

# Preparing for the IFRS Sustainability Disclosure Standards

March 2024



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# Introduction to IFRS Sustainability Disclosure Standards

Preparing for IFRS SDS – Why now?

Overview of IFRS SDS

Relationship with other frameworks

IFRS S1

- Conceptual Foundations
- Core Content
- Sector standards
- General requirements

IFRS S2

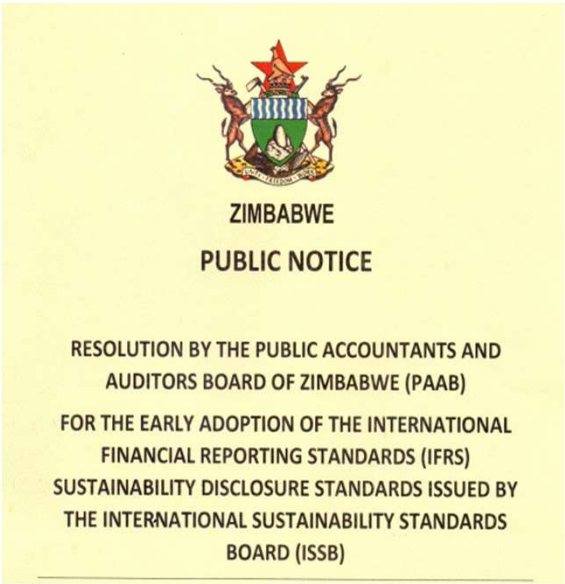
- Core content
- Specific requirements

# Preparing for IFRS Sustainability Disclosure Standards – Why now?

## Why might you be focussing on this now?

- IFRS Sustainability Disclosure Standards are effective for periods commencing 1 January 2024. The ISSB has no power to require adoption so decisions to adopt the standards are taken at jurisdictional level.
- Some jurisdictions have already taken steps to adopt the standards and many others are in the process of assessing the suitability of the standards with a view to adopting them in the near future.
- Irrespective of regulatory variations and geographical location, a global baseline is increasingly demanded within the market. Entities are increasingly facing mounting pressure from investors, lenders, customers, and various stakeholders to enhance their sustainability credentials and associated reporting practices.
- Entities adopting these standards will ultimately need processes and controls in place that are as robust as those for financial information reporting requirements, and will need to implement and/or enhance data collection practices. This will take time to get right.
- Even entities with some established processes for generating sustainability-related information will need to enhance their current arrangements. For entities already reporting using alternative frameworks such as the TCFD or GRI, further work will be required to ensure compliance the additional requirements in the IFRS SDS.

# Zimbabwe Regulatory Framework



# Introduction to the IFRS Sustainability Disclosure Standards

The International Sustainability Standards Board (ISSB), founded by the IFRS Foundation, has released the first of its Sustainability Disclosure Standards (IFRS SDS):

- IFRS S1 - General Requirements for Disclosure of Sustainability-related Financial Information
- IFRS S2 - Climate-related Disclosures

The effective date is **1 January 2024**, subject to jurisdictional adoption of the standards.

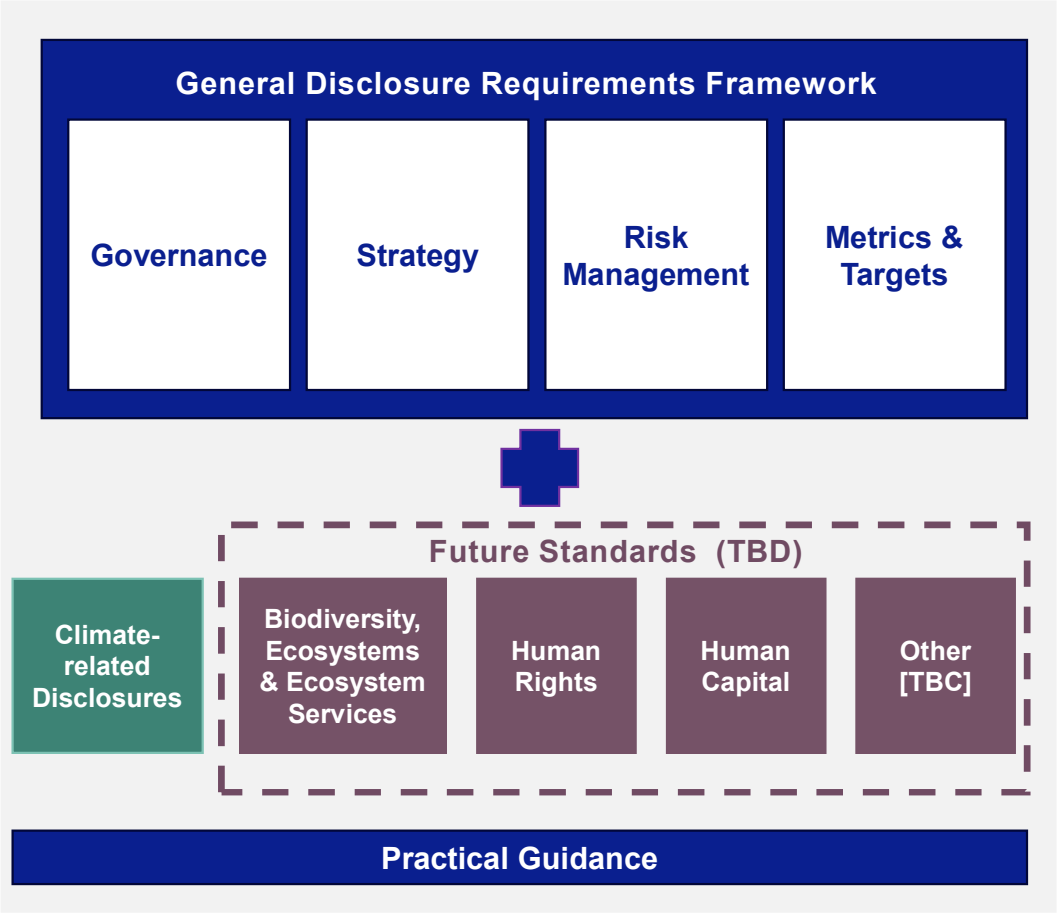
**IFRS S1** sets the foundation, encompassing:

- Conceptual foundations of Materiality, Fair presentation, reporting entity and connected information
- Core Content requirements across the four pillars of governance, strategy, risk management, and metrics and targets
- General requirements such as timing of reporting, sources of guidance, location of disclosures and comparative information
- Requirements relating to judgements, uncertainties and errors

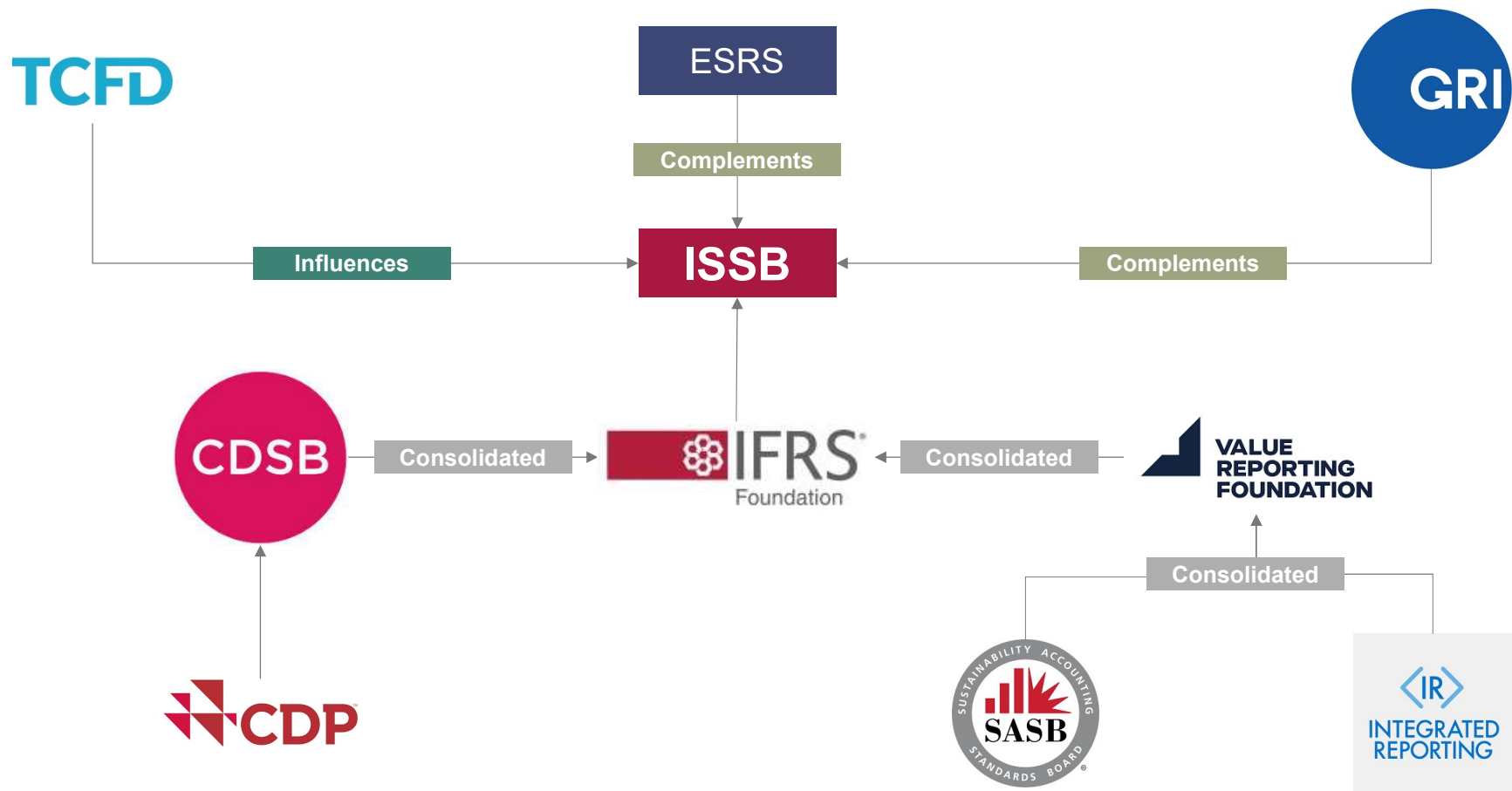
**IFRS S2** provides detailed requirements specifically related to climate-related risks and opportunities, including on:

- Climate transition plans, GHG emissions, and scenario analysis
- General and industry-specific metrics, e.g., for banking, asset management, and insurance

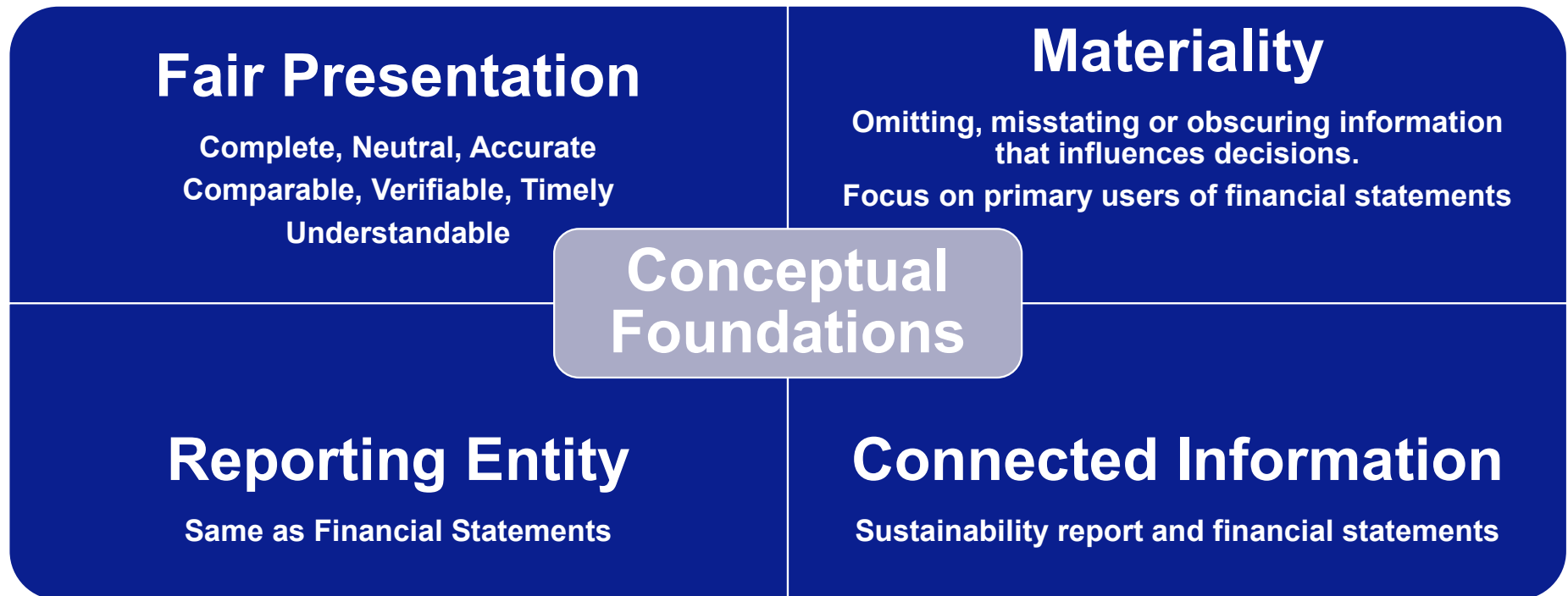
**Future topic-based standards** will follow with the topics covered to be decided by the ISSB following consultation on its work plan.



# IFRS SDS: Relationship with Other Standards/Frameworks



## IFRS S1 Conceptual Foundations





## IFRS SDS: Fair Presentation

**Complete**

- Includes all material information required to understand risks & opportunities

**Neutral**

- Without bias in selection or disclosure of information

**Accurate**

- Precise, free from error, reasonable judgements and assumptions

**Comparable**

- To prior period reports and to other entities (e.g. sector, industry)

**Verifiable**

- Capable of being corroborated/audited, including estimates

**Timely**

- Up to date and In time to influence decisions

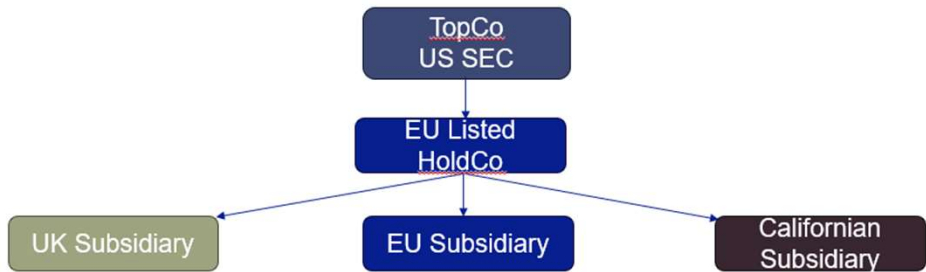
**Understandable**

- Clear and concise

# Reporting Entity and Value Chain

## Reporting Entity

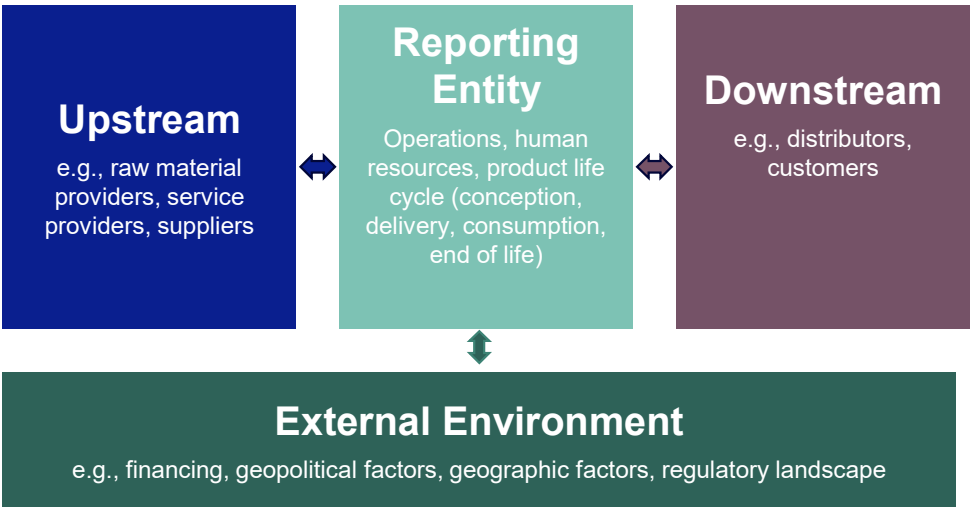
- Entities provide sustainability-related disclosures for the same Reporting Entity as the related general-purpose financial statements.
- For corporate groups, the consolidated financial statements relate to a parent entity and its subsidiary entities.
- Group reporting enables users of annual financial reports to comprehensively evaluate the enterprise value of the parent entity and its subsidiaries.
- Scoping of Group's can lead to complex reporting requirements



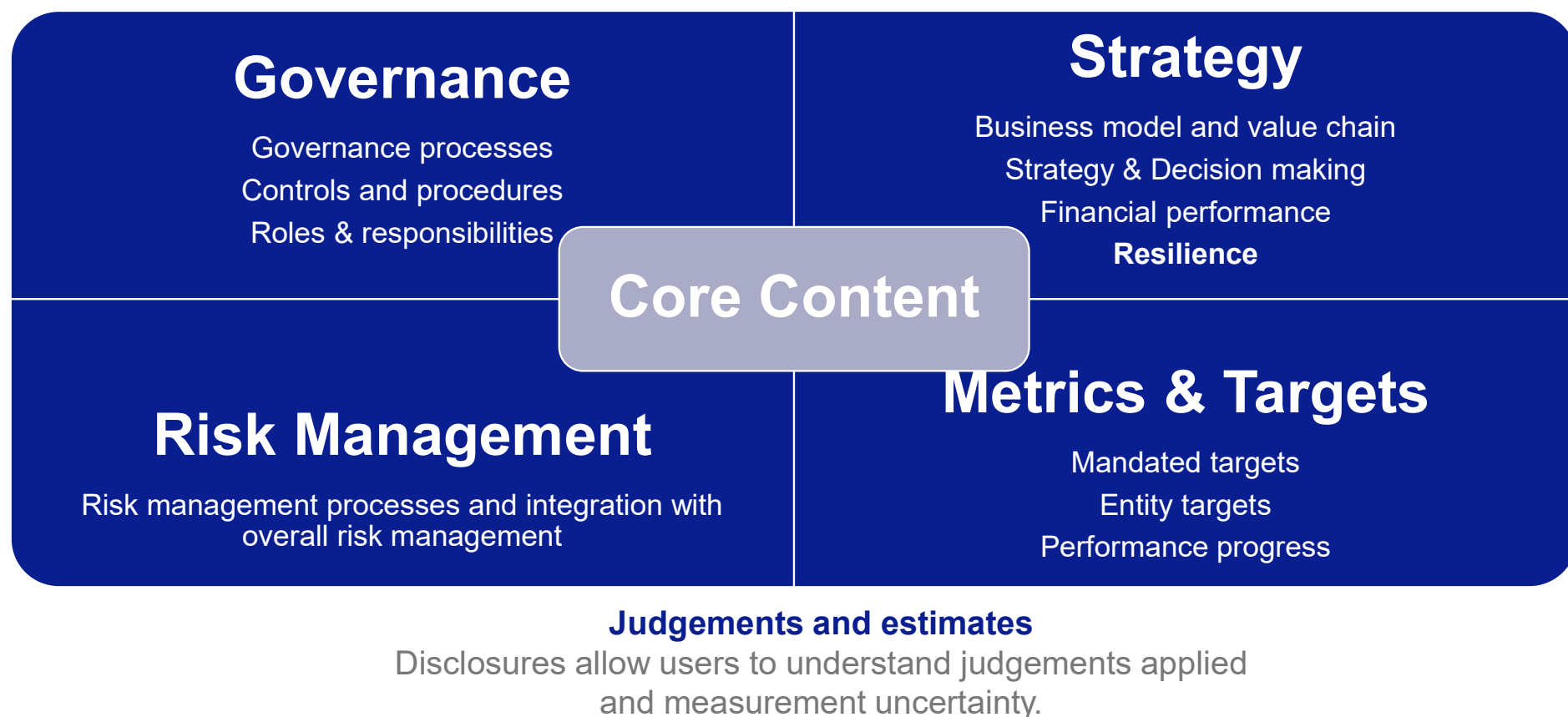
## Value Chain

*“The full range of interactions, resources and relationships related to a reporting entity’s business model and the external environment in which it operates.”*

- Interactions with stakeholders, economy and natural environment
- Material information spanning the value chain is required within the narrative and metric disclosures.



IFRS S1  
**Core content**



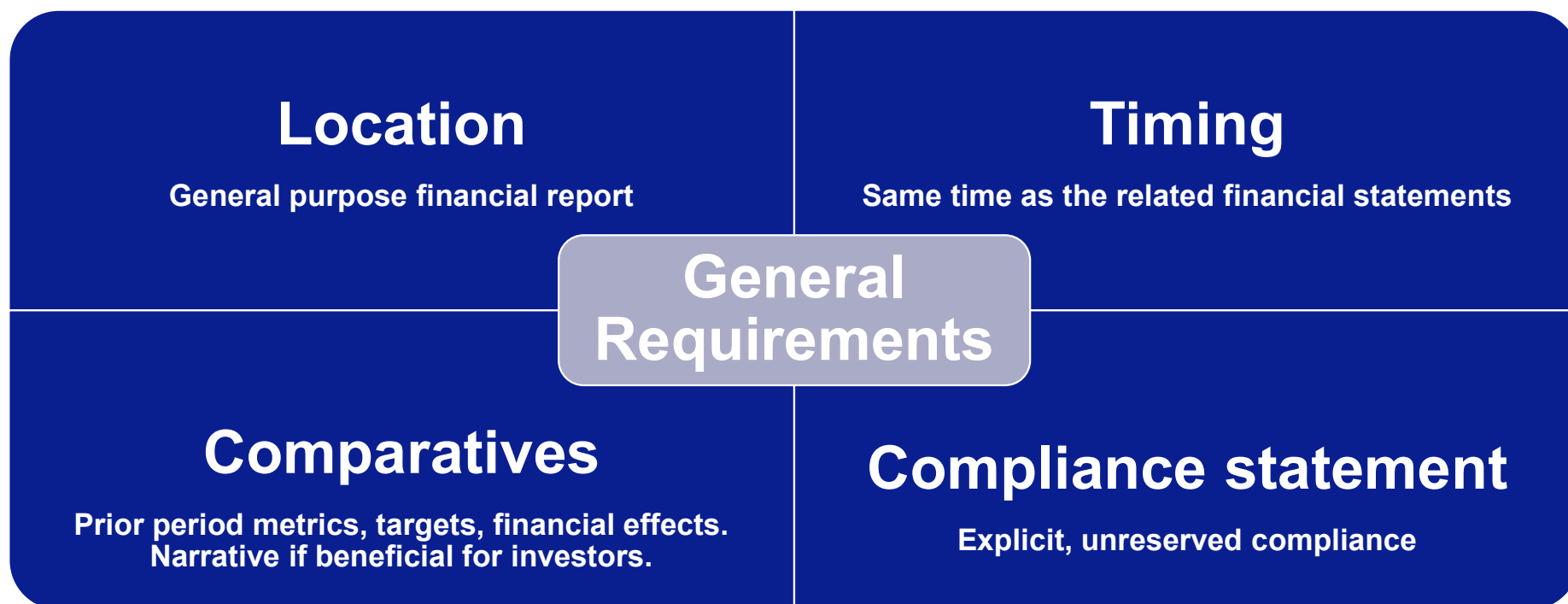
## IFRS S1

### General Requirements – Sector standards (SASB)

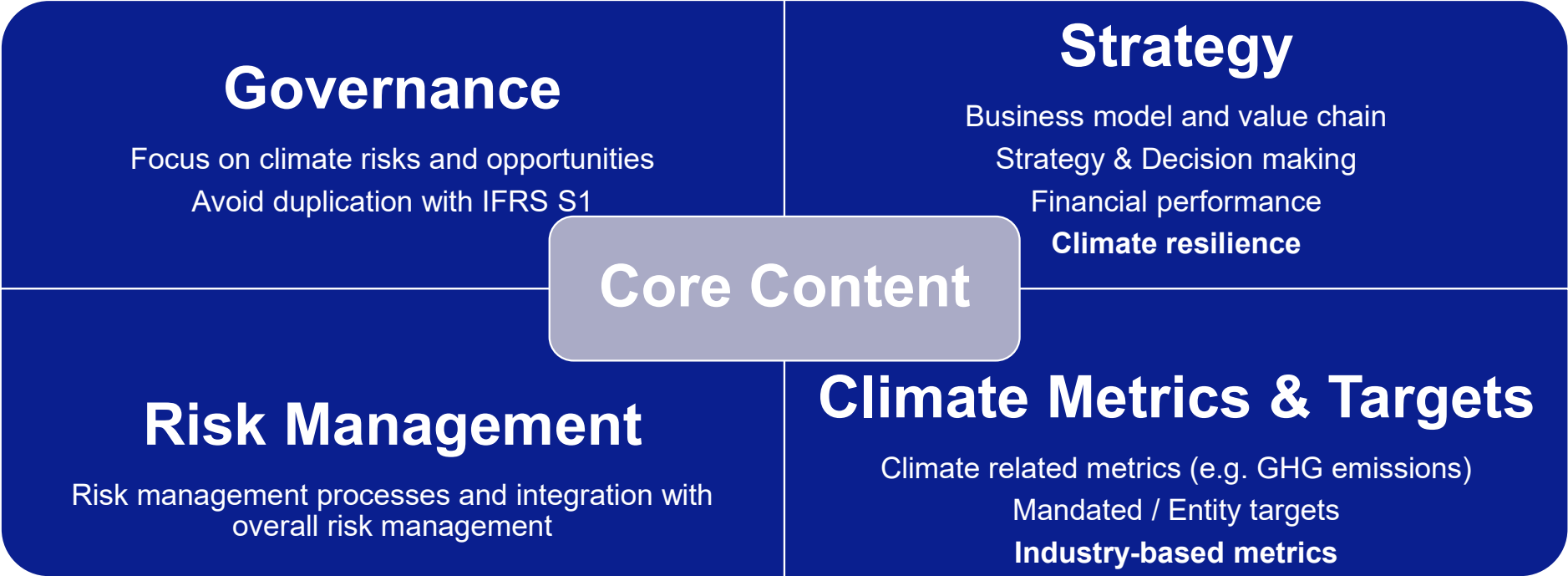
#### Identifying sector-based Sustainability-related risks and opportunities

- **Industry Descriptions:** business models, activities, and other prevalent characteristics of the industry/sector
- **Disclosure Topics:** sustainability-related risks and opportunities stemming from the activities of the industry/sector
- **Metrics:** provide valuable insights into the entity's performance concerning a particular disclosure topic
- **Technical Protocols:** guidance on the definitions, scope, implementation and presentation of the sector metrics
- **Activity Metrics:** quantify the scale of an entity's specific activities or operations

## IFRS S1 General requirements



IFRS S2  
Core content



## IFRS S2

### Specific requirements

#### Climate-related Scenario Analysis

Enhance climate resilience disclosures on ability to withstand the impacts of climate change (resilience).

Key judgements and assumptions must be disclosed (e.g. macroeconomic trends, national- and regional-level variables, energy usage/mix, and technological developments)

#### Climate-related Metrics

##### Scope 1, 2, and 3 GHG emissions

In accordance with Greenhouse Gas Protocol (2004)

Financial Institutions disclose **financed emissions**.

- **Scope 1** – direct emissions by an entity
- **Scope 2** – indirect emissions from purchased energy
- **Scope 3** – other indirect emissions across the value chain



**IFRS S2 requires entities to disclose Scope 3 emissions,** although first time adoption relief is available. Disclosure of uncertainties and method for calculation will be important.

## Alignment of disclosure standards

Alignment of IFRS SDS with other standards

What if the entity has already adopted...

- TCFD
- ESRS
- SASB
- GRI



# Alignment of Disclosure Standards

- **Task Force on Climate-related Financial Disclosures (TCFD)**

Entities applying IFRS S1 and IFRS S2 will meet the TCFD Recommendations, which are fully integrated into the ISSB Standards.

- **Sustainability Accounting Standards Board Standards (SASB)**

The ISSB has oversight over the US-based SASB Standards. Under IFRS S1, entities are required to consider the relevant SASB standards. This integration facilitates the identification and revelation of sustainability risks and opportunities, extending beyond the scope of climate considerations. The ISSB is looking to make the SASB standards more internationally applicable.

- **Climate Disclosure Standards Board (CDSB)**

In 2022, the CDSB was folded into the IFRS Foundation. Relevant resources include information on water-related disclosures as well as comprehensive guidance on biodiversity-related disclosures. These resources serve as useful guidance for entities applying IFRS SDS.

- **Integrated Reporting Framework (<IR>)**

Responsibility for overseeing the <IR> framework is now shared between the ISSB and IASB. IFRS S1 expands upon the underlying concepts of resources and relationships outlined in the framework. Entity's can leverage <IR> to standardize and present their reporting efforts, including disclosures prepared in line with the ISSB Standards.

- **European Sustainability Reporting Standards (ESRS)**

The ESRS framework aligns strongly with the climate-related disclosure requirements of IFRS S2. There is ongoing dialogue among the EC, EFRAG, and ISSB on how to better align the standards to optimise interoperability and mapping exercises are underway.



Source(s): [IFRS Foundation \(1\)](#) • [IFRS Foundation \(2\)](#)

## What if the you have already adopted other standards or frameworks? (1)

### Taskforce on Climate-related Financial Disclosures

- ISSB disclosure requirements are structured around the four TCFD pillars of **Governance**, **Strategy**, **Risk Management**, and **Metrics and Targets**.
- They provide a useful input to compliance with IFRS S2 climate-related disclosures. However, there are additional requirements in IFRS SDS including:
  - Information on:
    - governance
    - emission reduction targets
    - use of carbon offsets
  - Greater detail on the processes and inputs used for identification, assessment, and management of climate-related risks and opportunities
  - Disclosure of industry-based metrics' including GHG emissions disclosures, as well as requirement for Scope 3 disclosure

### European Sustainability Reporting Standards

- ESRS to apply to roughly 50,000 companies operating within EU:
  - Large EU public interest entities with more than 500 employees, already subject to EU's Non-Financial Reporting Directive (NFRD)
  - Large EU companies and EU subsidiaries of non-EU companies meeting at least two of the following criteria:
    - ≥€40 mm in net turnover, ≥€ 20 mm in assets, ≥250 employees
  - Listed Small- and Medium-Sized Enterprises (SMEs)
  - Non-EU companies with substantial activity in EU, i.e., ≥€150 m in annual turnover in EU and at least one subsidiary or branch in EU.
  - Non-EU entities with debt or equity securities listed on EU-regulated market.
- Builds upon TCFD pillar structure to include impact alongside risk and opportunity management
- The EC/EFRAG and ISSB are working together to ensure interoperability of the standards and mapping exercises are underway. In general, ESRS requirements go further than those of IFRS SDS and it is likely that compliance with ESRS will enable compliance with IFRS SDS (though not necessarily true in the other direction).

## What if the you have already adopted other standards or frameworks? (2)

### Sustainability Accounting Standards Board (SASB)

- ISSB Standards require entities to consider, but not apply, SASB Standards when determining material risks and opportunities.
- Entities that determine materiality and align their disclosures with SASB Standards will have met some of the ISSB Standards' requirements.
- IFRS is currently engaged in a project aimed updating and enhancing the international applicability of SASB standards.
- Ongoing alignment of ISSB Standards will cover the interoperability of SASB Standards due to SASB's incorporation into the IFRS Foundation's framework.

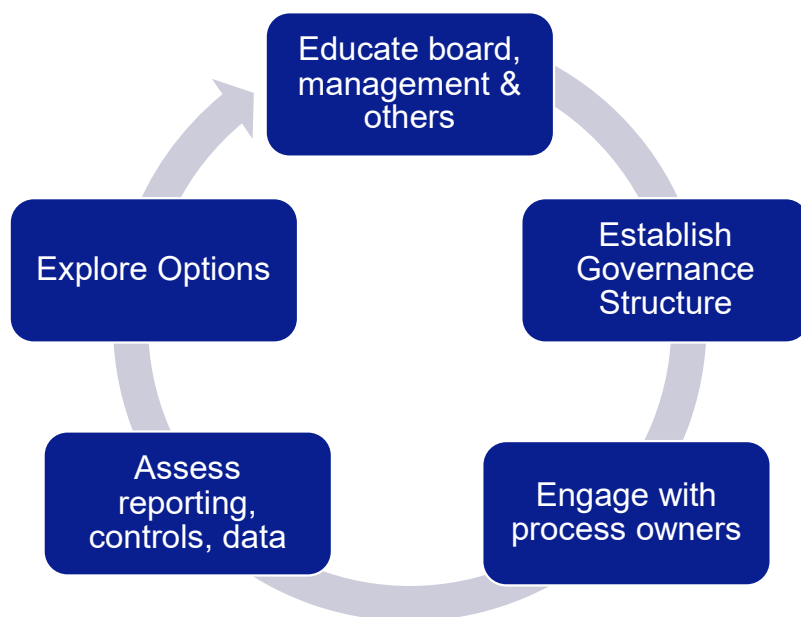
### Global Reporting Initiative (GRI)

- The IFRS Foundation and GRI have formalised their collaboration through a [memorandum of understanding](#) streamlining their efforts in coordinating standard-setting activities.
- The ISSB has indicated that issuers can take into account GRI recommendations when selecting disclosures and metrics related to identified risks and opportunities.
- While ISSB Standards prioritise financial materiality, GRI concentrates on impact materiality.
- Leveraging both standards would enable a dual-pillar structure where IFRS S1 & S2 enhance investor-oriented reporting and GRI Standards continue to serve broader sustainability reporting purposes.
- In certain jurisdictions requirements such as the EU, additional efforts are necessary to integrate existing GRI reporting with ESRS Standards, reflecting specific regulatory requirements.
- Crafting a cohesive suite of reporting is pivotal in catering to the information needs of current and prospective investors, lenders, creditors, and other stakeholders.

# 03

**What should you do now?**

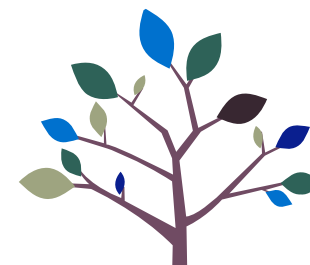
## What should you do now?



- **Educate** the board, management, and those responsible for reporting about entity's exposure to sustainability-related risks and opportunities.
- **Establish** clear governance structure that is supported by cross-functional collaboration between departments.
- **Engage** with current process owners to gain insight into how information is defined and captured, while identifying control gaps or opportunities for process improvements
- **Assess** maturity of sustainability reporting processes, controls, and data models; exploring options to determine target operating model; and developing roadmap addressing identified gaps.
- **Explore options** for transformation of reporting requirements and assurance readiness in consideration of jurisdictional requirements.

# Implementation: Next steps

Prepare for compliance...



1

## Basis of Adoption

- Mandatory or voluntary

2

## IFRS SDS Awareness & Training

- IFRS SDS Technical training
- Impact on the business

3

## Materiality Assessment

- Identify material disclosures
- Identify priority areas for action

4

## Gap Analysis

- Identify areas where further action is required to ensure compliance

5

## Compliance Projects

- Governance
- Value Chain
- Internal Control
- Internal Policies
- Metrics and performance

... and anticipate its role as a strategic driver for sustainability and business performance through:

- Embedding sustainability, including management of risks and opportunities
- Updating reporting processes and data governance
- Enhancing systems, processes and controls
- Improving data production and collection
- Communication & tone of sustainability report

## Implementation: Costs & benefits for entities



Entities



### Likely Benefits

- Improved data quality
- Better information to inform governance/strategy, driven by focus on risks and opportunities
- Increased access to capital
- Lower cost of capital which can demonstrate good performance
- Improved (or maintained) reputation
- Greater stakeholder and employee engagement
- Enhanced systems, process and internal controls



### Likely Costs

- **Upfront implementation costs**, including expenses for recruiting contractors, consultants or employees, training, setting up new processes and systems, designing new internal controls, and increased management time required (including communications)
- **Ongoing application costs**, including data collection/analysis, compliance with assurance and other requirements, recruitment, and more
- **Assurance costs**
- **Potential litigation risks** related to wider stakeholder engagement/interest

# 04

How can we help?



# Our sustainability services

Global centres of excellence allow our teams to support your sustainability journey from strategy to implementation and reporting. We cover below the services currently most in demand.

## Defining the right strategy

- Assess where you are on your journey with our proprietary Sustainability Health Check
- Highlight the material sustainability topics that have the largest impact on your value creation model and relate to the most critical economic, environmental and social risks
- Identify the business opportunities that arise from your material sustainability stakes
- Design a comprehensive sustainability strategy, encompassing overarching objectives on sustainability stakes, quantitative KPIs, and precise roadmaps
- Formulate a stakeholder engagement policy, ensuring all parties are considered, approach planned, and strategies agreed



## Implementing change: expertise and transformation

- Adapt your systems and processes to measure chosen sustainability indicators
- Receive support for the project management (PMO) of your sustainability journey
- Calculate your carbon footprint and identify levers to come closer to neutrality
- Perform an assessment of your corporate culture with our unique cultural compass tool
- Access new financing options by leveraging our sustainable finance capabilities
- Review your anti-corruption programme design and implementation
- Carry out a human rights check throughout your procurement and value chains
- Make your organisation a safe place through our Diversity & Inclusion programme

## Assessing and reporting progress: reporting, compliance and assurance

- Design quality and impactful reporting by identifying and prioritising important areas
- Understand how to transform your compliance obligations into a competitive advantage
- Leverage our insights on mandatory regulations, international voluntary standards (GRI, TCFD, SASB...), and best practices
- Inform key stakeholders of the progress made towards set objectives
- Enhance the credibility of your disclosures related to corporate responsibility and sustainability activities

## How can we help?



- Training on IFRS SDS requirements and implementation
- Understanding of “**as-is state**” via gap analysis
- Supporting entity’s developing their materiality assessment
- Implementation of effective governance model for ESG
- Establishment and optimisation of reporting processes for ESG data
- Development of sustainability reporting
- Advice and dialogue on current and future reporting regulations
- Facilitation of effective and valuable interaction with capital markets

# Contact

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