



The time is now: ESG in action.

A roadmap to S1 compliance

AMCHAM ESG Conference

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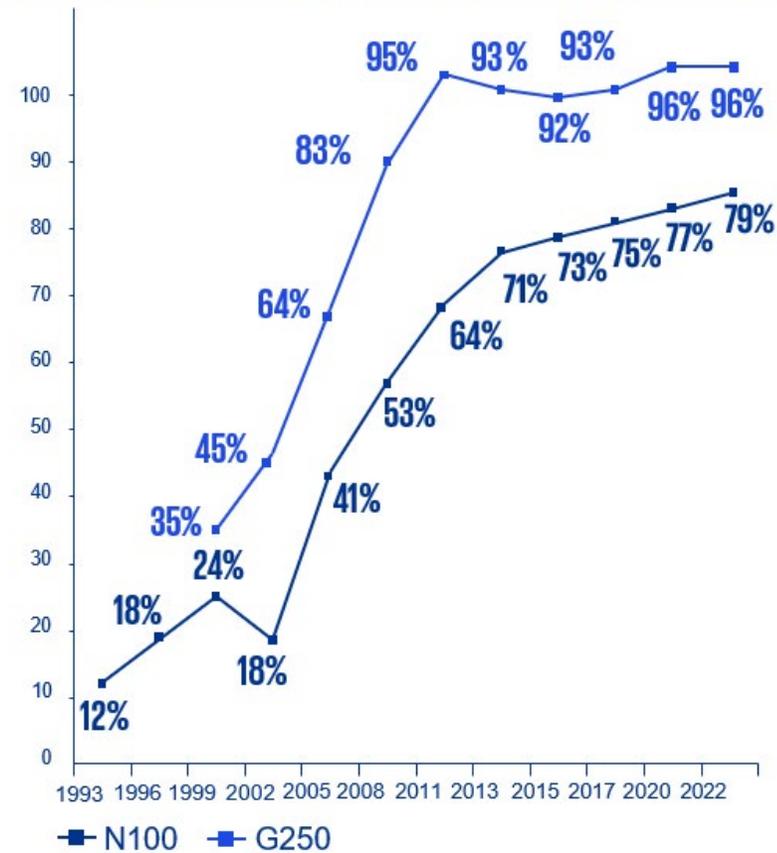
May 1, 2024



Global sustainability reporting is inching closer to full disclosure among the world's largest companies.

Sustainability reporting has become standard practice for many companies, with steady growth over the past decade. The proportion of the N100 group (the leading 100 companies in each country surveyed) that report has increased from around two-thirds to 79 percent. Amongst the world's top 250 companies (G250), the figure is 96 percent.

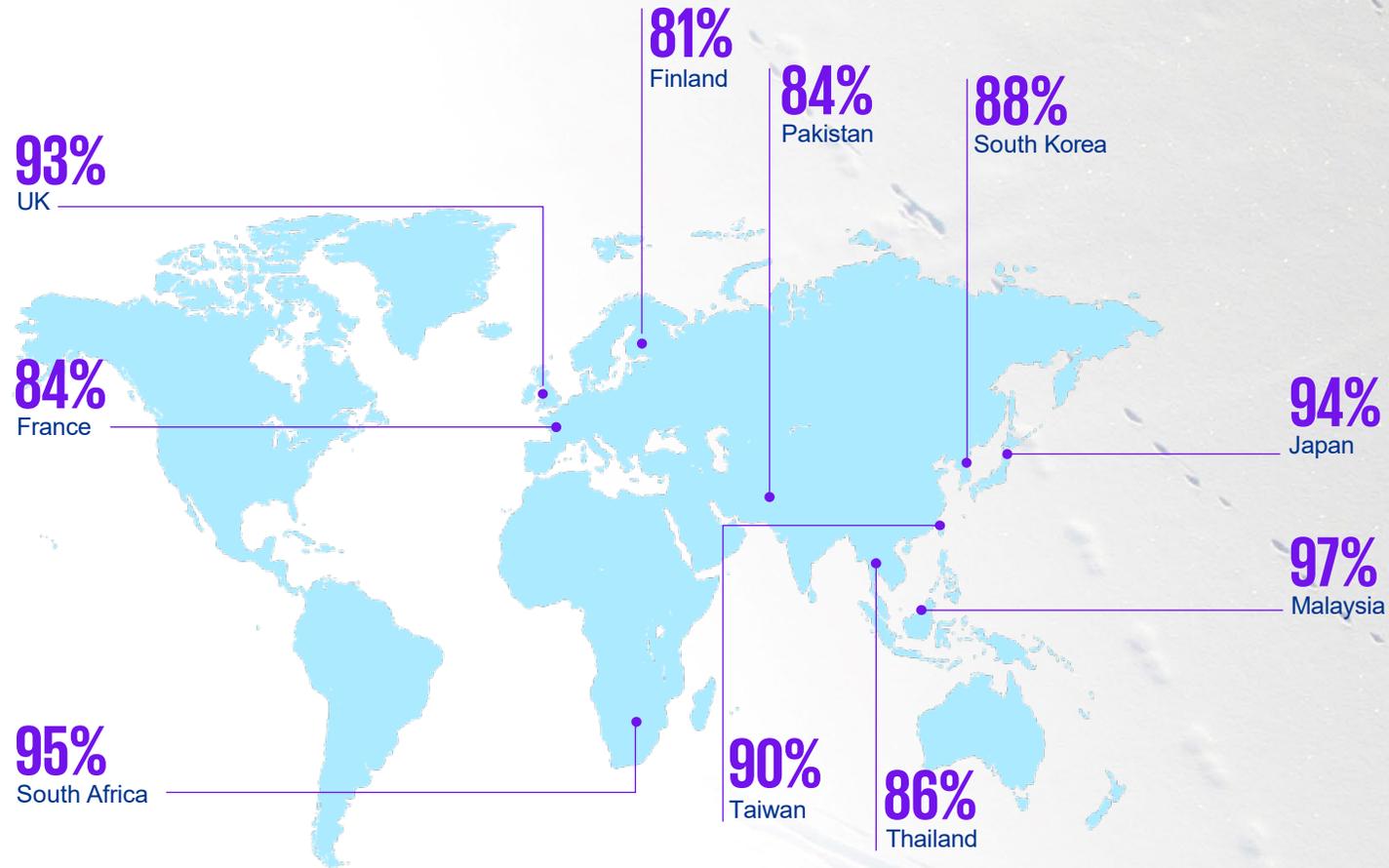
Figure 1: Global sustainability reporting rates (1993–2022)



Base: 5,800 N100 companies and 250 G250 companies

Source: KPMG Survey of Sustainability Reporting 2022, KPMG International, September 2022

Figure 2: Top 10 countries, territories, and jurisdictions by percentage of N100 companies including sustainability information in annual financial reports (2022)

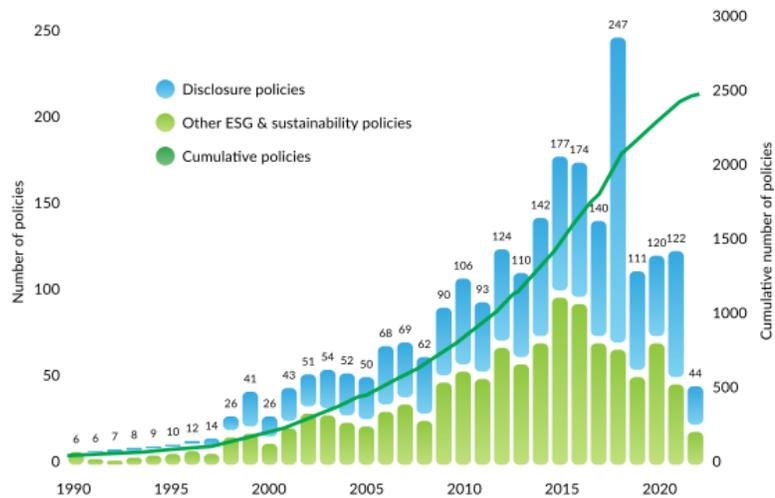


Base: 5,800 N100 companies

Source: KPMG Survey of Sustainability Reporting 2022, KPMG International, September 2022



Have we entered the era of transparency?



85%
Of investors are not tolerant of policies that would reduce transparency¹

ESG capabilities are top priority

90% Of organizations are planning to increase their ESG investment in the next 3 years,² most notably for:

1. Hiring dedicating ESG personnel
2. ESG specific software
3. Employee upskilling

Greater evidence of public support for climate action...

70% of investors agree that companies should embed ESG within their corporate strategy³

69% of the population express a willingness to contribute 1% of their personal income to climate⁴

86% of the population endorse pro-climate social norms⁴

89% of the population demand intensified political action⁴

Investor response is aligned to accumulating policies...

ESG factors are increasingly factored into decision making – especially in light of increasing concerns over greenwashing



1. PWC Global Investor Survey (2023): <https://www.pwc.com/gx/en/issues/c-suite-insights/global-investor-survey.html>
 2. KPMG (2024): <https://kpmg.com/kpmg-us/content/dam/kpmg/pdf/2024/kpmg-2024-esg-organization-survey.pdf>

3. ISS Global Benchmark Survey (2023): <https://www.issgovernance.com/file/policy/2023/2023-ISS-Benchmark-Survey-Summary.pdf>
 4. Nature Climate Change (2024): <https://www.nature.com/articles/s41558-024-01925-3>



Answering the call: the International Sustainability Standards Board

What is the ISSB and its objectives?

The International Sustainability Standards Board (ISSB) is a standard-setting body established at COP26 in Glasgow, Scotland under the IFRS Foundation, following **strong market demand** for information that is **decision-useful** and **comparable** for companies in a way that is **cost effective**.

The ISSB mandate is the creation of high-quality, sustainability-related financial reporting standards to meet the needs of investors, stakeholders and financial markets.



Key Objectives of the ISSB:



Develop standards for global baseline of sustainability disclosures



Enable companies to provide comprehensive sustainability information to global capital markets



Meet information needs of investors and stakeholders

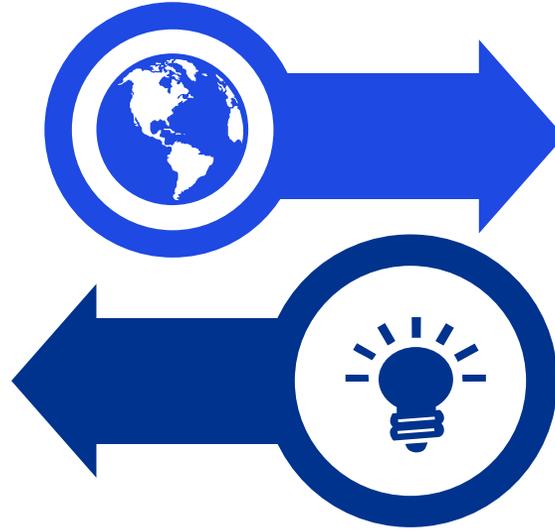


Facilitate addition of disclosures that are jurisdiction-specific

What has been released?

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

- Sets the foundation for sustainability reporting
- Materiality is defined in the same way as it is for financial information
- Information should be presented at the same time as general financial information – primarily in the annual report



IFRS S2 Climate-related Disclosures

- Requires a transition plan towards a low-carbon business strategy
- Requires the use and disclosure of climate-related scenario analysis
- Scope 3 greenhouse gas (GHG) emissions are expected to be disclosed

Future standards are expected to follow...

Additional standards are expected to provide general and industry-specific guidance on other topics – e.g. biodiversity.

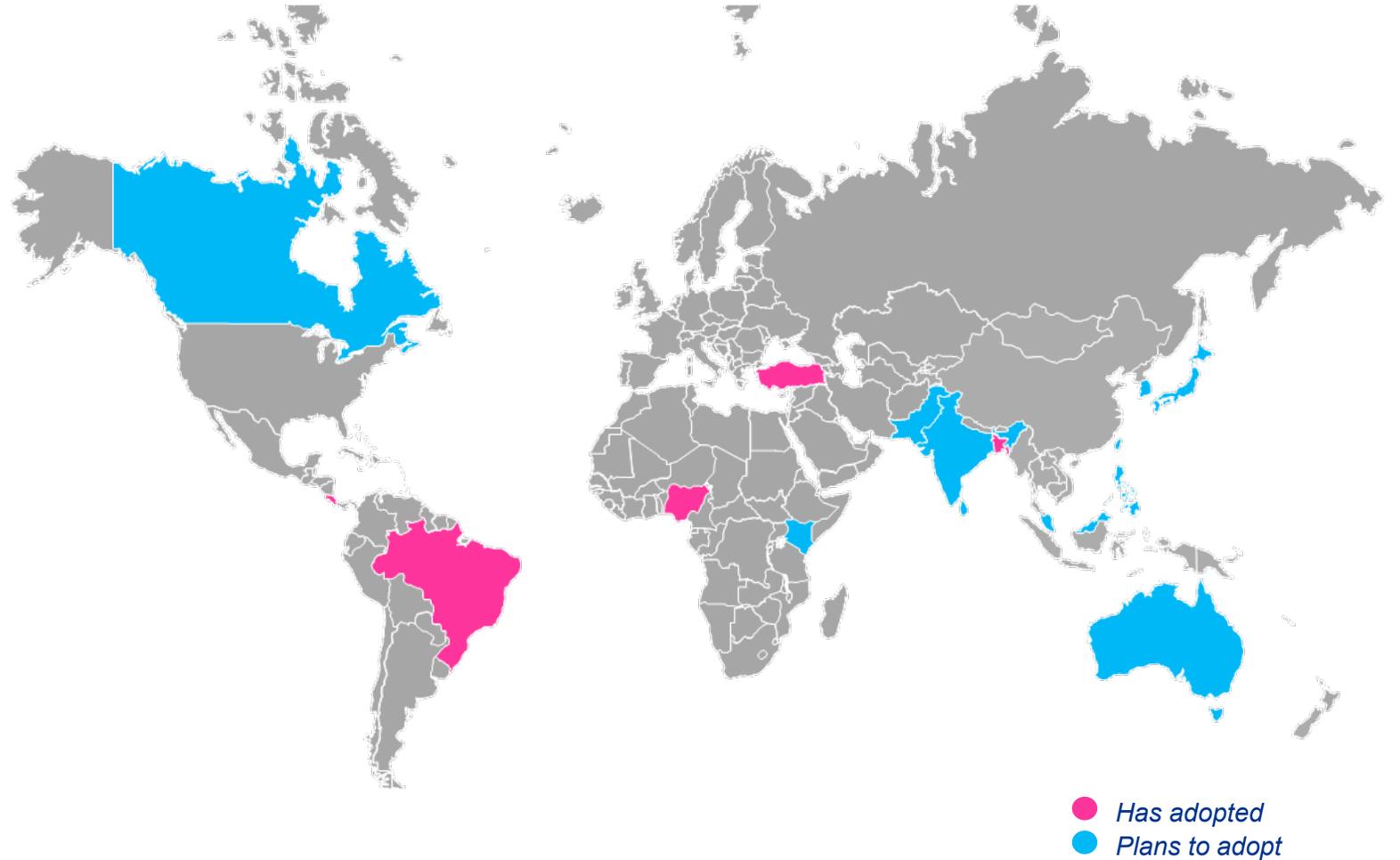
Who has adopted the standards?

64 jurisdictions committed to advancing the global adoption or use of the ISSB's climate-related standard.

5 jurisdictions have adopted the standards on a voluntary or mandatory basis

11 others are planning to adopt them in the future

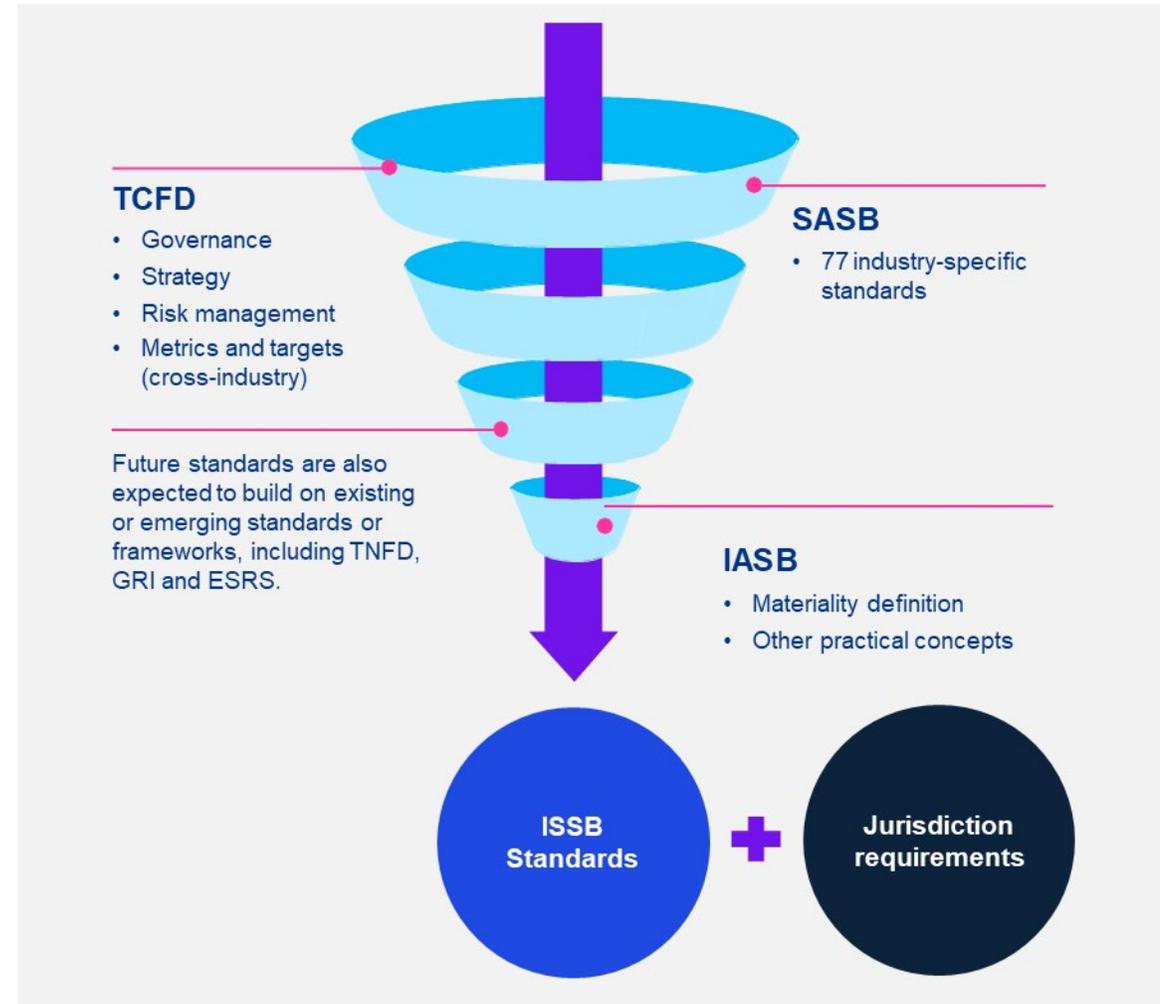
The standards and their adoption timelines are being tweaked to suit individual markets



How does the ISSB align with other frameworks and standards?

Consolidates the latest thinking of existing frameworks and standards

- Follows the four pillars of the TCFD's recommended disclosures
- Enhanced by climate-related, industry-specific metrics
- Incorporate concepts and principles used in IFRS Accounting Standards from the IASB
- Brings financial reporting concepts to sustainability reporting





Becoming compliant with ISSB requirements

What are the people, process, data, and technology requirements of the new ISSB requirements?

Processes

- Embed sustainability considerations into existing governance, risk management, and strategic planning processes
- Conducting a materiality assessment is key to identifying which environmental, social, and governance (ESG) factors significantly impact the company and its stakeholders
- Evaluate internal controls to ensure tracking, consistency, and proper documentation processes for auditing

People

- Create a dialogue between finance, sustainability, and operational teams to understand all levels of sustainability performance
- Define governance and responsibilities
- Ensure all relevant staff have a strong understanding of sustainability risks and opportunities relevant to the company's industry and operations

Technology

- Assess the current reporting infrastructure
- Integrate data sources in a single platform to determine materiality across data points

Data

- Determine which data points need to be collected and the underlying systems to gather the data
- Ensure the data collection processes are robust and reliable
- Build and analyze KPIs
- Connect finance, sustainability, and operational data sources in a central location



What is to be disclosed?

Material information

- Providing a complete and balanced explanation of sustainability-related risks and opportunities.
- Covering governance, strategy, risk management and metrics and targets.
- Focusing on the needs of investors and creditors.
- Reflecting consistent, comparable and connected disclosures.
- Presented across time horizons: short, medium and long term.
- Relevant to the sector and industry.

Material metrics

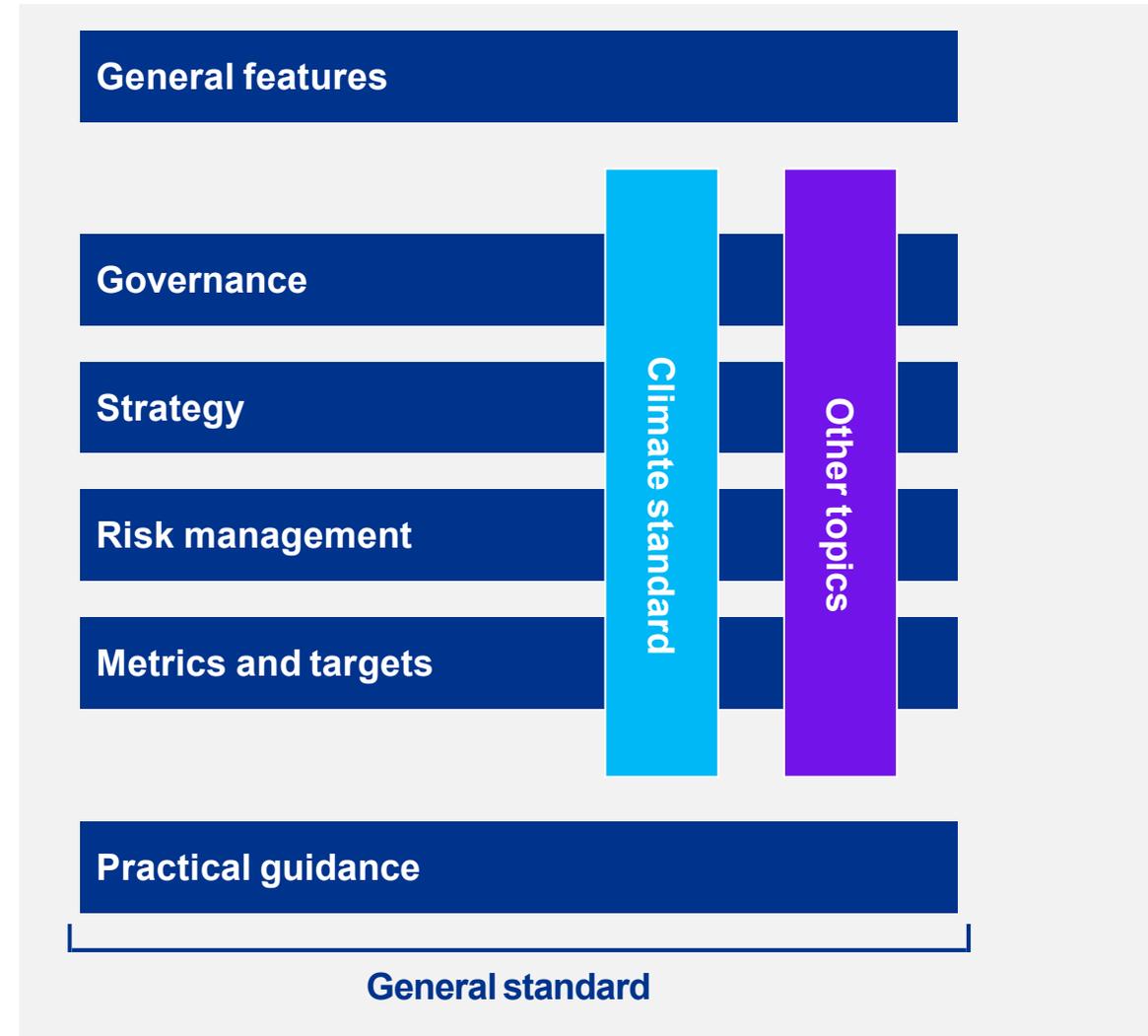
- Based on measurement requirements specified in the climate standard or future standards.
- Identified from other guidance – e.g. SASB.
- Reflecting other metrics used by the company.



Transition reliefs

Companies are not required to:

- provide comparative information for any period before the date of initial application; or
- disclose Scope 3 emissions metrics or information on topics other than climate until the second period of reporting.



What are the requirements related to governance?

The objective of disclosures in the governance content area is to help investors understand the governance processes, controls and procedures a company uses to monitor, manage and oversee sustainability-related risks and opportunities.

Reporting in line with the standards will require:

Identification of the bodies or individual(s) responsible for oversight of sustainability risks & opportunities

- How the company reflects these responsibilities in mandates, role descriptions and other company policies
- How it determines whether the company has access to the appropriate skills and competencies to oversee the company's strategies around sustainability-related matters or how they will be developed
- Process and frequency by which the board are informed about sustainability-related issues
- How it considers sustainability-related issues when reviewing and guiding strategy, decisions on major transactions, and risk management processes and policies, as well as whether it considers trade-offs between risks and opportunities
- How it monitors and oversees sustainability-related targets, including sustainability-related metrics, and if/how these are included in remuneration policies

Description of management's role in monitoring, managing and overseeing sustainability risks & opportunities

- Whether specific roles are delegated to a management-level position or committee and, if so, how oversight is maintained
- Whether management has implemented processes and controls to support oversight and how these controls are integrated with other functions

What are the requirements related to strategy?

The objective of disclosures in the strategy content area is to help detail the company's strategy for managing sustainability-related risks and opportunities.

There are additional requirements in the climate standard (S2) that relate specifically to climate-related risks, transition plans and scenario analysis. The reporting requirements for S1 are summarized below:

What are the sustainability-related risks and opportunities?

Identification of sustainability risks and opportunities

- Description of the risks and opportunities, including the expected time horizon
- Definition of short, medium and long term

Impact on business model and value chain

- Assessment of current and anticipated effects of the risks and opportunities and how these are concentrated
- Financial planning and the current and anticipated effects on financial position, performance and cash flows

How this affects strategy

- Description of the response to sustainability-related risks and opportunities- covering relevant past and future planned activities

Description of a company's resilience

- An analysis of resilience to help understand the business model flexibility in response to uncertain future events
- Details about the company's modelling to aid comparison of management's assumptions

What are the requirements related to risk management?

Risk management disclosures are to help investors understand the company's processes to identify, assess, prioritize and monitor sustainability-related risks and opportunities. This enables investors to assess the company's overall risk profile and risk management processes.

Disclosure is required for risks and opportunities; however, the standards generally require more detail on risks. Disclosures include:

Description of the processes for identifying and assessing risks and opportunities

- The inputs and parameters that the company uses in its risk assessment process (e.g. the data sources and scope of operations covered by the processes disclosed)
- Whether and how scenario analysis is used to inform the identification of sustainability-related risks
- How the company assesses the nature, likelihood, and impact of identified sustainability-related risks (e.g. quantitative thresholds and qualitative factors used)

Description of the company's processes for risk management

- How sustainability-related risks are monitored
- Whether and how the company prioritizes sustainability-related risks
- Updates on how the company's risk assessment processes may have changed since the prior reporting period

Description of the integration of processes into the company's overall risk management

- The extent to which sustainability-related risk or opportunity management processes are integrated into and inform the company's overall management processes

What are the requirements related to metrics & targets?

Disclosures on metrics provide clarity on a company's performance in managing sustainability-related risks and opportunities, including progress towards any targets have been set or are required to be met by law or regulation.

Metrics should be disclosed for each risk and opportunity and be characteristic of the company's business model or industry. These should include:

Metrics used to assess sustainability-related risks & opportunities in line with company strategy and risk management process

- Whether it is disclosed in absolute terms, in relation to another metric or qualitative.
- If it is defined by adjusting a metric from a source other than IFRS Sustainability Disclosure Standards, the source used and how the metric differs from the source metric.

Description of the company's sustainability-related targets, linked to the metrics it uses to measure and monitor them

- Descriptions of sustainability-related targets and linked metrics, such as the KPIs and targets.



Taking the next steps

Steps for transitioning

1 Understand the impact

- Research and understand current and emerging requirements.
- Understand when, where and how this will impact your company.

2 Determine what is material

- Determine which topics are relevant to report on.
- Decide what information is material about those topics.

3 Assess maturity

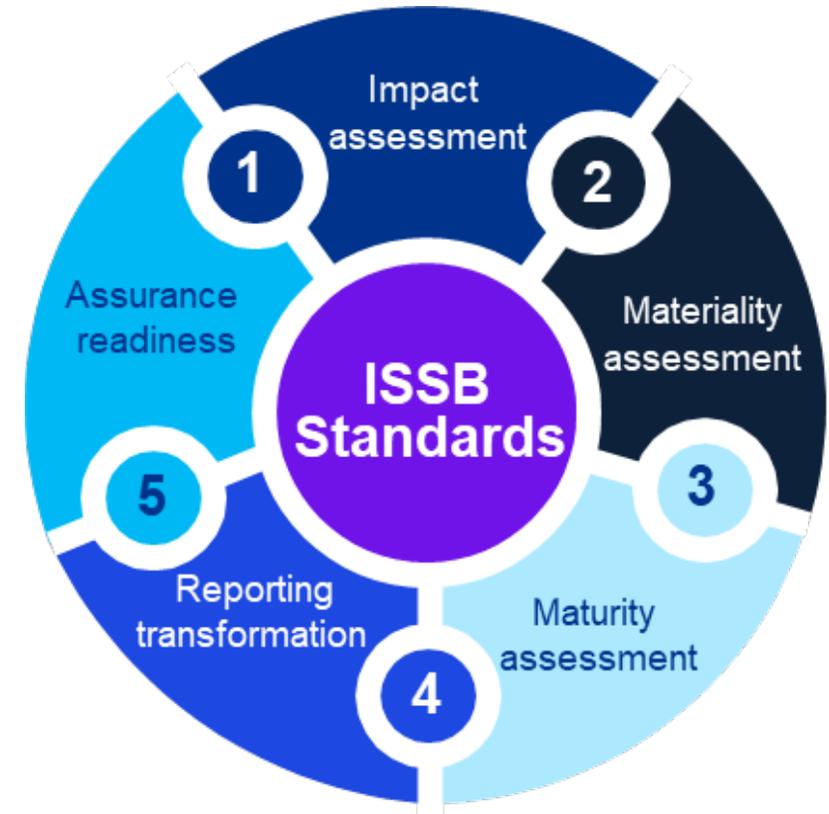
- Assess the maturity of processes, the control environment, data model and policies.
- Understand the current distribution of roles and available knowledge and capacity.

4 Transform reporting

- Design the future state of your reporting.
- Deploy your target operating model, including training as well as support for change management.

5 Get ready for assurance

- Assess the control environment, data quality and availability of sufficient documentation to support assurance.
- Rectify issues ahead of the formal assurance process.



Questions





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