Understanding "Sustainability/ESG Challenges" within the context of IFRS S1 and S2 adoption

Zambia Institute of Chartered Accountants

What is sustainability? Explaining some terminologies

What is sustainability? Explaining some terminologies

Sustainability isn't about ticking a box.

"... development that meets the needs of the present without compromising the ability of future generations to meet their own needs..."

The Brundtland Commission

Sustainability includes a broad range of practices and principles aimed at promoting **long-term ecological balance**, **social well-being**, and **economic growth and prosperity**.

ESG refers to a set of criteria/ topics to understand sustainability risks, opportunities and impacts. Ultimately represented by data points that allow the measurement and reporting on associated goals, metrics and targets to evaluate progress and performance.

Climate change is referring to long-term changes in average weather patterns that define our climate. The effects are extending beyond climate risks and environmental impacts to social, economic and governance aspects of society.

Sustainable business refers to a company operating in way that ensures long-term success while reducing negative ESG impacts that result from their operations across their value chain, while also seizing opportunities for innovation, cost savings, enhanced brand reputation etc.

What are current sustainability considerations in the market?

Navigating market dynamics: ESG pressures on data, low carbon emissions, social and economic growth opportunities

Pressure is mounting on companies to respond	ESG data dilemma means rethinking data	Climate risks and social issues are key across our continent	Moving from compliance to growth/ value creation

What companies may consider

Pressure is mounting on companies to respond	ESG data dilemma means rethinking data	Climate risks and social issues are key across our continent	Moving from compliance to growth/ value creation
Companies feel pressure to respond to sustainability	Data is needed to understand current position, set targets, measuring and monitoring to report and steer strategically	Climate risks are real and require preventative and adaptive measures	ESG risks, opportunities and impacts inform business strategy
Pressure from investors, customers, governments, staff, NGOs and communities	ESG data is complex	Social issues are a big concern across Africa and need to be prioritised	Extend sustainability across the value chain
Clear and strategic responses are required to build a compelling narrative	Data needs to be available, accurate, consistent to avoid loss of credibility and greenwashing	Strategic planning and roadmaps need to be developed	Use ESG in value creation
			Formalised governance, high level board and leadership engagement

TR_

ZiCA
Zambia Institute of Chartered Accountants

3

Sustainability - Global perspective

There are four megatrends creating massive issues for humanity - climate change stands out as the most urgent existential threat

All megatrends have significant social consequences

Climate change triggers investment in new technology and the creation of new jobs, which will benefit some countries and some demographic groups more than others.

Technological disruption opens up avenues for disinformation campaigns, which might interfere with countries' political and social systems.

Demographic shifts demand job creation in "younger" countries and technology for supporting aging populations in other countries.

Fracturing world disrupts supply chains. This localises technology investments which further exacerbates the gap between available skills and those that are needed.

TR_

ZiCA
Zambia Institute of Chartered Accountants

UN Sustainable Development Goals (SDG)

1. Comprehensive framework for global development across countries and business, “Blueprint for good growth”
2. Universal and inclusive, applicable to all countries
3. Partnership and collaboration across governments, the private sector, civil society, and international organisations required

17% — **SDG targets on track**

50% — **SDG targets showing minimal or moderate progress**

1/3 — **Number of SDG targets that have stalled or regressed**

TR_

ZiCA
Zambia Institute of Chartered Accountants

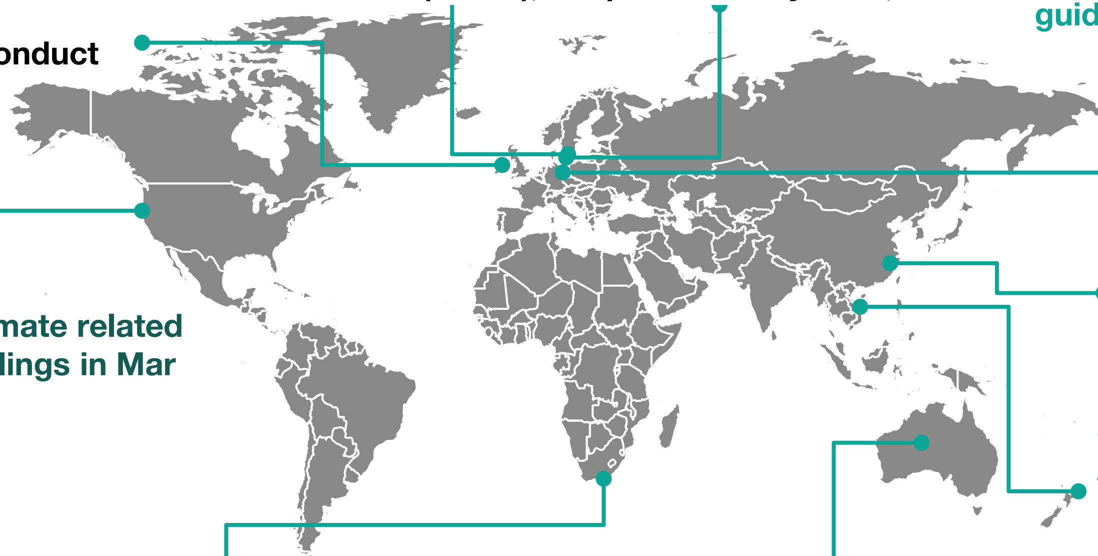
Significant policy and regulatory activity across the world

EU: EU Deforestation Regulation (EUDR) 2023

EU: Sustainable Finance Action Plan and the EU Green Deal, Corporate Sustainability Reporting Directive (CSRD), adopted January 2024, EUDR

Germany: Sustainability risk guidelines, Supply chain act

UK: Concerns about greenwashing and conduct risks



US: SEC adopted climate related disclosures in SEC filings in Mar 2024

Hong Kong: increasingly active regulator

Singapore: Monetary Authority of Singapore (Stress test scenarios)

South Africa: National Treasury promoting a sustainable economy through the SA Low Emissions Development

Australia: The Australian Securities & Investments Commission 2019 guidance

Zambia Institute of Chartered Accountants

Key Sustainability/ESG Challenges in the Zambian Context

TR

Key Sustainability/ESG Challenges in the Zambian Context

Environmental Challenges

- Key environmental issues relevant to Zambia (climate change, carbon emissions, resource depletion)
- Financial implications on industries like mining and agriculture.

Social Challenges

- Social factors (labour practices, community relations, health and safety)
- Risks and opportunities for Zambian companies.

Governance Challenges

- Governance issues (board diversity, corporate transparency, ethical behaviour, and corruption)
- Impact on financial performance and reputation.

Challenges with IFRS S1 and S2 Adoption

TR

Challenges with IFRS S1 and S2 Adoption

Data Collection and Reporting

- Lack of reliable and standardized data (e.g. Companies may struggle with
- Gathering environmental or social data and translating it into financial metrics.

Materiality Assessments:

- Difficulty for companies in determining which ESG factors are material for their specific industry or stakeholders.

Integration into Financial Reporting

- Integrating sustainability related data into traditional financial statements.
- This often requires new processes, systems, and expertise.

Stakeholder Engagement

- Engaging stakeholders, including investors and regulators, with varying expectations for ESG disclosures

Challenges with IFRS S1 and S2 Adoption

Cost

- Budget (e.g. Companies may struggle to find resources.

Capacity building:

- Governance.

Road map

- Clarity in the road map.

Responses to some of the challenges with IFRS S1 and S2 Adoption

Data Challenges

- Issues: Companies often struggle to collect reliable, consistent, and comparable ESG data across departments or external sources.

Solutions:

- Adopt ESG Data Management Systems: Invest in advanced data management platforms that integrate ESG metrics into enterprise resource planning (ERP) systems.
- Standardize Data Collection: Implement clear guidelines for consistent ESG data collection and reporting, aligning with international standards like GRI or SASB.

Responses to some of the challenges with IFRS S1 and S2 Adoption (Cont'd)

(a) Data Challenges

1. Use Third-party Data Providers: Engage specialized external firms to support data gathering, especially for environmental metrics like carbon emissions.

2. Improve Internal Reporting Processes: Establish internal controls to ensure that data from different departments (HR, legal, finance) is accurate and centralized.

Responses to some of the challenges with IFRS S1 and S2 Adoption (Cont'd)

(b) Materiality Assessments

1. Stakeholder Surveys and Engagement: Conduct surveys, interviews, or focus groups with key stakeholders (investors, employees, customers, regulators) to identify material ESG issues.

2. Industry Benchmarking: Compare with peers in your industry to identify common material ESG factors, which will improve relevance and comparability.
3. Use ESG Frameworks: Rely on established frameworks such as SASB, GRI, or TCFD to guide materiality assessments based on industry-specific criteria.

Responses to some of the challenges with IFRS S1 and S2 Adoption (Cont'd)

(b) Materiality Assessments (Cont'd)

1. Dynamic Materiality: Treat materiality as an evolving process. Regularly update the assessment to reflect changes in stakeholder expectations or market conditions.

TR_

ZiCA
Zambia Institute of Chartered Accountants

Responses to some of the challenges with IFRS S1 and S2 Adoption (Cont'd)

(c) Integration into Financial Reporting

1. Align ESG with Financial Metrics: Develop methods to link ESG data with financial performance, such as tying energy efficiency to cost savings or linking social impact to revenue generation.
2. Adopt IFRS S1 and S2: Ensure compliance with the new sustainability standards like IFRS S1 (General Sustainability-related Disclosures) and IFRS S2 (Climate-related Disclosures) to integrate sustainability into financial disclosures
3. Use the Double Materiality Approach: Report on ESG factors that affect both the company's financial value and its broader societal impact

Responses to some of the challenges with IFRS S1 and S2 Adoption (Cont'd)

(c) Integration into Financial Reporting (Cont'd)

1. Align ESG with Financial Metrics: Develop methods to link ESG data with financial performance, such as tying energy efficiency to cost savings or linking social impact to revenue generation.
2. Collaborate Across Departments: Involve finance, sustainability, and operations teams in discussions on how to merge ESG data into financial reporting processes.
3. Use the Double Materiality Approach: Report on ESG factors that affect both the company's financial value and its broader societal impact

Responses to some of the challenges with IFRS S1 and S2 Adoption (Cont'd)

(d) Stakeholder Engagement

1. Develop a Clear ESG Communication Strategy: Create a regular communication plan for ESG updates, using different formats (annual reports, websites, social media, investor briefings) to reach diverse stakeholders.
2. Engage Stakeholders Early and Often: Actively involve stakeholders in the ESG strategy development process, soliciting their input on materiality, reporting formats, and long-term goals.
3. Transparent Reporting: Ensure transparency in reporting ESG goals, progress, and setbacks. Stakeholders expect honest updates on where the company is excelling or needs improvement.

Responses to some of the challenges with IFRS S1 and S2 Adoption (Cont'd)

(e) Cost/Budget

1. Prioritise Cost-Effective Initiatives: Identify "quick wins" in ESG that offer substantial benefits at a lower cost (e.g., energy efficiency, waste reduction)..
2. Leverage External Funding or Partnerships: Seek green financing or ESG-linked loans that offer lower interest rates based on meeting sustainability goals. Also, form partnerships to share costs.
3. Invest in Scalable Technology: Adopt technology that allows for the gradual integration of ESG initiatives, starting small and scaling up as the budget allows.

Responses to some of the challenges with IFRS S1 and S2 Adoption (Cont'd)

(e) Cost/Budget (cont'd)

1. Build a Long-term ESG Strategy: Instead of one-off ESG projects, invest in long-term strategies that distribute costs over time, making it easier to manage budgets).

Responses to some of the challenges with IFRS S1 and S2 Adoption (Cont'd)

(f) Capacity Building

1. Train Staff Across Departments: Develop targeted ESG training programs for finance, operations, and sustainability teams to ensure company-wide understanding of ESG issues.
2. Engage with External Consultants: Leverage external ESG experts to fill knowledge gaps in the short term while building in-house expertise.
3. Encourage Cross-functional Teams: Create multidisciplinary ESG teams with representatives from finance, operations, legal, and communications to drive a comprehensive understanding of ESG.

Responses to some of the challenges with IFRS S1 and S2 Adoption (Cont'd)

Capacity Building (Cont'd)

1. Foster Continuous Learning: Provide ongoing education, workshops, and seminars on evolving ESG standards, best practices, and innovations to keep the workforce updated.

How Accountants and Auditors Can Tackle These Challenges

How Accountants and Auditors Can Tackle These Challenges

Enhanced Role of Accountants

- Accountants are no longer just financial experts but need to understand sustainability issues to ensure the quality of ESG data.

Auditing ESG Data

- Need for auditors to develop skills in reviewing non-financial information and the challenges of verifying sustainability data.

Collaboration with Other Departments

- Collaboration between accountants, auditors, and sustainability teams to ensure ESG factors are integrated into strategic planning and risk management.

Technology and Automation

- Explore how technology, such as data analytics and automation tools, can help companies improve the accuracy and efficiency of ESG reporting.

Preparing for the Future: Steps to Get Ready

Preparing for the Future: Steps to Get Ready

Training and Capacity Building

- Importance of continuous education for accountants, auditors, and regulators to stay updated on sustainability standards like IFRS S1 and S2.

Engagement with External Auditors and Regulators

- The need for close collaboration with external auditors and regulators to ensure alignment on the interpretation and application of ESG disclosures.

Developing a Sustainability Strategy

- Companies to align their sustainability strategy with their business strategy and to embed ESG factors into core decision making.

Regular Monitoring and Updates

- Companies to regularly monitor their ESG performance and update their reporting practices as standards evolve.

Conclusion and Call to Action

Conclusion and Call to Action

Closing Thought

"The future of financial reporting is intertwined with sustainability. Let’s embrace the challenge together to create a more resilient and responsible business landscape."

Q&A