The New IFRS S1 re General Sustainability related Disclosures 06/04/2023

CCH Learning:

Hello everybody and welcome to today's webinar, "The New IFRS S1 re General Sustainability - related Disclosures." My name is Susannah Gynther from Wolters Kluwer CCH Learning and I will be your moderator for today.

A few quick pointers before we get started. In the handout section, you'll find the PowerPoint slides for today's presentation. If you're having sound problems, please check your audio settings and try toggle between audio and phone. And just a reminder that within 24 to 48 hours, a notification for the E-learning recording will be emailed to you. You can ask questions at any point during the presentation by sending them through the questions box. I will collate those questions and ask them at the Q&A towards the end of today's presentation. CCH Learning also offers a subscription service, which many people have termed Netflix for professionals. It provides members with access to our entire library of recordings as well as live webinars for a competitive flat fee. That's for over 500 hours of content. For CPD purposes, your viewing is logged automatically.

Your presenters today are Aletta Boshoff, partner and national leader, IFRS and corporate reporting, ESG and sustainability. And Dean Arden, director, BDO Australia. Aletta is an IFRS advisory specialist with over 25-years experience in financial reporting and accounting, including IFRS. Aletta's involvement in sustainability and environmental, social, and governance, ESG, reporting is a consequence of her focus on an organization's ability to create and sustain long-term value in a rapidly changing world and managing the risks and opportunities associated with these changes. Aletta also puts a heavy emphasis on risk management because monitoring and mitigating risks across all three dimensions is an important priority for any company that is serious about sustainability and ESG.

Dean has been advising on IFRS and other financial reporting matters for over 15 years. Having worked for the range of clients in both the for-profit and not-for-profit sectors, Dean understands the challenges preparers face. Dean's primary role is to identify practical and compliant reporting solutions for clients and assurance staff. To achieve this, Dean works at building constructive relationships with clients with the view to providing responsive, accurate, and outcome-focused technical advice and guidance. I will now hand you over to Aletta and Dean to commence today's presentation.

Aletta Boshoff:

Good afternoon, everybody. Good afternoon, Susannah and Dean, and welcome to the session. I would like to start by acknowledging the traditional owners of the land on which we all meet today and by our respects to all this boss present and emerging. And we also extend that respect to Aboriginal and Torres Strait Islander Peoples here today.

Today's agenda, we've divided this session into five parts, so we'll start off with a bit of a recap on the current status of sustainability reporting in Australia. It is really fast moving and therefore a little bit of an update. Then we'll turn to 30 June 2023 reporting. So if you starting to think about what should your financial report look like, so that is not just the audited financial statements, but the broader director's report, operating financial review, et cetera. I think it's important that you consider the TCFD recommendations.

Then, in the third section, we look at the latest developments at the International Sustainability Standards Board. Then we move on to the lightest information on the ED and actually the imminent release of IFRS S1 general sustainability-related disclosures, and we end off with the next steps. So first of all, if we look at the current status of reporting or sustainability reporting in Australia, I think the first thing to note is that ASIC has added climate change and sustainability risks to their focus areas for 31 December 2022 reporting. And therefore, we would expect them to also have it as part of their focus areas for 30 June 2023 reporting.

And this is an extract from the media release issued on the 1st of December last year, and it's saying that climate change risk could have a material impact on the future prospects of entities, and directors may also consider whether to disclose information that would be relevant under the recommendations of the TCFD. So it's important that ASIC specifically refers to the TCFD recommendations, but then they'll also end where they say, "We know that there will be future accounting standards issued by the International Sustainability Standards Board," so that is IFRS S1, S2, et cetera. And therefore, they will also support and recommend those standards. So ASIC has given an early indication of their views around TCFD recommendations, but also the imminent IFRS S1 and S2.

I think the next thing to note is that ASIC also came out with a media release around their expectations on sustainability-related disclosures. So at the previous slide, we looked at climate risk. We looked at TCFD recommendations. We looked at the imminent IFRS S1, S2. Yeah, they take it a bit further and say, "We're not just looking at climate risk. We're also looking at broader sustainability-related disclosures." Therefore, if diversity is an issue for your organization and a significant risk, that's what you should address in your disclosures. If modern slavery is an issue, that's what you should consider. So whatever are the significant risk and opportunities for your business, whatever sustainability topic it is, that is what should be disclosed and included in your financial statements.

It's interesting to note that the TCFD recommendations as well as IFRS S1, the general requirements, and IFRS S2 climate-related disclosures, all three of those publications require and/or recommend that these disclosures are included in the financial report. There's some transitional relief maybe for the first year that it can sit outside the financial report, but ultimately, they would like this information to be included in the financial report due to the interconnectivity between the information and audited financial statements and the sustainability information. And so let's get them into the one report, so they can speak to each other.

The next thing is that we know that the ASX in corporate governance principles and recommendations, specifically the fourth edition, also make reference to the TCFD recommendations. So it's already in there since February 2019. And you also include that the TCFD recommendations are not just limited to climate risk. It actually says the ASX principles and recommendations also require a company to disclose material exposure to economic, environmental, and social sustainability risk, not just climate risk and how the entity manages or intends to manage those risks. So again, the ASX is saying, "It's not just environmental risk. It's not just climate risk. You have to consider what are the broader sustainability or ESG risks and opportunities for your organization."

And then, the next regulator to look at is APRA. So APRA in their Prudential Practice Guide CPG 229 around climate change financial risks also recommend the TCFD recommendations. And while it's not mandatory, again, I would like organizations to think about CPS 220 risk management, CPS 510 around governance more generally and also to outline prudent practices in relation to climate change, financial risk management. So what we are seeing here is ASIC, the ASX, and APRA have a very consistent message around climate-related risk, but also broader sustainability risks and opportunities and the impact it could have on financial statements.

And then, on the next slide, we are like the recent treasury consultation paper. And in this treasury consultation paper, the treasury is indicated and Australian government is indicated that they intend to align with international developments. So at this stage, the international development they're aligning with the TCFD recommendations for 30 June 2023. But in future as the ISSB issue, IFRS S1, S2 and others, the Australian government would also endorse those and recommend those. So TCFD recommendations will be captured in IFRS S2. So I think practically for a lot of Australian organizations, it would be really good to start with a TCFD recommendations because that would put you in a really good place to implement IFRS S2. So it's a stepping block approach. It's a continuous improvement approach.

So if we turn our mind to 30 June 2023 reporting, which specifically is the TCFD recommendations, I would like to flag a few key things. It is a little bit unreal that on the 6th of April, 30 June reporting is not that far away and we should really start to think about this. The reason I say that is often when we get to 30 June, finance teams keep themselves really busy with the journal entries, the year-end journal entries, reconciliations, disclosures, dealing with auditors. And that's not the best time to start to work on TCFD recommendations and disclosures because there's quite a bit of work to do so. It's a good time to start now to get ready for reporting season and the auditors. I think the other thing we should say, so we know that ASIC is starting to ask questions and say, "Organization A, why did you not include sustainability-related risk and opportunities in your operating and financial review?" So those questions are being asked. It's not just, "This is our expectation. This is our recommendation. We're starting to see some inquiries and actions."

So if we look at TCFD recommendations, a few features of TCFD recommendations, it's adoptable by all organizations. Important it's included in... They talk about financial filings, which is a terminology from the US, but that means included in the financial report. And in the US, actually, a requirement is to include TCFD recommendations in the audited financial statements. Where in Australia and the ISSB, it's not within the audited financial statements, but it's in the other information within the financial report. The whole idea is that it's designed to solicit decision use for forward-looking information on financial impacts. There's a very strong focus on risk, but also opportunities related to transitioning to lower carbon economy. So for certain organizations, there's quite a lot of opportunities when they transition to a lower carbon economy. So if you use a green energy or if you use less energy, you're more energy efficient. You know there's risks there, but there's also opportunities. So how do I articulate that in the content of your organization?

The next figure, I think, is an amazing diagram to pull together. It's from the TCFD recommendations to pull together the various transition risks and physical risks and how these risks impact the strategy and risk management of an organization and ultimately the financial statements, but also to articulate other various opportunities around resource efficiency, energy sources, products and services, markets and resilience, how all those opportunities impact strategy, risk management, and ultimately financial statements.

By clearly explain year as well, that when you put all these risks and opportunities together, you embedded in your strategy. You embedded in your normal risk management. And when it flows through to financial statements, we could see increased revenue or decreased revenue. There could be an impact on revenue. There could be an impact on expenses. So if you're more energy efficient, less expenses for example. So it has an impact on your income statement, your profit and loss. It also has an impact on your cashflow statement and it has an impact on your balance sheet. So it has an impact on the value of your assets and liabilities. It has an impact on your capital and financing opportunities and risks. So really nice diagram or figure to pull it all together, so we can see that climate-related risks are not sitting there completely separate from financial statements and numbers in financial statements, but they're related.

I think the next one are from the TCFD recommendations is saying, "If we look at all these risks and opportunities, what would we like to recommend? What would we expect to see in financial reports? And what are the core elements of these recommended disclosures?" Now, in this context, looking at the core elements of recommended climate-related financial disclosures, but these categories equally apply to all sustainability-related financial disclosures and it's the good old, we start with governance. So what is the organization's governance around climate-related risks and opportunities? So if you look at governance, it's around the board, but it's also around management. What are their roles and responsibilities? Then it goes, "Okay, if we've got the governance in place, how does strategy or how do these risks and opportunities impact strategy? So what are the action and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning? If we look at risk management, we also look at the processes used by the organization to identify, to assess, and manage climate-related risks.

I think a key thing here is organizations already have a risk management system in place. I would say most organizations has a risk management system in place where they look at, "How do we identify risks? How do we assess risks? How do we manage those risks? What controls do we have in place, et cetera?" And therefore all this climate-related risk but also broader sustainability-related risk should be part of the normal risk management process. So what we do not want to see is risk management for other risks and then are separately to that risk management for climate-related risk. It's just another risk to be included in the broader risk management framework. And then finally, we get to metrics and targets.

So what are the metrics and targets that would be used to assess and manage climate-related risks and opportunities? Now, metrics and targets is difficult because we have to go through a process of our governance, our strategy, our risk management. We have to think about, what data do we have in place? What systems do we have in place? What is our current position or our baseline? And then think about where do we want to go? What could the future look like? What could we achieve in future based on our existing strategy, et cetera? The risk of greenwashing is usually around metrics and targets when people publish and disclose metrics and targets, which they could not realistically achieve based on their current plans, strategies, et cetera. And that's greenwashing. We cannot put overly optimistic metrics and targets in place if we don't have the programs, the strategies, the plans in place to be able to achieve that. And it's not a hundred percent guarantee we'll achieve it, but at least we have some plans in place.

So if you think about 30 June 2023 and you think about what would these recommendations look like, so there are four pillars as we've just discussed: governance, strategy, risk management, metrics and targets. And there's 11 recommendations across those four pillars. Now if you look at governance, the two recommendations are around describe the board's oversight of climate-related risk and opportunities. So it's only describing, so it can be a qualitative and it's all about the role of the board. Where the second recommendation is described management's role in assessing and management climate-related risk. So governance has got two levels, it's the board but also management and it's a qualitative disclosure.

Then when we go to strategy, there's three recommended disclosures. So describe the climate-related risk and opportunities the organization has identified over the short, medium, and long term. And then secondly, describe the impact of these risks on the organization's business strategy and financial planning. And then, thirdly, so what are the risks? What's the potential impact? And number three, what is the organization's resilience in response and to these risks? And then if you look at risk management, again, describe the process to identify these risks. Describe the processes to manage the risks and describe how the processes for identifying assessment and managing the risk are integrated to our overall risk management framework. So it's not setting there separate. How is it part of our normal day-to-day risk management?

And all of these, the first three pillars, the disclosures are all around describing, but then when you get to the metrics and targets, we can see it changes somewhat. The first disclosure is disclose the metrics used by the organization, but the second one is interesting, it's now disclose Scope 1, Scope 2, and if appropriate, Scope 3, greenhouse gas emissions and the related risks. So it's not just describing them. It's disclosing Scope 1, Scope 2, Scope 3 emissions. And that requires a bit of work. By the way, if you need any assistance on carbon accounting or measurement of your carbon footprint, that is something we can help you with, so please reach out to us.

And then finally, now based on what our actual footprint is, we describe the targets that's been used by the organization to manage those risks and opportunities. So the principles for effective disclosure, that the disclosures should represent relevant information, it should be specific and complete. It should be clear, balanced, understandable. It should be consistent over time. It should be comparable with other organizations in the industry. It should be a reliable, verifiable, and objective. And so principle six is a call-out to some form of assurance, and seven, it should be provided on a timely basis.

And then maybe just circling back to what we had around Scope 1, 2 and 3 emissions. So when we looked at metrics and targets, there was a very clear requirement to disclose Scope 1, 2, and 3 greenhouse gas emissions and the related risks. Now to do this carbon footprint measurement, it's not easy and it's not fast, but it's something that should be done well before 30 June and should definitely be started now. You don't want to do it while you're busy with financial audits and auditors. So knowing the difference between Scope 1 around the emissions from the activities and the assets we control, so that's our direct emissions as opposed to Scope 2 and 3, which are indirect emissions.

Scope 2 has its own separate category. It's an indirect emission but it's around electricity usage. So it's it own special category. And then all other indirect emissions are grouped in Scope 3. And really, you can be very accurate on Scope 3, or initially, you might just estimate scope three and identify where the gaps in your data is, so you can potentially measure it more accurately in future. I think what's important is this is a continuous improvement journey if we want to start to and if we are required to start to disclose our Scope 1, 2 and 3 emissions, it's important to get started, so you can identify gaps in your data on your processes and get better at that. So it's just a call to action, I think really important that we look at that.

So we've talked about the TCFD recommendations which will be in play and it has been in place since 2019, but there's a renewed focus on it for 30 June 2023 reporting. The other thing that has a focus is the International Sustainability Standards Board, which is the sibling organization of the International Accounting Standards Board. And the ISSB is trying to consolidate, incorporate a lot of existing frameworks and then issue IFRS sustainability disclosure standards. This body's only been created 18 months ago at COP 26, so that was in Glasgow in November 2021, but already they've issued two exposure drafts and we are expecting to see the final IFRS S1, S2 before the end of June.

So on the next slide, you'll see the two standards that they're currently working on and we've got two EDs. The one which we'll be talking about today is ED IFRS S1, general requirements around sustainability-related financial information and then ED IFRS S2, which we'll talk about I think next Monday is around climate-related disclosures which will incorporate the TCFD recommendations and actually replace those TCFD recommendations. So Dean, I think this is the place where I hand over to you to pick up IFRS S1 and step through the proposed disclosures in IFRS S1.

Dean Arden:

Thanks, Aletta. And just to make a clear everyone, Aletta and I did not discuss what we were going to wear today on the webinar. It appears that we're both wearing blue shirts. We did not discuss that before we think. So to dispel any rumours about that, no, we did not discuss it. Thanks, Aletta.

I thought it was interesting and maybe for the listeners and the viewers, they might be sort of questioning like, "Aletta is talking given quite a bit of background and I suppose the question then is, where does that fit into this discussion?" Well, where it fits in is much of the stuff that Aletta is actually been discussing up to this point in time is actually contained in IFRS S1. It's unsurprising too because the ISSB has actually used the TCFD recommendations as a basis in many respects, but it's also adopted aspects of the work that the IFRS and the ISSB have done on IFRS up to this point in time. So we might just look at them and you'll get a bit of a sense of what we're talking about.

So IFRS S1, I've been trying to think of a word to describe IFRS S1. How do I describe to an accountant as to what this purpose of this standard is? And I think the best word I can think of is scaffolding. I'd like to use the word framework, but I don't think it's quite framework. It is scaffolding in a sense that it provides a framework, and I'm sorry, I'll use that term, but it provides an arrangement whereby new sustainability standards can be built on. It sort of plays the same role as IAS 1 and IAS 8 in a sustainability reporting sort of context, but I'll just leave it at that for the time being, and then we'll come back to it.

But just to give you sort of a sense of what it is, for those who've read it, you've probably immediately identified it looks a lot like is IAS 1 and IAS 8 sort of combined. So it provides this sort of scaffolding around, how do we look and how do we think about accounting? How do we think about this sustainability reporting? What are the sort of fundamentals underlying it? Now I'm not talking about conceptual framework fundamentals. I'm talking about much more practical fundamentals. So I'm not talking about assets, liabilities, those sort of things. I'm talking about who does it? How do they do it? When do they do it? What do we do if something in the standard or another standard says or doesn't say something that I need to deal with? So it's much more the rules of the road. It's more of the scaffolding that we sort of use and we take for granted in IAS 1 and IAS 8 as a basis for which we prepare financial statements on.

And as a slide there indicates, IFRS S1 is designed to be the sustainability equivalent of these standards, the IAS 1 and the IAS 8. It talks about being the complete set of sustainability-related financial disclosures. So presenting fairly the sustainability-related risks and opportunities to which companies exposed and relevant to the enterprise value. It also talks about things, concepts like... And we'll come to those in a minute. Concepts like materiality, comparability, all of those, again practical things that we, as accountants, always deal with. And in fact, probably, in many respects, we don't remember much about necessarily until we're asked about them, about the fundamental practices that we have when we deal with and preparing and auditioning financial statements.

IFRS S1 is also providing some guidance to enable reporting by a company on all significant sustainability-related risks and opportunities. So it's got some disclosures in it and keeping in mind these exposure drafts are the first in what is going to be anticipated be a number of sustainability standards going forward, but in many respects, the IFRS S1 is that sort of framework/scaffolding type standard that gives us the basis on which we can have discussions with entities and ourselves about what practically we have to do to meet these requirements.

I'll just recap on that again, sustainability. Aletta talked about in the first half of the webinar the TCFD recommendations, so the task force for climate-related financial disclosures. IFRS S1 is very clearly talking about sustainability. Sustainability is a much broader concept than just simply the compliance that the climate-related disclosures. Sustainability, as you can see on the slide, takes into a whole broader range of issues that entities have to consider and deal with ensuring that they are sustainable, not just financially but economically, socially, politically, fundamentally sustainable going forward.

So looking at things like their impact on the environment, how their impact on the environment, how they deal with it, how in turn they seek to modify it or mitigate the effects they have on it, what they use their land for, what they use their assets and resources for. Talking about social as well, so how do they operate within the social sphere that they operate in? Companies require people, how do they deal with their people? How do they manage them? How do they engage with them? On what basis do they engage with them and whether that's in accordance with minimum requirements, whether that's in accordance with higher levels of expectations, maybe around social factors that they need to deal with.

And also governance. So how's the entity run? And it's not just about being that we've got a board. It's about being transparent. It's about managing decisions that the board makes. It's responsibility for those things. How does it come to those decisions? Does it make good decisions? How does it make good decisions? All of the aspects that basically are fundamental to how groups of people can sustain themselves over time and maintain cohesion in that group over time by ensuring that there's both investment in that group but also investment in the things that they do. So sustainability, much broader concept, and I'm planting that idea now because it's going to be relevant to some discussions later in the webinar. So sustainability, very broad concept, climate-related disclosures, probably more, not an insubstantial part of the sustainability world but only one part of it. Okay.

Now, let's look at IFRS S1. Now, like I said, it looks a lot like IAS 1 and IAS 8 combined. The reason why I say that is because there are a number of things that you'll see it when you actually read the document number of things you can see in it. It talks about, for example, materiality. Now, that's a fairly fundamental concept in accounting, and we know how it works in accounting. I mean, we've always had very clear, well not very clear, but reasonably clear guidance about how we understand it works. So it's affecting something's material when it affects the user's decision making.

In the past, we've used rules of thumbs around 5 and 10 percent on various basis to sort of make a quantitative measures of materiality, but we also have to think about it in qualitative terms. So we've got really good experience in understanding and applying materiality in a financial context. I mean, obviously, an important part about financial reporting or any type of reporting to people is making sure that you're giving useful information. And a part of that communication process ensures that you're not clouding the more important messages with maybe less important information that may not be necessarily as important to the decision making of users as is the case with the more important messages.

And so being able to discern what's material and what's not in a sustainability context is just as important as it is in a financial reporting context, but obviously the rules are a little bit different. When you think about how I think it works, articulate materiality in a sustainability context, I'm not going to necessarily... Dollar values are going to be important, but all of a sudden, we are not talking about dollar values so much anymore. We're not talking about how to quantify things. And in fact, a lot of the metrics ultimately and measures that people use might not be related to dollar values. They might be related to other things like volumes and amounts. And so as a consequence now, we have to think about materiality in a slightly different way. This is why IFRS S1 addresses that because you need to start to think about materiality. It's a part of that communication process, but it's also important understanding exactly how do I articulate it and how do I therefore apply it.

There's also a discussion of the enterprise value, and obviously, that's relevant to understanding how materiality works. So materiality has an impact on the enterprise value. It's important to remember now, again, we're not necessarily talking about assets and liabilities here and enterprise value might be how other people view the value of the company. Now it might not necessarily be directly measured by perhaps market capitalization of a listed company. It might have some other feature that you say that, well, it has importance beyond that. So enterprise value, it has to reflect obviously the timing, uncertainty, future cash flows. It's important to that measure of materiality, but it's also important to think about it's much more longer term and I think an interesting way of contextualizing this is to sort of talk about... If we look at market prices on a listed market for companies, the participants in that market often can and do understand the implications of certain information for reporting entities and their value as an enterprise and therefore what their market capitalization should be.

I think there is some clear indications in the market that it's not always easy to translate how, for example, future sustainability measures or aspects necessarily are how those things impact the value of companies. And it's probably a two-way street in the sense that we've not necessarily had the information to assess in the past. So people haven't got their experience in doing so, but it's not also necessarily been for forefront on people's minds about how does these entities actions in terms of its climate. It impacts going to affect its value. We are now seeing that. You're starting to see the impacts being translated into dollar amounts. And so as a consequence, we still have this issue of, "Okay, materiality ultimately is going to be driven in some respects by the enterprise value," but we don't necessarily rely on things like this age particularly.

Maybe market capitalization is a measure of that because that information is not necessarily being impounded as well as perhaps other information that market participants have been using more frequently in the past and understand better. Sustainability disclosures must be made available at the same time as financial statements. Now, this is one of the requirements in IFRS S1 or one of the proposals in IFRS S1. Now, this is an interesting one because it goes to the point that Aletta was talking about before the idea that all of a sudden, if IFRS S1 is saying, "We need to make these disclosures at the same time as our financial statement disclosures," we're going to be doing two things at once. So we need to have our processes and procedures in place to enable us to capture that information, process it and have it ultimately audited at some point in time, not at this point, but certainly in the future that's something on the cards and be able to then communicate that information at the same time.

If you look now at the way companies, particularly the ones that are voluntarily issuing sustainability reports, often they're doing that after their financial statements have been published or at some other time during the financial year. They're not necessarily aligning. I think that that's a resource management issue obviously. But going forward under IFRS S1, the expectation would be this information is disclosed at the same time. So this is really putting a lot of pressure now and making it very clear that if, for example, the SSB ultimately adopt these standards, that's going to be an issue that the treasury and SSB are going to have to consider too about the implications of that for reporting entities.

And this will hopefully contextualize the discussion that we had or Aletta had review at the start of this webinar. The ED IFRS S1 basically picks up the TCFD pillars. It does that through by virtue of saying that there are some core contents of that standard. And when you look at them... And I'll just find the core content. When we look at the actual paragraphs, paragraph 11, IFRS S1 actually talks about the core contents and it talks about those disclosures within the context of the four pillars. So it actually picks up the TCFD recommendations, puts them in the standard and says, "As a minimum, we expect you'll be making disclosures around the following things, governance strategy, risk management, metrics and targets." So it's providing a basis. I suppose the way I sort of see it and maybe the way my simple mind sort of works and this sort of things is to look at it and say, "Okay, IAS 1 sort of does the same thing," in the sense that it says, for example, "I would expect the balance sheet of an engine, you have the following minimum line items."

Okay. So these disclosures, IFRS S1 is not necessarily dealing with presentation or recognition, but it is dealing with disclosure and that incorporates maybe presentation to some extent. So it's actually saying, "No, no, now thinking about your disclosures, here is the high level, the core contents we expect to see." So it's actually picked up the TCFD pillars and put them in that standard. So now we're actually thinking, so the benefit of now thinking about TCFD hopefully because we have been talking about the last couple of months. I think there's been a number of times we've said actually if you're looking to move forward onto this, the TCFD recommendations are good place to start. This is the reason why because they are using the same framework as what the IFRS S1 standard is actually promoting. So same framework, same pillars.

Again a bit of a background. I mean, we've talked about this in previous, but we're going to ask, but in terms of the various pillars, you can see what they're talking about. I won't dwell on these because Aletta sort of covered them in previously. Maybe let's get into the standard and actually just have a quick look at what's kinds of things that it looks at. Breaking those core content standard to disclosures governance, I think the really important thing and I think it's really helpful being accountants to understand is that...

And again, this is not coincidence. When you open up IFRS S1, it looks a lot like an IFRS standard. Now that's not unsurprising because obviously the ISSB is a part of the IFRS foundation. It's actually got staff members on it who are from the ISSB. Sue Lloyd's obviously the deputy chair of the ISSB. She was on the ISSB prior to this. So there's a lot of carry forward of the knowledge and understanding but also how to write standards. So the good thing for accountants in adopting these is that look a lot like IFRS standards. So we understand how they work, we know what we're looking for, but also we understand how they need to be interpreted. And I think you can see that from this standard. If you think about I'll just read it and you can sort of think about it.

So paragraph 12, the objective of sustainability-related financial disclosures on governance is to enable users of general purpose, financial point to understand the governance processes, controls, procedures used to monitor and manage sustainability-related risk and opportunities. Now that's the highlight of objective. If you would compare that sort of this going on, you can see paragraph 13, to achieve this objective we'd expect any to disclose the following things. That's very much the similar structure you see in other disclosures in other IFRS standards like IFRS 15, IFRS 16, IFRS 13. All of those standards have a very similar and very much the same as this type of approach, high-level objective, and then a series of minimum perhaps disclosure requirements that might be modified subject to assessing the objective and the entity-specific facts and circumstances.

So the good thing about that is that as accountants we understand clearly why standard set is used, this type of principle-based approach disclosures. One is it's about ensuring that it no size fits all. So we understand no size fits all. You have to think about your disclosures. Facts and circumstances might require you to put more or less emphasis on particular things. Over time, things change. And so as a consequence of that, we don't want bullet point type disclosures which might be rendered irrelevant in 12-months, 18-months, two-years time. Having an objective-based disclosure standard ensures that entity have to keep coming back and thinking about it. And if their facts and circumstances change, actually I have to think about, is what I'm disclosing sufficient or do I need to disclose more? Do I need to actually disclose the changes that I've experienced?

As accountants, we already know why we have these things. And particularly, we also understand that these type of disclosures, one of the things they're trying to prevent is boilerplate disclosures. So they're trying to prevent entities just simply tick and flicking their disclosures. You have to think about your governance structures. You have to think about what's the information that users would want to know about them, how do they work, how are they relevant to your sustainability factors that you're trying to manage and the risks and opportunities that you're trying to manage. So unsurprisingly, the disclosure requirements in IFRS S1 look a lot like what UDC equivalently in IFRS 13, 14, 15, 16. Not surprisingly though they're written by people with similar sort of structures but they're trying to achieve similar things and also address similar issues.

I won't go through in detail over there on all of them, but because they're structured in a very, very similar way, but it's not surprising when you sort of read the objective and then when you start to read the underlying disclosure requirements, they're linked, and that's something I'll come back to in a sec. But it's important that they're linked to, because again, I'll go back to what I said before. The reason we have these things is it's trying to get people away from boilerplate disclosures, trying to get people to think about their particular facts and circumstances and what they think might be relevant to the users. And thinking, again, looking back at these things regularly and saying, "I disclosed a certain amount of information about certain things last year. Is that still relevant? Am I still able to meet the objective?" So we get strategy, risk management, metrics can targets, all of the four pillars of the TCFD disclosure requirements.

Getting to that issue of boilerplate, the connected information, so paragraph 42 of IFRS S1 talks about the connectivity of information. And again, it's that idea that actually there is an overlap here. So between your financial accounting information and your sustainability-related information, there's an overlap unsurprisingly. Sometimes, the things you do around your sustainability will impact your financial information, but it'll work the other way too, is that, in fact, sometimes the things you think about financially will impact your sustainability aspects, your risks and opportunities. It's not something we've necessarily seen before, but it's not surprising in the sense that the ISSB have been talking about this quite a lot. It's not surprising given... For example, the slides that Aletta went through early on the webinar, the information that the public statements from ASIC, from the ASX, and from APRA all talking about the integration of that sustainability information with financial reporting and reporting to them. It's unsurprising then that IFRS S1 then talks about connectivity of between information.

It's a high-level, again, high-level principle, but IFRS S1's sort of talking about providing information that enables an assessment of the connections between different sustainability-related risks and opportunities in a way of maybe contextualizing that is going back to that diagram that Aletta gave about from the TCFD taskforce that showed how the opportunities and the risks were related to things like strategies and moving its way down into the financial statements using that as a framework to think about, okay, when I'm sort of thinking about connectivities, what are the key connectivities between my numbers and my sustainability risks and opportunities that I want to communicate to people, and how do I communicate them? What are the important parts? What do I think the key factors are? How do I best express that to people? You have to think about that.

When you think about IFRS, IFRS doesn't really talk about connectivity. We do have connectivity throughout IFRS, but we don't really think about it. Unsurprisingly, when the International Sustainability Standards Boards now, obviously producing standards that are sort of working off the top of IFRS standards, it's unsurprising that they've identified that as something that entities have to think about as a part of the scaffolding when they're developing their disclosures.

And there's another part of that connectivity is about disclosing how sustainability-related financial information relates to the information in the financial statements. And so actually just contextualizing results saying, well, for example, looking at your financial results and saying actually some of this can be actually attributed to certain things that we've done on the sustainability front. Whether it be, "Look, we've had a better attention of employees as a consequence of better employee practices as a consequence of that would have lower turnover and lower costs associated with our employees. We can directly attribute it that."

And the way you do that is through your metrics and your measurements and actually saying one of our strategies was to improve our employee retention. We can show you by our risk and... Sorry, by our metrics and our measures that we've actually achieved that outcome. There've been other factors involved too, but there's a direct link. Some of the results and you would think that in some ways in improving the connectivity of these information flows will actually help management as well not just to be able to manage the business better but also to be articulate the story of the entity much better too.

Fair presentation, again not an unsurprising concept you did find in [inaudible 00:49:48] S1 talking about fair presentation understandably IFRS S1 also has a fair presentation talking about applying IFRS sustainability disclosure standards. I think the interesting thing to take away from this is the idea that IFRS S1 and S2 are a part of probably a larger suite of standards we're expecting to see over time. Now, it's working very much in. Again, it might be that although this is a fair while ago where we transitioned to IFRS, the ISSB had exactly the same problem when it transitioned to IFRS going back in 2005 and before that. One of the problems they had was they had very few standards of their own. They had a couple of standards of their own but they didn't necessarily have a lot of standards. And as a consequence, they had to pick up what we call the IAS standards, which are the predecessor bodies standards.

And what they had to do is adopt them. Now, over time, the ISSB have amended their IAS standards. They've may be replaced them like they are at the moment we say they're replacing IFRS 4 with IFRS 17. So it's a gradual process. The ISSB is in exactly the same position. So it's got these scaffolding standards in IFRS S1 and S2, but they don't have detailed standards sitting behind them. So IFRS S1 and IFRS S1 sort of have some level of disclosures, but they don't get into the real weeds when you think about how we deal with maybe IAS 1 talks about you know need to present your, maybe on the face of financial statements, your material balances and intangible assets, but IAS 1 doesn't talk about how do you account from the tangible assets. Now I have to go to IAS 38 to understand that and so the ISSB is probably not in that position yet where they have that ability. They've got quite a lot of gaps, and this is one of the things that IFRS S1 also helps in the same way as IAS 8 helps with gaps in IFRS.

So looking at other standards, so the ISSB is saying, "Look the way and the hierarchy that you maybe have to think about it when you're actually producing a sustainability report in the absence of detailed disclosure guidance is you start with your IFRS S1 and S2." And then if you've got gaps, you start working your way down. So starting with SASB standards, sustainability accounting board standards, going down to their non-mandatory guidance, they may be looking for more recent pronouncements than other standard setters and ultimately maybe sustainability-related risk opportunities identified by companies in the same industry. So you're actually looking to other entities to find some guidance on what to do it. This sort of works like a hierarchy does in IAS 8. So the idea that if we've got a gap, how do we deal with, and that's another part of the scaffolding that sort of IFRS S1 provides for sustainability reporting, and that's probably just contextualizing that and giving a bit of a summary.

But you can see there the is the ISSB is it's expected to use SASB standards for future topics. And therefore if you were looking for gaps, probably the SASB standards would be your first board call in terms of trying to fill a gap. Maybe if you were trying to understand how do I disclose or what do I disclose around this particular item. Maybe given that the core contents in IFRS S1 are pretty high level. If I'm starting to get down into the weeds, what do I need to disclose or what suggested I disclose?

Again in terms of actually trying to fill those gaps, the ISSB have sort of indicated in ED IFRS S1. It's a good place maybe to start when you're trying to actually articulate what your sustainability, I suppose your proposition is, maybe starting with those value chain issues. So starting with supplier marketing distribution channels, where do you source your materials from your services, from your product service? Think about your financing and regulatory environment and what are you subject to there and your human resources. So where do you source them, how do you deal with them? How do you manage them? Under what circumstances do you manage them?

Again, it's unsurprising. When you look through IFRS S1, you're going to see this sort of terminology and concepts are popping up again and again and looking exactly like the ones in IAS 1 and IAS 8. So there's guidance on comparatives. There's guidance on frequency of reporting, location of information, how do I deal with errors? How do I deal with estimates, statement of compliance? So very, very similar contents to what you see in IAS 1 and ISA 8. Hopefully, you can see now why are sort of hesitant to use the concept of framework because it's much more practical on a framework. We think about frameworks as concepts and definitions. Whereas this is more your nuts and bolts, the scaffolding that gets you to your financial statements, like what are the key things that we have to do in practice to repair these financial statements?

As an example, looking at how do you deal with it, IFRS S1 makes this example and provides examples and also provides sort of description about how do you deal with, for example, transition. This is just an example of sort of situation where in the past maybe I'd had some information, I've disclosed some information but as I've transitioned into IFRS S1, I've increased the amount of information I've been able to get. And therefore, how do I deal with that? Do I go back and restate or do I deal with it as on a prospective basis? So those sort of practical things that IFRS S1 is sort of dealing with. It's not deep in the concepts, it's actually deep in the practical application.

On the 16th and the 17th of February this year, the ISSB held inaugural IFRS sustainability symposium. And as a part of that, and this may be going again to the ideas of guidance. We're also getting some ideas about where the ISSB is sort of heading with some of these matters about the practical application of sustainability reporting. I've just got a couple of next couple of slides dealing with some of the things that they discussed in that symposium. Now obviously it's not part of the standard but I won't equate it with the euphoric interpretations, but it has that sort of thinking.

So the ISSB, we're engaging with people and looking for thoughts and thinking and so you can see some of this thinking starting to seep into the discussions and ultimately into where the ISSB have got to date. And I'll come to that in a second, but I think it's helpful to perhaps just touch on quickly some of the issues that discussed in Montreal proportionality and adoption relief. I mean, this is really fundamentally about how do we get entities that have got different levels of resources.

There are different points along their journey towards sustainability reporting. How do we get them all moving in one direction and roughly at the same range and get them into sustainability reporting where that at least initially their reports are to some extent comparable? So it's some of it's practical. Well, actually, probably most of it's practical. Some of it is conceptual, but most of it's really about practicalities. How do we get them moving towards that end result?

Some of the things that were sort of discussed at the symposium were using reasonable and supportable information is available around due cost or effort. So recognizing that different entities with different capacities have different levels of information, qualities and quantities of information available to them and therefore maybe with the benchmark is not a high-level benchmark. It's what have you got available and what can you access like we do with credit risk assessment under IRFS 9, that same sort of concepts are being to make sure that the disclosures are proportional to the entities capacities and abilities and resources. Also looking at adoption relief. So what do we think should be brought in first, second, third? How do we think the transition should occur? What kind of things may be prioritized? Is there anything we can defer? And there's a quote there from Jean-Paul Servais, the chair of the board of the Oscar and he has also made a point that proportionality is really important because it also helps with capacity building as well.

More discussion on proportionality. Not surprising there's a lot around if I had to have the capacity to do certain things, how do I deal with it? Is it a case that my report is insufficient or deficient or is it a case that I can say that I'm up to a certain level given certain baselines? There was lots of discussion around how to contextualize it and how to actually describe it maybe in the standards. So there's some good discussions on that as well. Giving you sort of an idea where sort of everyone got, I might leave you just given the issue of time. I might just leave you with these slides today. You can have a think about and have a look at those later. But the key part of these slides is to give you some impression about where and what were important, it all came out of the discussions, and where perhaps the majority of people that were talking with the ISSB about these issues where they sort of ended up.

Out of that symposium, the ISSB produced their seven key takeaways and these will... And I would expect that you'll see them in their determinations going forward. You'll see them as part of their deliberations and probably as guidelines to their deliberations. First one though, ISSB standards, they're actually nearing issuance now. I think Aletta mentioned before the IFRS S1 is imminent and we'd expect IFRS S1 and S2 to be published at least not before the end of June this year. So they're very imminent in terms of their actual issuance. SASB standards are a practical tool to implement S1 and S2. Again, if you're dealing with gaps in S1 and S2, SASB standards would be the place to go. Again, it's almost like the ISSB are actually saying, "Look, our hierarchy starts there."

Global comparability remains paramounts are obviously looking at cross jurisdictions and hoping that those entities across those jurisdictions would be able to produce comparable reliable reporting under the similar standards. In contrary to that, jurisdictions are actively considering the ISSB standards, which is again a good indication for the ISSB to be able to continue with their work. So being able to adopt them if other jurisdictions are thinking that they're appropriate for more detailed disclosures. Capacity building's critical. Part of that'll be about who starts first, but also about what guidance we can actually give entities and how we can actually help them transition in and therefore get into the process of doing it. So they're actually going to build those capabilities themselves.

Work to advance integrated reporting remains underway. So again, there's still this constant work that they're doing the ISSB around how do we get the integration between reporting and helping entities to make the connections between their sustainability reports and their financial reports. And interestingly, they make a point of that the stakeholders enabled the ISSB to make significant progress. So obviously, they're getting good feedback. And obviously, they're getting good support from their stakeholders around this, and that's key. A lot of times, when you're trying to implement new systems, it's key to have everyone on board.

The ISSB update, the most recent one, February 2023, there were quite a few decisions made, but obviously IFRS S1 being imminent, but I've listed those there. I think again, in the interest of time, I might just skip through them, maybe just touch on some key ones. Now they've probably the key ones for most entities to be thinking about when is this thing going to actually occur? So they've tentatively decided to require both IFRS S1 and S2 to be effective for annual reporting periods beginning on or after 1st of January 2024. So all 14 ISSB members agreed with the decision. So there's no dissent there. Everyone thought that was a good time to start to confirm early application is permitted.

So again, entities are permitted to transition early and everyone agreed with that, permit early application, but only if an entity applies both them at the same time, so you don't get to pick and choose and that's not unsurprising. When we deal with IFRS standards and transition to IFRS, we always talked about them being a suite. They're written as a suite of standards and so you don't pick and choose. It's not a [inaudible 01:02:16]. You actually have to apply them all together because they do support each other. And everyone agreed to that and confirmed that if an entity applies, IFRS S1 and S2 early, it's required to disclose that fact. And again, that's a typical transition disclosure that we normally see.

Also, tentatively decide to make available in the first annual reporting period in which the entity applies it relief from the requirement to report sustainability-related financial disclosure at the same time as the related financial statement. So that was a good thing that the ISSB actually identified is that again, transitioning people, you need to give them some support, you need to give them some relief. And that's one way of giving relief as to spread the workload out, not put the pressure on entities to do everything at the same time. Another relief that they provide was the requirement to measure Scope 1, 2, and 3 greenhouse gas emissions in accordance with the greenhouse gas protocol, if the entity uses a different measurement basis in the annual reporting period immediately proceeding to its initial application of IFRS S2. Now we haven't talked about IFRS S2, but that's a part of IFRS S2 is the greenhouse gas protocol. Really, from the requirement to disclose Scope 3 greenhouse gas emissions, now that's been a typical one.

And again, Aletta mentioned it before and the reason was I to highlight to you is that Scope 1 and 2 are challenging, but doable Scope 3 is probably even more challenging. And when it's becomes requirement to do, obviously it puts a lot more pressure on entities to have put in place the systems and processes and it's being a much more difficult and challenging approach or in terms of being able to assess and be able to measure those things. The key part for the ISSB versus that, again, we won't get people into sustainability reporting. We don't want to prevent them from getting into it. One way to encourage them to do it is to perhaps give them a phase transition, which would exclude Scope 3 greenhouse gas emission quantification at this stage.

I suppose the key parts of the March meeting was that really the key deliberations on S1, S2 have been made. I think Aletta mentioned before June this year is when we were expected. I would imagine that the ISSB staff would be going through just simply drafting ballots and making sure that they're looking for fatal flaws in the standards before that they actually issue them so that most of the work has now been done.

There is a lot of discussion around what their agenda priorities should be going forward because they can't rest on [inaudible 01:04:40] S1 and S2 only as really under the scaffolding. They need to start putting in place more detailed disclosure requirements around very specific things like biodiversity, ecosystems and ecosystem services, human capital and human rights, and also looking at connectivity. Again, IFRS S1 identifies connectivity, but again, some of it in light of discussions they've had in symposium, it was really important that they start to now think about how do we make this thing connective? What are some of the connections that we'd expect to see that entities talk about? How do we help them facilitate their disclosures around those things?

Again, one part of the project is really to get their SASB standards up to it. And the ISSB went through a similar process with the IAS standards is to try and ensure that they are of a minimum standard and connect and interconnect with IFRS S1 and S2 properly. So that'll be the next focus of the ISSB, is to actually ensure that they can get a full suite of SASB standards up and going as well, which would support the IFRS S1 and S2 standards.

Potential transition relief re IFRS S1, the key one that I think it was at the April ISSB meeting that they decided was to focus on climate-related disclosures first and require sustainability going forward. I think again, it's that idea of giving them some relief and perhaps focusing on some key things that will help entities scale up, and so the ISSB sort of took on board those discussions from the symposium and decided, "Look, that's probably not a bad place to start." So if we get entities thinking about their climate-related disclosures first, and then we'll get them dealing with maybe other more specific ones around maybe social and governance going forward, that would be a good way to ensure that we get a transition more proportional and maybe scalable transition to sustainability reporting.

Next steps. I think a good place to start, if you haven't already is the ISSB webinars on this, they've produced three webinars. I think the last one was in February this year. Really, really interesting webinars, interesting always to hear what the kinds of things that are on the minds of the standards that is before they actually issue the standards are, and so it gives you a much better context of exactly what the requirements are. So this is why often we do listen to the ISSB publications, and sorry, the ISSB webinars if all of those types of things to get an understanding of what is it that standard standards are trying to deal with here, what's the key issues, how do I apply this? So the same applies for the ISSB standards.

These are really interesting webinars and so I've provided there some... They're really our takeaways are what we thought when we listened through to those webinars. I've provided a link there in the slides, so hopefully you'll be able to have a look at those when you get a chance. Aletta mentioned before, obviously we are working in this space of sustainability reporting. At the moment, we're working with quite a few companies at the moment about getting themselves into a position where they can actually start to think about preparing sustainability reports. That, in itself, is the hardest part of it, actually making the journey, making the start. So certainly if you are in that space, reach out to us and we're very, very happy to have a conversation around that matter. I think on that, Susannah, I reckon I've gone a little bit over time, but I've hopefully I've kept everyone's attention for the time that I have been talking.

CCH Learning:

Thank very much for that Dean to Aletta. That was a lot of information to take in there, but hope everyone has got something out of it. We will be spending the next few minutes taking questions, so please type them into the questions. And to give you some time to type those up, I will mention our upcoming webinars.

So coming up, next week, we're looking at putting a cap on contributions and benefits. After that, we're looking at the tips and traps and the foreign income tax. Oh, sorry. I believe that there's a bit of a typo there. That's actually meant to be the tips and traps of drafting a financial agreement. I do apologize on that one. On the 27th of April, it is the STP, single touch payroll phase two, a deep dive. On the 27th of April, we'll be looking at foreign income and the tax offset. Then we're also going to be looking at employees versus contractors and also navigating conflict in the workplace. If you are interested in any of those, please head to wolterskluwer.cchlearning.com.au and check them out.

So let's have a little look at our questions. So I have a question from Sarah. Sarah was asking, "When do you think the sustainability disclosure standards will be published in their final form?"

Dean Arden:

Probably before June, if not, oh, well, the latest June this year, but probably before. I mean, having worked in standard setting, you are always hesitant about putting a date on anything because there's always something happens, but I would imagine that they're pretty close. I would imagine IFRS S1's pretty close. I wouldn't be surprised if we see it in the next month or two. We wouldn't have to wait till June. But like I said, it's a bit hard to say at this stage. They usually play those cards pretty close to their chest, the standard set.

CCH Learning:

Thank you for that, Dean. I do hope that helps you out there, Sarah. I also have a question from John. John was asking, when do you expect Australian reporting entities will need to start working towards building any systems and processes? They might need to capture information about their sustain sustainability related risks and opportunities.

Dean Arden:

I think consistent with what Aletta mentioned at the start of the presentation and that the fact is that if you are an entity, and most entities are, if you're subject to say the Corpse Act or you're an ADI or you're covered by the ASX or APRA, you should be doing that now on the basis that all of those regulators are anticipating to see sustainability related disclosures in your financial statements. I mean, if a standards don't preclude sustainability disclosure. So I suppose that's the key thing to understand is that, and particularly the ones that are material to you. So for example, if sustainability is a key risk to you and it impacts your financial results, then you would expect that that would be incorporated at least in, for example, your impairment testing. You will go concern assessment.

So entities should, if they haven't already dealt with material sustainability risks, should be already incorporating them into their accounting at least. In terms of disclosures, they should be thinking about that now simply because it takes time. If you don't have those processes and procedures in place, it takes time to build them. And so yeah, I think now is probably the time to start keeping in mind, too, that I think I mentioned one of the slides there that the proposal for the mandatory application of S1 and S2 is 2024. I wouldn't be surprised if as a consequence of that, and I think Aletta mention before the treasury paper and that one of the things the treasury paper was asking us, when do you think this should be implemented? I would think that the treasury and government would be thinking that they would be aligning with international standards in this. So 2024 is looking like a key date.

CCH Learning:

Thank you very much for that, Dean. I hope that helps you there, John. Perhaps not what you're after, but it sounds like it might be coming sooner than we all expected. Well, that does bring us to the end of our questions for today. So in terms of next steps, I would like to remind you all to please take a moment to provide your feedback when exiting. We've asked you a couple of questions about today's webinar, so it's really important for us to hear your opinions. It's also a reminder that within 24 to 48 hours you will be enrolled into the E-learning recording, which can be watched multiple times and have access to the PowerPoint, transcript, any other supporting documentation, and of course a CPD certificate. I would very much like to thank Dean and Aletta for the session today and to you, the audience, for joining us. We hope to see you back online for another CCH Learning webinar very soon. Enjoy the rest of your day. Thank you very much.