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SUSTAINABILITY REPORTING TAKES CENTRE STAGE: IFRS S1 AND IFRS S2

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Executive Summary

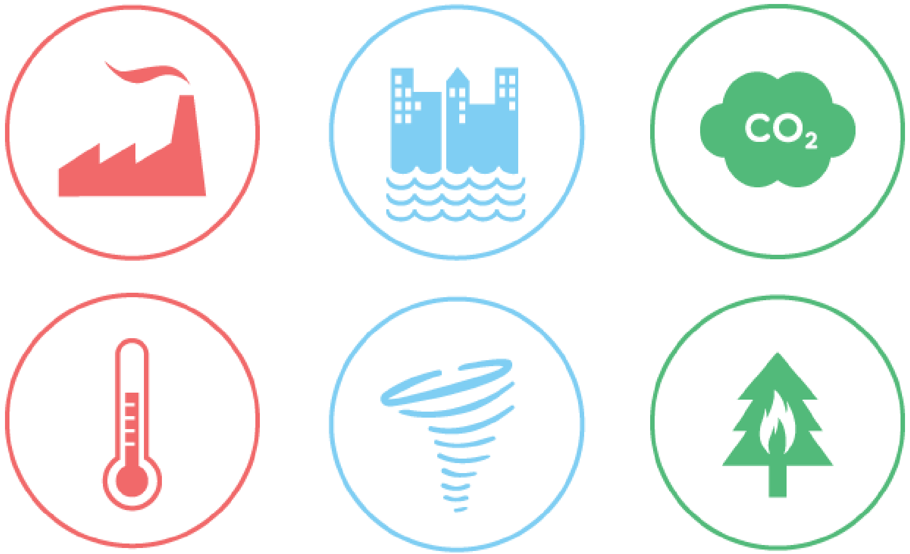
Stakeholders have increasingly demanded transparency regarding the climate effects of corporate activities. This led to a plethora of sustainability disclosure standards. This multiplicity of standards inhibited comparability. It also made compliance difficult for companies with presence different jurisdictions. ISSB has recently released two standards for sustainability-related financial disclosures; IFRS S1 and IFRS S2. The ISSB Standards are designed to be globally applicable. IFRS S1 (General Requirements for Disclosure of Sustainability-Related Financial Information) deals with disclosure of sustainability-related risks and opportunities in the short, medium and long-term. IFRS 2 (Climate-related Financial Disclosures), focuses on specific climate-related disclosures. Both standards are capital markets-focused and designed to be globally applicable. Nigeria has agreed to adopt the Standards. This means that Nigerian companies will be required to make sustainability disclosures starting from January 1, 2024 (the date on which the Standards become applicable apart from early voluntary compliance).

There is now a need for regulators, industry players, and other stakeholders to acquire the knowledge and skills that would enable them to comply and/or uphold the Standards. Challenges associated with conventional financial reporting will also play out in the context of sustainability reporting. Thus, issues such as poor public data infrastructure, paucity of reliable data, and corruption, must be dealt with. In the absence of this, greenwashing would become prevalent and may erode confidence in Nigerian sustainability reports. Where such is the case, it may become difficult for compliant companies to access the incentives related to climate compliance. The implication would be that the promises of climate fiancé would not be fully realised in Nigeria. As the energy transition opens opportunities for climate finance, it also re-emphasises the need to make critical investments in the infrastructure and systems that support data gathering and responsible financial reporting. ISSB intends to set up a Transition Implementation Group to support companies that apply the ISSB Standards. It also plans to launch capacity-building initiatives to support effective implementation. These will however not be sufficient unless stakeholders in each jurisdiction make the policy and governance choices that would provide the context suitable for implementation of the Standards.

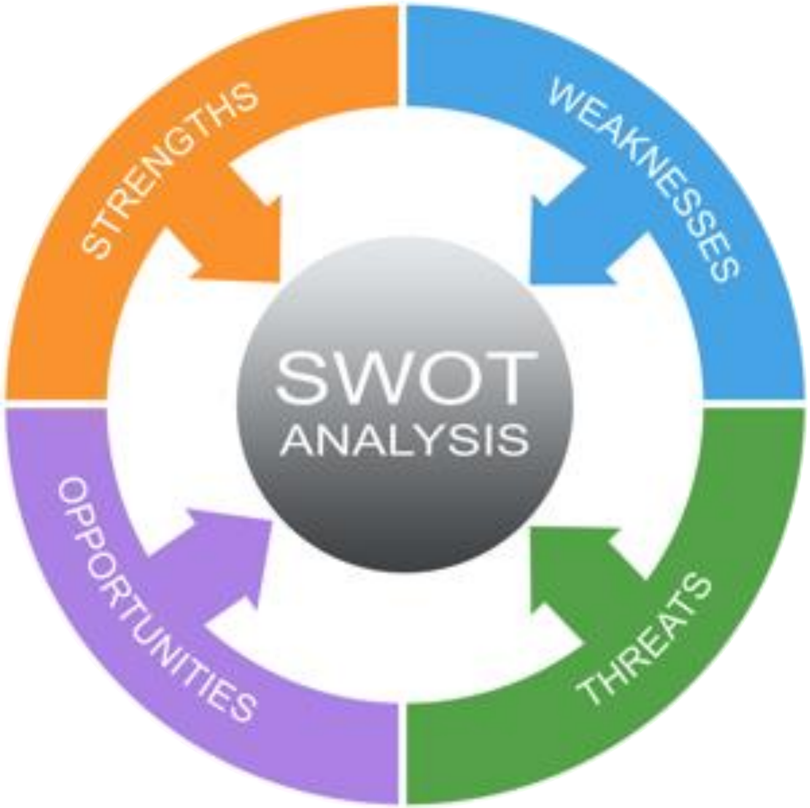
SUSTAINABILITY REPORTING TAKES CENTRE STAGE: IFRS S1 AND IFRS S2

1. Introduction

Stakeholders have increasingly demanded transparency regarding the climate effects of corporate activities. In response to these demands, several climate accounting institutions/standards were developed. These include the International Accounting Standards Board, Climate Disclosure Standards Board (CDSB), Value Reporting Foundation, Integrated Reporting Framework, Sustainability Accounting Standards Board, and Task Force on Climate-Related Financial Disclosures.



At the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 26)), the International Sustainability Standards Board (ISSB) was launched by the International Financial Reporting Standard (IFRS) Foundation. ISSB consolidates the CDSB and Value Reporting Foundation. ISSB has recently released two standards for climate-related financial disclosures; IFRS S1 and IFRS S2. The ISSB Standards were launched concurrently across different locations including Lagos, Nigeria.



2. IFRS S1 and IFRS S2

IFRS S1 (General Requirements for Disclosure of Sustainability-Related Financial Information) deals with disclosure of sustainability-related risks and opportunities in the short, medium and long-term. It recognizes that these may differ from one industry to another and refers to the SASB guide for sector-specific disclosures. IFRS 2 (Climate-related Financial Disclosures), focuses on specific climate-related disclosures. Companies are required to disclose their strategic response to climate risks and opportunities. Risks are grouped into two categories: physical and transition risks. Measures taken to manage risks would also be disclosed under this framework. Additionally, responses are to be guided by reliable metrics and targets. In this regard, there are cross-industry, industry-based, and company-specific metrics.

Both standards are capital markets-focused and designed to be globally applicable. The global applicability approach is meant to erase the complication of concurrent standards with the attendant compliance burden it places on companies. Although designed in conformity with the IFRS Accounting Standards, IFRS S1 and S2 are applicable across different accounting standards.

IFRS S1 and IFRS S2 are to be used together. The combination of these two standards is identical to the TCFD Standard under which disclosures are to be made in four categories: governance, strategy, risk management, metrics and management. The ISSB Standards will become mandatory in any jurisdiction that makes them applicable law. Nigeria has agreed to adopt the Standards. This means that Nigerian companies will be required to make sustainability disclosures starting from January 1, 2024 (the date on which the Standards become applicable apart from early voluntary compliance).

3. Challenges

As climate accounting is relatively new globally, there is now a need for regulators, industry players, and other stakeholders to acquire the knowledge and skills that would enable them to comply and/or uphold the Standards. Challenges associated with conventional financial reporting will also play out in the context of sustainability reporting. Thus, issues such as poor public data infrastructure, paucity of reliable data, and corruption, must be dealt with. In the absence of this, greenwashing would become prevalent and may erode confidence in Nigerian sustainability reports. Where such is the case, it may become difficult for compliant companies to access the incentives related to climate compliance. The implication would be that the promises of climate fiancé would not be fully realised in Nigeria.

4. Recommendations

As the energy transition opens opportunities for climate finance, it also re-emphasises the need to make critical investments in the infrastructure and systems that support data gathering and responsible financial reporting. ISSB intends to set up a Transition Implementation Group to support companies that apply the ISSB Standards. It also plans to launch capacity-building initiatives to support effective implementation. These will however not be sufficient unless stakeholders in each jurisdiction make the policy and governance choices that would provide the context suitable for implementation of the Standards.

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