IFRS Sustainability Standards (S1 and S2)

Governance Pillar

pwc

Investors' Support for Sustainability-related Governance

The IFRS S1 and S2 are investor focused as they are designed to provide substantial information, to help investors make better investment decisions. As entities adopt S1 and S2 for disclosures, knowing the pulse of investors regarding sustainability governance is crucial.

Below are some statistics from a Global Investor Survey conducted by PwC in 2023.

69%	of investors say they would increase their level of investment in companies that successfully manage sustainability issues relevant to the business' performance and prospects
57%	of investors say that if companies meet upcoming regulation and standards (e.g. ISSB) it will meet their information needs for decision-making to a large or very large extent
75%	of investors believe that how a company manages sustainability-related risks and opportunities is an important factor in their decision making
75%	of investors wanted to know about the impact a company has on the environment or society (inside-out reporting).

About this

Factsheet

The emergence of the IFRS S1 and S2 standards as a global baseline to guide sustainability-related disclosures births a new phase in sustainability reporting. The disclosure requirements of S1 and S2 standards are not alien, as commonly used standards like TCFD, GHG protocol and SASB have been integrated into them, with SASB and GHG protocol still supplementing the standards.

Similar to the TCFD, the IFRS S1 and S2 standards are anchored on four core contents: Governance, Strategy, Risk Management, and Metrics and Targets. This factsheet is one of four factsheets that spotlights areas of these core contents. The focus here is Governance, which is the driver of the other core contents (strategy, risk management & metrics and target).

As entities adopt IFRS S1 and S2 for sustainability-related disclosures, aligning existing processes and structures is essential for holistic and transparent disclosures, one these structures is Governance.

Governance is most pivotal part of any organisation’s sustainability journey, it is the catalyst for transparency, brand reputation and value, and this factsheet provides valuable yet succinct information on the proper management of this focus area in line with S1 and S2 disclosures.

This factsheet spotlights areas that entities must consider aligning their processes, controls and procedures to, for the oversight, monitoring and managing of sustainability-related matters, to adequately disclosure in line with S1 and S2.

For the purpose of this factsheet, general areas where the word “sustainability” is used, refers to sustainability and climate issues except when the content title focus is on only S1 or S2.

The Four Core Contents of S1 and S2

The Governance Core Content in IFRS S1 and S2

Governing Body

A group of individuals that:

- are responsible and accountable for the overall performance of an organisation
- establish a structure that guides the operations in an entity
- determine the strategic direction of an organisation.

Sustainability-related Governance

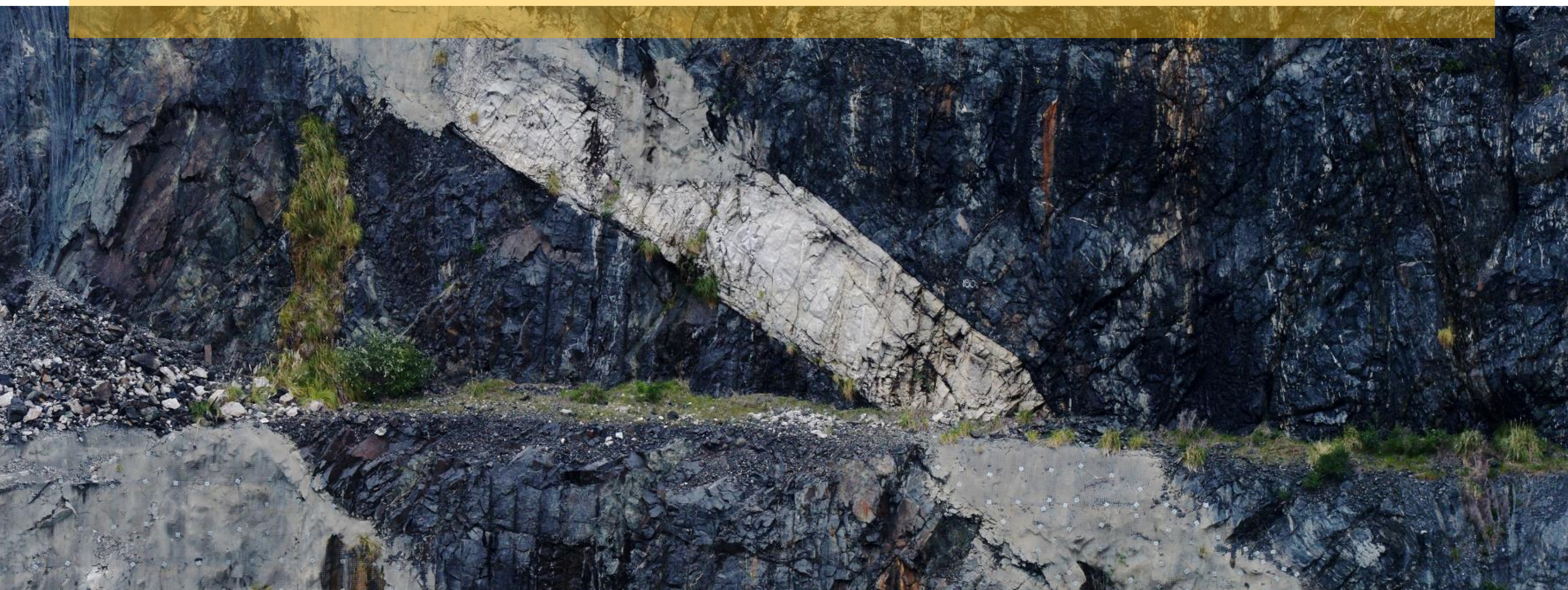
A body (Board and Management Team) dedicated to sustainability oversight, including monitoring and managing sustainability and climate-related risk and opportunities in an organisation.

Good Governance Practice

In line with good corporate governance practices, entities must disclose to align with the transparency principle.

IFRS S1 and S2

- Entities need these standards to enhance transparency in governance practices.
- These standards provide a global baseline for disclosures, making information more comparable to aid investors make their decisions.



Overview of Sustainability-related Governance

The Board and the Management Team are the required leadership structures to drive sustainability performance. The Board dictates the "tone at the top" and must ensure good information flow with management. The following are examples of governance responsibilities in sustainability-related matters:

01 ensures that the sustainability strategy is integrated into corporate strategy

02 decides and approves sustainability-related roles and responsibilities

03 monitors, manages and oversees an organisation's sustainability journey and performance

04 ensures the adherence of employees to sustainability-related policies and procedures

05 approves sustainability-related information to be disclosed

06 oversees and manages the timely and accurate disclose of sustainability-related performance

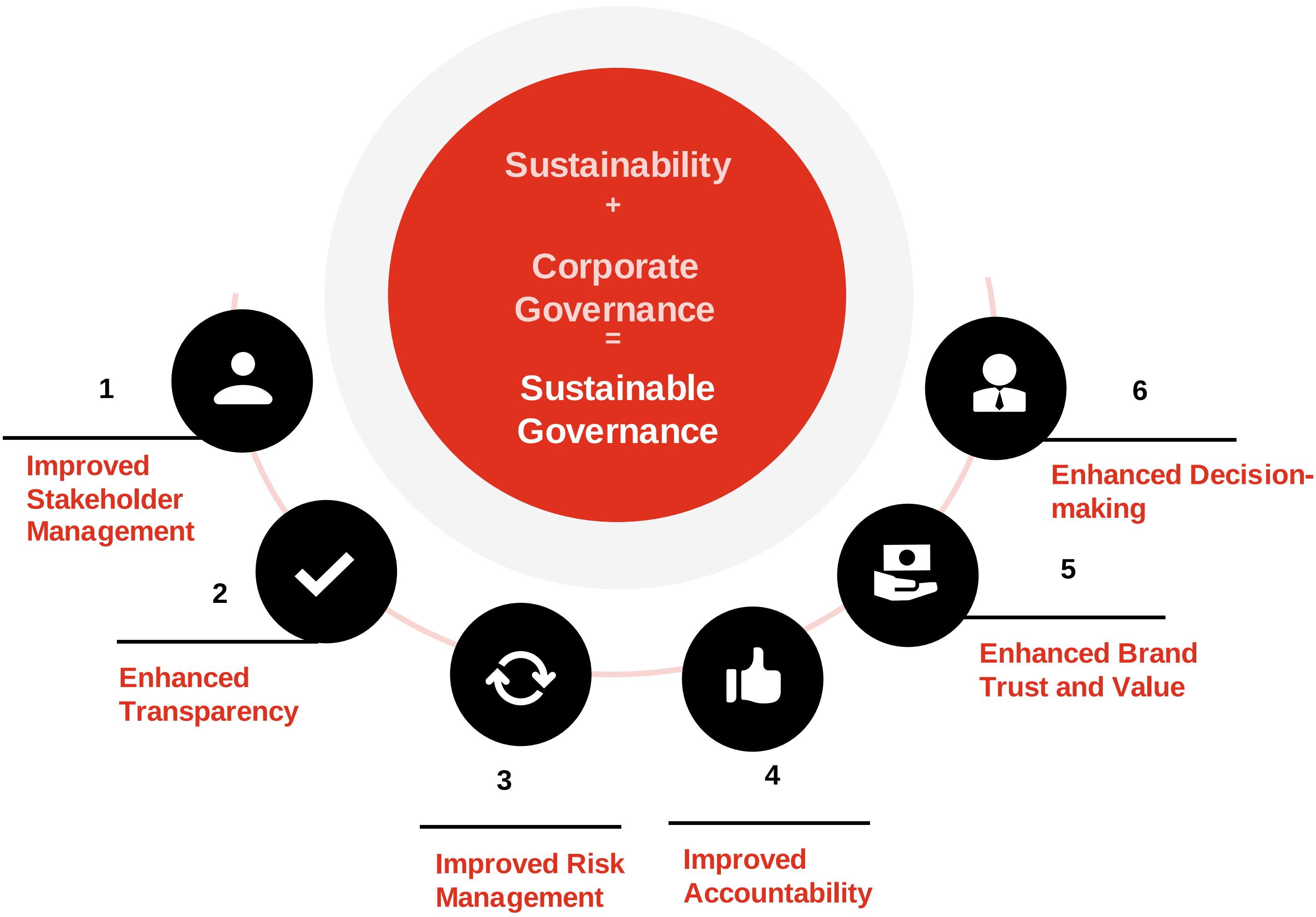
07 appoints a sustainability-focused committee or assigns sustainability-related responsibilities to an existing committee or person on the Board

08 ensures that there are sustainability-related KPIs assigned to Management Team and the Board

09 establishes a communication channel, that constantly keeps the Board informed on actions taken that affect the entity's sustainability performance.

The Sustainability Effect

Making the most of the S1 and S2 Standards goes beyond just reporting, it is an opportunity for entities to embed sustainability in transforming their business operations. Embedding the ideal governance structure for an organisation's sustainability practices has the following benefits:



General Overview of IFRS S1 and S2

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

IFRS S2- Climate-related Disclosures

Core Contents: Governance, Strategy, Risk Management, Metrics and Targets

01 Launched 26 June 2023 by International Sustainability Standards Board (ISSB).

02 First set of many other IFRS sustainability-related standards to be released.

03 A major step in creating a global comparable baseline.

04 Investor focused standards.

05 Entities that adopt are expected to disclose sustainability and climate-related risks and opportunities.

06 Paved the path to mandatory sustainability reporting in countries like Nigeria (see the Adoption Roadmap released by the Adoption Readiness Working Group).

07 Valuable for organisations that want to transparently disclose information that can be useful for investors globally.

08 As entities disclose, the four core contents must have a meaningful connection and disclosed accordingly.

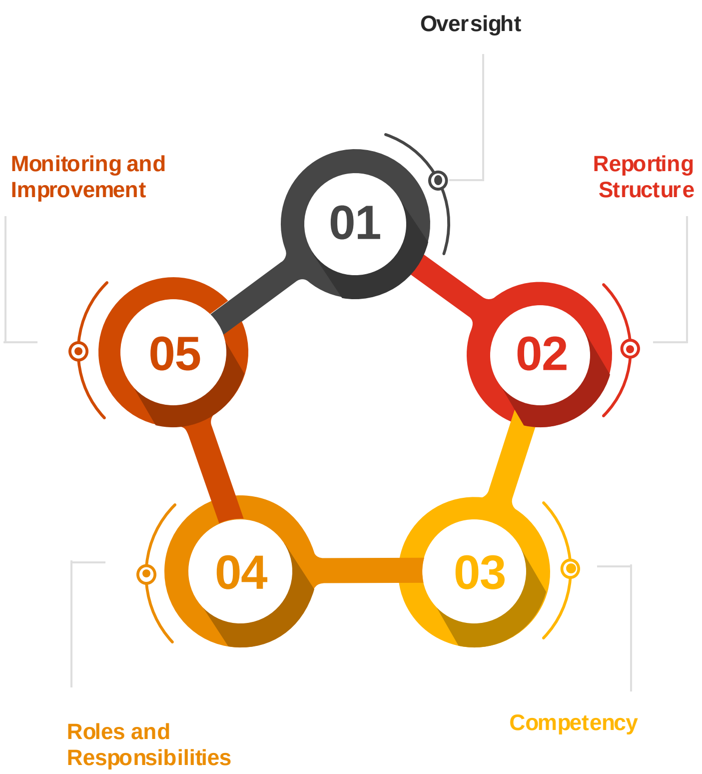
09 The standards are more than disclosure guides as they can be referenced for actions required to embed sustainability in an entity.

10 With Governance as a core content, entities can disclose using S1 and S2 to enhance transparency which is vital for good governance.

Preparing to Disclose Sustainability-related Performance with IFRS S1 and S2 - Governance

5 Key Considerations for an Effective Disclosure

Entities that want to effectively disclose their sustainability performance should first have **established policies, controls, processes and procedures for sustainability strategy, risk management, and metrics & targets**. Entities should then consider the following checklist in its governance, for effective disclosure.



01 Oversight
The role of the Board and its related Committees is to give oversight, this should be clear in any entity's structure. When there is no oversight on sustainability-related matters, efforts towards embedding sustainability into an entity's business operation will be futile, as the entity will have difficulty integrating sustainability into its business operations.

02 Reporting Structure
The Board and Management Team must ensure that there is a clear reporting structure to drive the accurate and timely disclosure of sustainability and climate-related matters.

03 Competency
Competency is the foundation for the right governance structure. The Board and Management Team must be knowledgeable on Sustainability matters. It is an added advantage if some members have sustainability-related experience. To achieve this, capacity building is a nonnegotiable, there must be constant upskilling to ensure understanding and proper management of sustainability and climate-related risk and opportunities.

04 Roles and Responsibilities
The ideal way to integrate sustainability into any organisation, is to ensure all employees are involved. In addition to this, every entity should have clear roles and responsibilities for sustainability and climate-related endorsed by the Management Team and approved by the Board.

05 Monitoring and Improvement
There must be a structure in place to monitor, evaluate and ensure continuous improvement. Regardless of the entity's performance, there is always an opportunity for improvement and to ensure this, having a Monitoring, Evaluation and Continuous Improvement (MECI) structure is key.

Effective governance structure is essential for entities to create accountability for sustainable practices, the listed points above are not exhaustive but will lay a solid foundation for any entity

Disclosure Aids

In addition to the 5 considerations for an effective disclosure, the following areas are key data points for disclosing in line with S1 and S2.

S1

Sustainability Governance

The role differences as assigned to the Board, Management Team and Sustainability Lead should be clear.

Sustainability Governance Structure

The Governance processes, controls and processes should be established and easy to understand.

Consistent Data and Assumptions

Ensure processes used to derive sustainability-related financial information is not alien to the one for financial disclosures (*refer to the S1 standard on data and assumptions consistency*).

S2

GHG Protocol

Ensure that checks are in place for the proper use of the S2 standard. E.g. GHG protocol is the required guide for scope 1-3 emissions calculations.

Supplementary S2 Standards

Establish an internal reporting framework using the complete S2 standard. i.e., the accompanying standards and industry-based guidance must be considered.

Climate-related Expenditures

Establish a structure to account for expenditure on climate-related risk and opportunities.

General

Compliance Statement

Disclosures prepared in line with S1 and S2 must have a statement of compliance.

Connected Information

The connection between the four core contents of S1 and S2 must be disclosed.

SASB

SASB should be referred to for contextual disclosure data points.

Jurisdictional Roadmaps

Refer to your Jurisdiction's Adoption Roadmap. . (*For Nigeria, see the Adoption Readiness Working Group* ***(ARWG)'s Roadmap****)*.

Every industry has its peculiarities and the IFRS ISSB has accommodated these differences with the industry-based guidelines for S2 and the use of SASB standards a reference.

Industry Specific Considerations

01

SASB

The Board and Management Team should ensure SASB is used especially for the selection of sustainability-related metrics.

02

Boundaries

The Board and Management Team should ensure that sustainability and climate-related issues addressed and disclosed are contextual to its business operations.

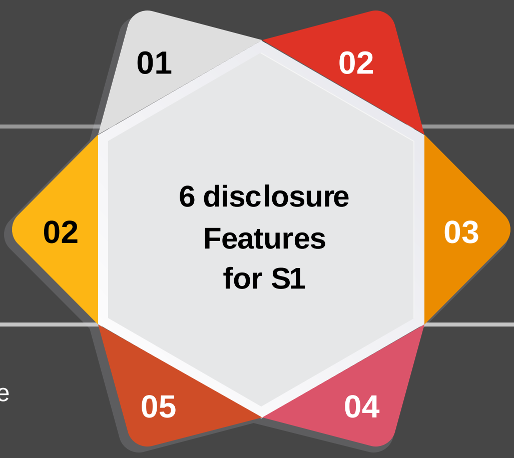
Disclosure Facts for IFRS S1

Description

Disclosing the governance structure for sustainability-related matters is not sufficient, their roles must be clearly described.

Committee

In cases where there is a Board committee dedicated to sustainability-related matters, the obligations of this committee must be disclosed.



Competency

The skills, experience and qualifications that make the Board fit to oversee sustainability-related matters must be disclosed.

Clarity

Metrics and targets used by an entity must be meaningful and clear for users of the disclosed information to understand.

Risk and Opportunities

The disclosure must contain how the overarching focus of risk and opportunities has been factored for approving sustainability strategy, risk management structure and other sustainability-related procedures.

Communication

How frequent the Board is informed on sustainability-related issues.

When entities disclose their governance data in the context of S1, the above areas are key. However, they do not reflect the only features for S1-related data to be disclosed

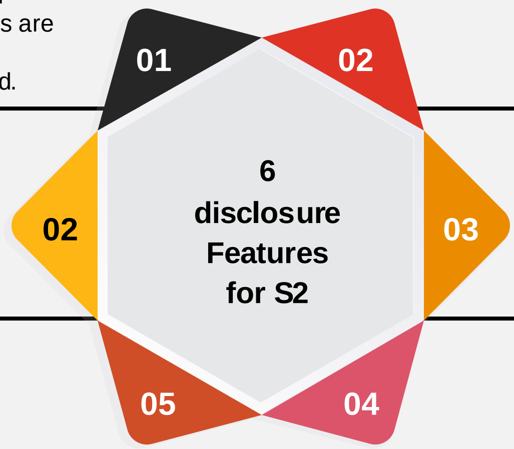
Disclosure Facts for IFRS S2

Duplication

While the S1 and S2 have similar parameters for disclosure, entities are to ensure that disclosure on governance data is not duplicated.

Policies

Polices in place to drive climate adaptation and mitigation strategies.



Targets

Progress made in achieving climate-related targets.

Integration

How climate-related matters have been integrated with other internal functions.

Controls

The controls in place to ensure that climate-related data is accurate and well monitored.

Trade-off

The understanding on climate-related risk and opportunities how it relates to the entity's business operation and the associated trade-offs.

Connecting the Dots

This fact sheet focused on governance as a core content of S1 and S2 standards. Nonetheless, the S1 and S2 standards require disclosing entities to connect all four core contents, which includes:

Strategy

01

there needs to be a roadmap endorsed by the Management team and approved by the Board, that guides an entity's performance.

This is what a sustainability strategy does, it gives entities the ability to truly measure and account for sustainability-related triumphs and challenges (***see the factsheet on sustainability strategy for more details***)

Risk Management

02

the S1 and S2 are focused on risks and opportunities. For entities to identify these risks and their inherent opportunities, the management of sustainability and climate-related risks must be embedded in the entity's Enterprise Risk Management framework (***see the factsheet on risk management for more details***)

Metrics and Targets

03

managing data and accurately disclosing can be a hassle for entities, without contextual metrics and targets, including a proper data management system endorsed by the Management team and approved by the Board, preparing for disclosures will not be seamless (***see the factsheet on metrics and targets for more details***).

Key Questions

Key questions to guide the required capacity and resources

- How can we use the adoption of IFRS S1 and S2 as a competitive advantage?
- Can our current systems structures, technology infrastructure capably accommodate the S1 and S2 standards?
- Do all our employees, vendors and other relevant parties understand required actions for S1 and S2 as it pertains to their role?

Frequently Asked Questions (FAQ)

1. Q: Should there be a point person or an office for Sustainability-related matters?

A: Yes. While some organisations include sustainability responsibilities in an existing role, it is important that there is a clearly defined sustainability role with commensurate title and KPIs. For example, the Climate Change Act released in 2021, requires a point person on sustainability/climate matters for private entities, and public entities are to comply with regulations as issued by National Council on Climate Change.

2. Q: Why is it important to have a point person or an office for Sustainability-related matters?

A: Assigning responsibility on sustainability-related matters ensures that the entity's sustainability performance is well managed, measured and improved on. Resources (human and tools) need to be dedicated to adequately mitigate against sustainability-related risks and harness its inherent opportunities.

Also, measuring sustainability performance:

I. is heavily data-centric
II. requires cross-functional collaboration in an organisation
III. involves identifying and building relationships with relevant stakeholders
IV. requires devising strategies to resolve various sustainability-related matters.

These areas can be effectively done when there is an office responsible for sustainability-related matters

3. Q: Is it mandatory that the Board has a sustainability expert as a member?

A: While this is a good to have, it is not mandatory. What is important is that the Board is sustainability conscious and has someone within the Board assigned to sustainability matters or assigns a committee to sustainability-related matters.

Furthermore, sustainability-related trainings should be part of the annual capacity development plan to upskill the Board. Good governance requires that the Board can understand their company's sustainability disclosures and engage their stakeholders on it and drive sustainability culture from the the top.

4. Q: How can governance structure be properly communicated to Investors?

A: Disclosing entities should communicate in their reports, how the existing governance structure (Board and Management Team) oversees and manages sustainability-related risks and opportunities in various aspects of their business operations. They should also communicate how they have adopted their internal and external stakeholders' perspectives on sustainability-related matters.

This factsheet has explored the IFRS S1 and S2 Governance core content, however entities must always be able to connect all four core contents for a better approach to sustainability performance and disclosure. ***See our factsheets on Sustainability Strategy, Risk Management, and Metrics and Targets for more information****.*

Conclusion

The mandatory adoption IFRS S1 and S2 for sustainability-related disclosures, is imminent, it is important that organisations position themselves for adequate disclosures that transcend a tick box exercise and use these standards as a business transformation tool.

References

PwC, 2023. *PwC's Global Investor Survey*. [Online]
Available at: https://www.pwc.com/gx/en/issues/c-suite-insights/global-investor-survey.html
[Accessed July 2024].

IFRS S1 and S2

Contacts

Marilyn Obaisa-Osula
Partner & Head - ESG-Sustainability & Climate Change

Wuraola Olowofoyeku
Partner - Governance, Risk & Compliance

Temilola Abdul
Senior Manager - Governance, Risk & Compliance

Contributors

Damilola Adesogbon

Wendy Nmazua

© 2024 PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers" and "PwC" refer to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL). Each member firm is a separate legal entity and does not act as agent of PwCIL or any other member firm. Neither PwCIL nor any member firm is responsible or liable for the acts or omissions of any other member firm nor control the exercise of another member firm's professional judgment or bind another member firm or PwCIL in any way.