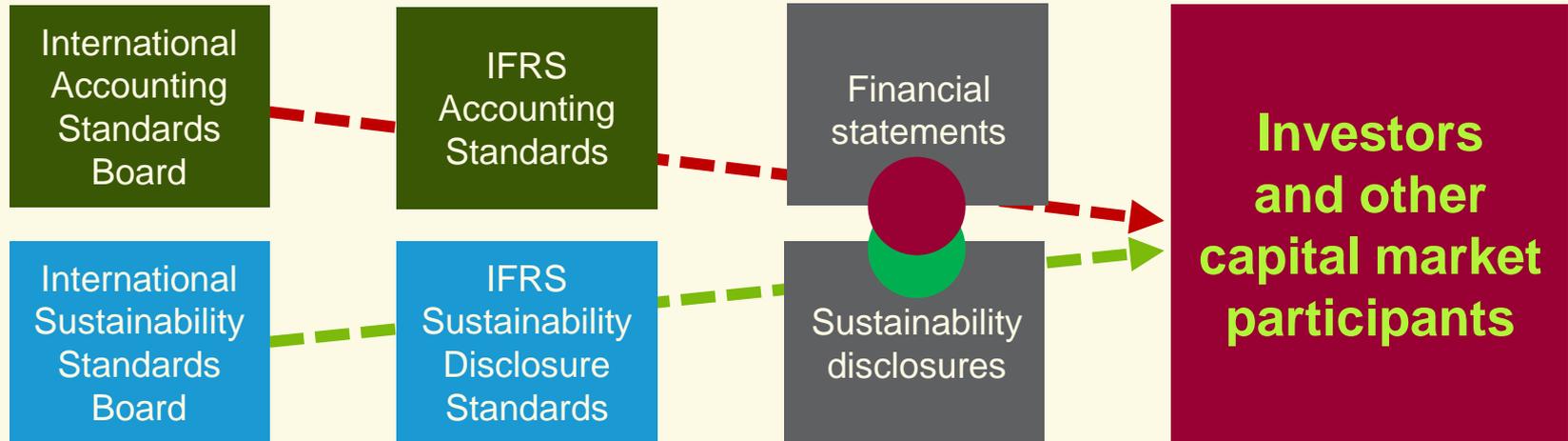
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# ISSB milestones

Application Timeline: From January 2024



# Designed for communication to investors

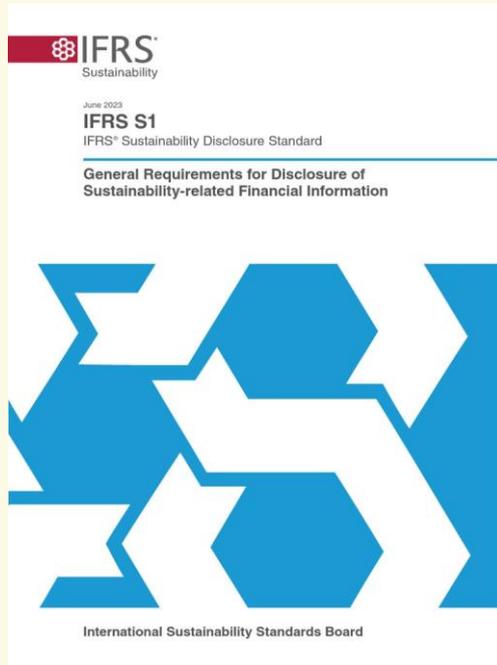


**Connectivity supported through the principles of integrated reporting.**

# IFRS Standards within the broader reporting landscape



# IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information



Disclosure of material information about sustainability-related risks and opportunities.

- Other IFRS Sustainability Disclosure Standards (e.g. Climate Standard) set out specific disclosures
- Points to other standards and frameworks in absence of a specific IFRS Sustainability Disclosure Standard
- Sets out **general reporting requirements** (e.g. location and timing of the reporting, consistency, errors etc)
- **Equivalent to IFRS Accounting Standards IAS 1 and IAS 8.**

# Key features of IFRS S1



Emphasises need for **consistency and connections** between **financial statements and sustainability reporting** by requiring companies to explain linkages in information and use consistent assumptions when relevant



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



Facilitates application in different jurisdictions by not specifying a particular location for sustainability information and allowing additional information to be provided

# Core Content of IFRS S1



DISCLOSE

## Governance

Information that enables investors to understand the **governance processes, controls and procedures** a company uses to **monitor, manage and oversee sustainability - related risks and opportunities**.

## Risk management

Information that enables investors to understand a **company's processes to identify, assess, prioritise and monitor sustainability-related** risks and opportunities.

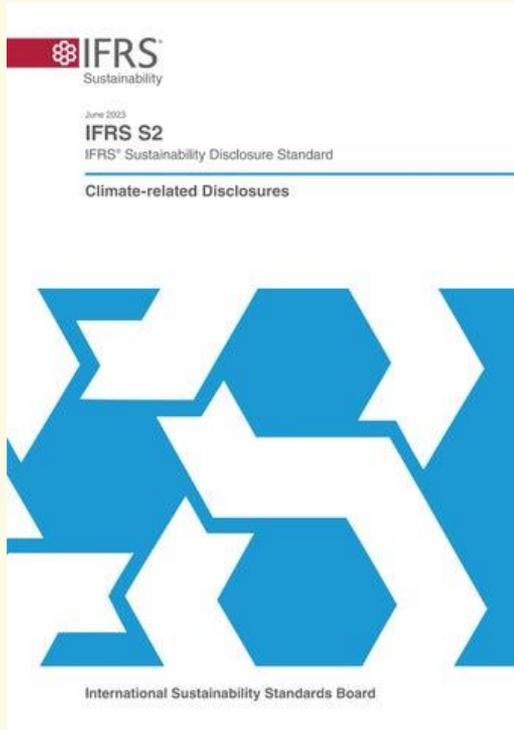
## Strategy

Information that enables investors to understand a **company's strategy** for managing sustainability-related risks and opportunities.

## Metrics and targets

Information that enables investors to understand a **company's performance in relation to its sustainability-related risks and opportunities**, including **progress towards any targets** the company has set, or **any targets it is required to meet by law or regulation**.

# IFRS S2: Climate-related Disclosures Standard



Disclosure of **material information about climate-related risks and opportunities**.

- Incorporates **Task Force on Climate-Related Financial Disclosures (TCFD)** Recommendations
- Includes **Sustainability Accounting Standards Board (SASB)** Standards climate-related industry-based requirements
- Requires disclosure of information about
  - **Physical risks** (e.g. flood risk)
  - **Transition risks** (e.g. regulatory change)
  - **Climate-related opportunities** (e.g. new technology).

# Key features of IFRS S2



## Transition planning

Emissions targets and use of carbon offsets



## Climate resilience

Resilience of business strategy in multiple scenarios



## Scope 1-3 emissions

Requirement to disclose GHG emissions in accordance with the GHG Protocol Corporate Standard

# Core Content of IFRS S2

DISCLOSE

## Governance

Information that enables investors to understand the **governance processes, controls and procedures the company uses to monitor, manage and oversee climate-related** risks and opportunities. A company is required to identify the **governance bodies, such as a board or committee (or individuals) with oversight of** climate-related risks and opportunities.

## Risk management

Information that enables investors to **understand the processes the company uses to identify, assess, prioritise and monitor climate-related** risks and opportunities.

## Strategy

Information that enables **investors to understand the company's strategy** for managing climate-related risks and opportunities.

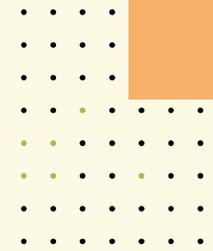
## Metrics and targets

Information that enables investors to understand the company's performance in relation to its climate-related risks and opportunities.

# Who Supports IFRS S1 and IFRS S2



- ❑ International Organization of Securities Commissions (IOSCO),
  - ❑ The Financial Stability Board,
  - ❑ G7 countries
  - ❑ G20 countries
  - ❑ Basel Committee welcomes the IFRS Foundation's establishment of the International Sustainability Standards Board.
  - ❑ Wide range of stakeholders across jurisdictions
  - ❑ Over 3,100 Principles for Responsible Investment (PRI) Signatories have committed (Assets Management Unit- AMU)
  - ❑ Prepared by International Sustainability Standards Board (ISSB) under IFRS Foundation Trustees (168 jurisdictions)
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**04**

## Why sustainability reporting is needed for Nepal?

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## Country's Global commitment

➤ Nepal has submitted its Nationally Determined Contribution on December 2020 to achieve net-zero status by 2045.

➤ Nepal's commitment to UN Framework Convention on Climate Change

➤ Nepal's commitment at COP conventions.

## Commitment to Global Financial Reporting Standards

➤ ASB Nepal has made a public commitment in support of moving towards a single set of high quality global accounting standards.

➤ ASB Nepal has made a public commitment towards IFRS Accounting Standards as that single set of high quality global accounting standards.

## Commitment to Global Capital Market

➤ SEBON is the associate member of International Organization of Securities Commission (IOSCO) since July 2016.

## Banking Regulation of Nepal

The existing regulatory capital of Central Bank of Nepal is largely based on the Basel committee's 1988 recommendations and is always adopting the international best practices,

## IFRS Accounting Standards?

Global adoption of IFRS Accounting Standards has been complete for 168 jurisdictions.

## Global baseline

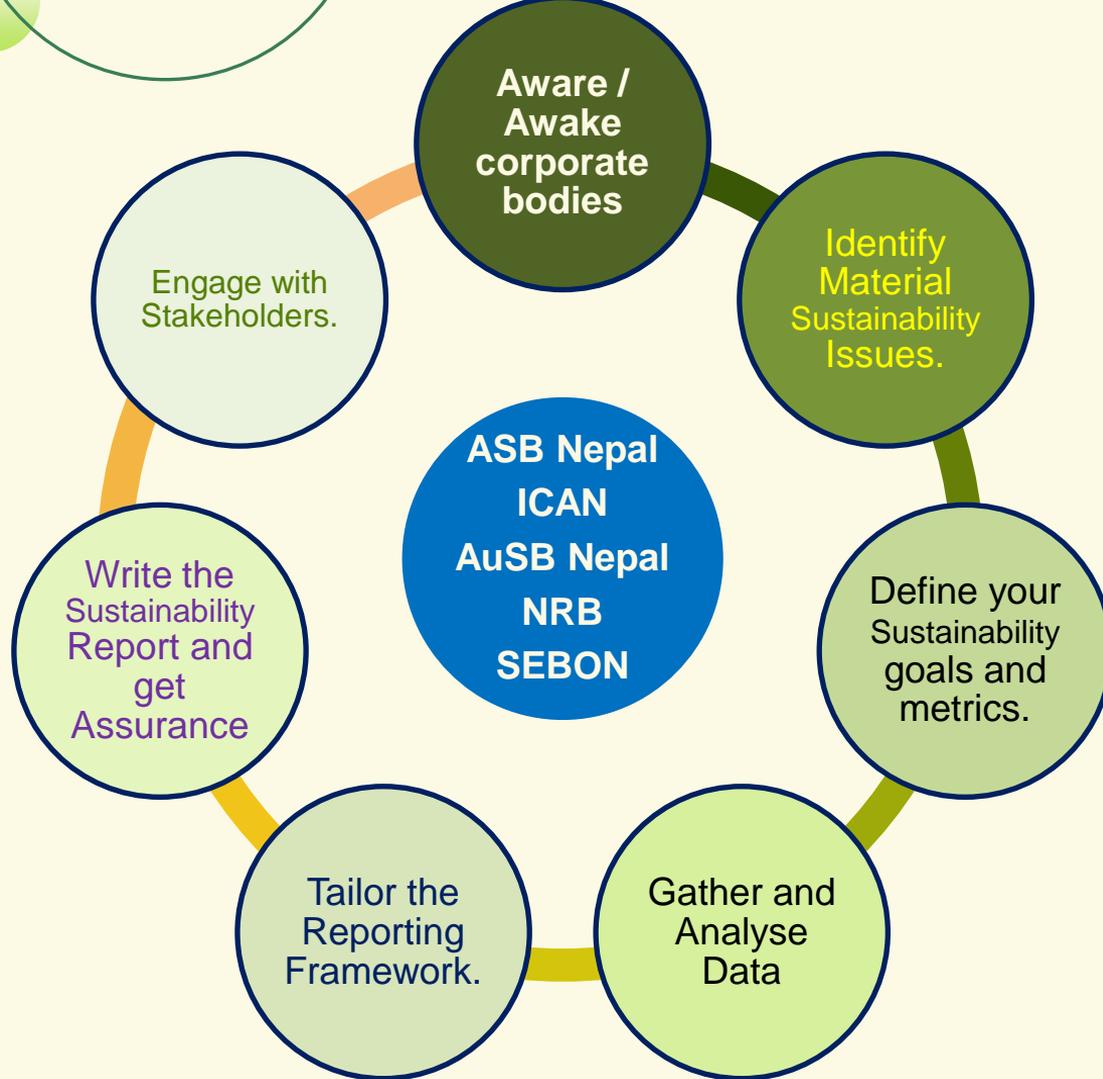
S1 and S2 standards are Global baseline of sustainability - related financial disclosures



**05**

**How can we adopt  
Sustainability  
reporting standards?**

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## Who's Role:

ICAN  
ASB Nepal  
AuSB Nepal  
NRB  
SEBON  
Members  
Professionals  
Business Associations  
Corporate Houses

# Preparedness of:

## ASB Nepal

- Formed NSRS Committee
- Committee includes regulators and Government representatives
- Signed MOU with SEBON
- Discussion with Stakeholders

## SEBON

- Signed MOU with ASB Nepal
- Committed to International Organization of Securities Commission (IOSCO)
- Issuing Green Bonds

## AuSB Nepal

- Discussion for preparing exposure drafts for ISSA 5000
- Discussion with Stakeholders

## NRB

- Started Green Taxonomy
- Guidelines for Environmental & Social Risk management (ESRM)
- CSR Guidelines
- Has been committed for Reporting Standards

## ICAN

- Formed Sustainability Reporting Committee
- Started Sustainable activities within ICAN
- Organizing International and national conference
- Survey within members, regulators and Industry
- Discussion with Stakeholders

## Others

- IPPAN has become member of International Alliance of Sustainable Hydropower
- Trainings, seminars by several entities



**06**

**Where do we stand  
now???**

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# Where do we stand now?

## Members

- Moderate knowledge among members
- Very few have received formal trainings
- Majority agrees that sustainability will enhance performance of entity
- Majority of members wants compulsory Regulatory compliance on adopting the standards

## Corporate Bodies

- Few banks have started publishing GHG emission Reports
- Started hiring ESG Analyst
- Increase use of Development Funds
- PEVC conducting Impact assessments

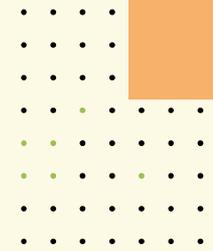
## Around South Asia Region

- Committed to Implementing S1 and S2





**07**



## **Key challenges and Way forward**

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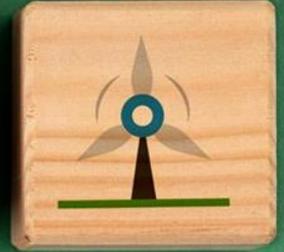
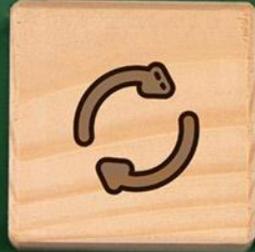
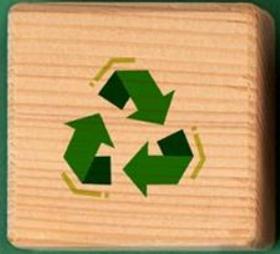
# Key Challenges

- ❑ Lack of Trained Professionals (Capacity and Capability)
- ❑ Lack of training and resources materials
- ❑ Lack of commitment from Corporate leaders and managers
- ❑ Poor integration of sustainability issues into organisational strategies
- ❑ Insufficient Data Collection and Reporting
- ❑ **Uncertainty** around the **best metrics** to use that suit the reporting entity
- ❑ Failure to Set Measurable Goals

...the reports

# Way Forward

- Build capacity and capability among members
- Maximize consultation with stakeholders and preparer
- Decide which Standards to implement at first, **S1 or S2 or Both**
- Finalize convergence process of S1, S2 and Assurance 5000
- Forming Transition Implementation Group to support companies that apply the Standards and launching capacity-building initiatives to support effective implementation.



**Lets make a move forward.**



**There's NO  
another Planet**

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**Thank You!**

