GreymatterFinch

ENHANCE ESG DISCLOSURE

AND DRIVE INTERNAL IMPROVEMENTS

APRIL 2024

> *"The global economy needs common reporting standards to reduce fragmentation and drive comparability. [This information] is critical for creating more transparent markets, helping achieve a smooth low-carbon transition, and building a more resilient and sustainable global economy."*
>
> *— Mary Schapiro, Head of the Task Force on Climate-related Financial Disclosures (TCFD) Secretariat and Vice Chair for Global Public Policy at Bloomberg L.P.*

DEAR JOHN

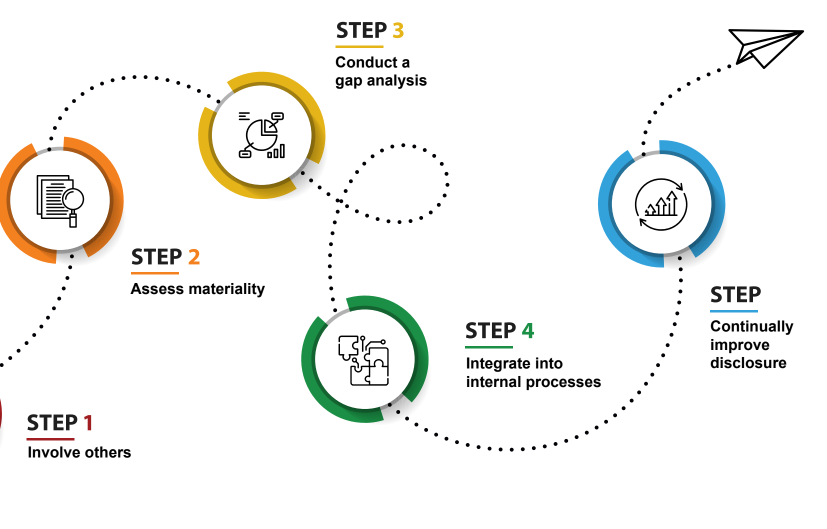
Since their release, there has been a lot of uncertainty and sometimes even panic associated with the International Financial Reporting Standards (IFRS), European Sustainability Reporting Standards (ESRS) and Global Reporting Initiative (GRI) sustainability standards. This stress is understandable because of the volume of disclosure requirements introduced and the level of detail called for.

We advise viewing the disclosure requirements as the outcome of a process to make internal improvements in your business. For example, by integrating oversight of sustainability matters into governance and risk management processes, companies are better placed to identify, prepare for, and respond to impacts that result from emerging trends.

Take for instance the consumer trend towards e-commerce and sustainable preferences. With this shift comes several opportunities and risks. Delivering a seamless e-commerce offering can increase market share and presence in the market. However, customer data also needs to be used responsibly and protected. Companies must consider how they can reduce the environmental impact of the increased need for packaging and the emissions associated with deliveries.

There is a lot your company can already do internally to prepare to report on the sustainability disclosure standards. Below, we detail a 5-step process that we developed to guide your company's internal preparation.

*5 STEPS TO IMPROVE SUSTAINABILITY DISCLOSURE



*The order of these steps is based on our experience working with South African-based listed companies. It can be tailored to suit your company's needs.

1. INVOLVE OTHERS

Improving a company's sustainability performance must occur concurrently with improved disclosure. Both processes require involvement from individuals in different teams throughout the company.

Internal stakeholders

Identify and begin to engage with internal experts within your company. These experts have in-depth knowledge of your company's business model, which is essential to understand the material sustainability topics in your context. Functions like risk management, finance, and sustainability teams should collaborate to determine the issues relevant to the business and the materiality thereof.

With assurance also being an objective of the standards, audit expertise should be involved early on, such as the internal audit function. In addition, the people responsible for different data sources and procedures related to capturing and signing off data must be included.

External stakeholders

Meaningful engagements with external stakeholders must occur regularly to ensure the robustness of the sustainability disclosure process. The most important period for getting external stakeholder opinions is during the materiality assessment process.

2. ASSESS MATERIALITY

According to all the standards, a robust materiality assessment is fundamental to a company's sustainability work and disclosure. This is because the materiality assessment informs a company's sustainability focus areas and disclosures. It will be a relief for companies to know that they do not need to report on topics that are not material to their business. That said, evidence from the materiality process showing whether topics are material and why, needs to be documented and disclosed.

Financial, Impact and Double Materiality

Financial Materiality

The **IFRS** standards require companies to focus on financial materiality. Financial materiality refers to the external financial impacts that might affect a company, including the economy, planet and society. This information is predominantly for investors.

For example, human rights violations can result in negative reputational impacts or halt operations, reducing sales or slowing supply.

Impact Materiality

The **GRI** defines impact materiality as topics that "represent the organization's most significant impacts on the economy, environment, and people"[1]. This information is useful for all stakeholders, including investors, employees, customers, suppliers and local communities.

For example, companies conducting thorough due diligence processes that ensure human rights are protected across the value chain, create positive societal impacts.

GRI 3: Material Topics 2021 provides a clear process to determine material topics.

Double Materiality

In contrast, the **ESRS** require companies to take a double materiality approach. Double materiality refers to financial materiality, impact materiality, and the interactions between them.

To learn more about materiality, read this overview from the GRI.

[1] GRI 3: Material Topics 2021, page 16

3. CONDUCT A GAP ANALYSIS

Compare your company's current disclosure to the standards it reports on. This comparison can be done at different levels. For example, companies can start with a gap analysis that compares a company's narrative disclosures to the standards. After that, an in-depth gap analysis that considers the technical details within the standards can be completed.

Note that the timelines for implementation differ based on region and company size. Make sure you understand which timelines apply to your company before deciding on a sustainability disclosure strategy.

The Sustainable Stock Exchanges (SSE) Initiative's disclosure toolkit contains a valuable checklist that can be used to compare your company's disclosure to IFRS S1[2] and S2[3].

[2] General Requirements for Disclosure of Sustainability-related Financial Information

[3] Climate-related Disclosures

> *"Global alignment is crucial to provide a comprehensive and clear view of a company's sustainability performance and to allow for the comparability of disclosures on a global level."*
> *— Jean-François van Boxmeer, Chair, European Round Table for Industry and Chair, Vodafone Group*

4. INTEGRATE INTO INTERNAL PROCESSES

The outcomes of the materiality process and gap analysis should assist companies in identifying the sustainability topics that are most relevant to them. Once defined, these should be shared broadly within the company as they might need to be integrated into:

- **Governance structures** – for example, incorporating sustainability-related matters into the board, board sub-committee or working group's terms of reference, creating or updating company policies on sustainability-related topics
- **Strategy, financial planning, and metrics and targets** – the materiality process may reveal that certain issues are impacting the company more severely than previously thought, therefore necessitating proactive or urgent action
- **Risk management** – for example, by adding sustainability topics onto the risk register or embedding sustainability-related risks and opportunities into the company's overall enterprise risk management process
- **Internal processes such as human resources** – the company might realise that it requires certain skills it does not have and might use its training and recruitment processes to build capacity

> *"[the standards] will help companies to communicate and manage their sustainability performance more efficiently and therefore to have better access to sustainable finance."*
> *— European Commission*

5. CONTINUALLY IMPROVE DISCLOSURE

The reporting process can be stressful for writers, reviewers, and data providers, with hard publication deadlines for external reports. Companies typically cannot make all the changes they would like to within the available time. Having a reporting plan outlining what your internal team aims to achieve in the current and future reporting years can remove some of the pressure from the reporting process. Your objective should be to make incremental improvements to your report and reporting process every year.

Reporting plans should include preparing for assurance, digital tagging, and additional changes to the standards..

Assurance

In Europe, limited assurance is mandatory as soon as companies fall "within scope" of the Corporate Sustainability Reporting Directive (CSRD).The European Commission continues to assess the feasibility of making reasonable assurance a requirement. IFRS does not yet require assurance, but as financial regulators adopt the standards in their regions, they may introduce assurance requirements.

For companies, this means working with your internal and external audit teams to understand and prepare for potential future audits.

Digital tagging

Digital tagging enables machines and artificial intelligence to read reports easily. In Europe, tagged information will be fed into a central database, allowing information to be easily compared. Both the IFRS standards and the ESRS will likely need to be tagged to enable ease of access to the data contained in reports, but timelines by which this will become mandatory have not been released yet. Watch this EFRAG presentation delivered in February 2024 to get some insight into what the tagging process looks like in practice.

Changes to the standards

It can be tempting to dive deep into the detail when reporting on the standards. However, it is equally important for companies to have strong and adaptable internal systems in place, especially related to data recording and management. These systems can help future-proof your company's disclosure by allowing it to easily report on new standards, and if changes are made to existing standards.

Companies should engage with their reporting partners, like GreymatterFinch (GMF), to understand the process, which technology can support them, and how best to prepare.

CONCLUSION

While there are no mandatory requirements yet, South African companies have an opportunity to begin improving their sustainability disclosure. Though the path is daunting, the overall goal can be achieved by breaking the task down into small, manageable steps. During this reporting journey, ***don't let perfection get in the way of progress - continually improve over time.***

If your company has subsidiaries in Europe or supplies European companies, it is important to confirm whether your company has any reporting obligations. For example, if your company is a supplier to a company that trades in Europe and needs to report on the ESRS, they might require information from your company, that forms part of its value chain. This could mean an increased disclosure requirement on your company.

If your company requires assistance with any of the above steps, GMF has a team of experts ready to help you. Contact our Head of Value Added Services, Lelanie Hohls, if you would like to set up an appointment.

USEFUL RESOURCES

1. An In-depth Explainer of the ISSB on IFRS S1 (video).
2. Educational videos on the First set of draft ESRS (video series).
3. IFRS Knowledge Hub contains a preparer's guide to the IFRS Sustainability Disclosure Standards.
4. The United Nations Sustainable Stock Exchange Initiative disclosure toolkit also contains several valuable resources, including guidance on developing a disclosure strategy.
5. The ACCA (the Association of Chartered Certified Accountants) has a more detailed guide to sustainability reporting preparation.
6. Sustainability reporting: frequently asked questions by SAICA. This document is a quick guide to the non-financial reporting standards, detailing what is mandatory for South African companies.
7. EFRAG's resources on Sustainability Reporting XBRL Taxonomies.

Do you know what material matters will guide disclosure in your company's reporting?

READ MORE

READ OUR PREVIOUS NEWSLETTERS

Prioritising IT governance
How to be strategic about disclosure
The role of strategic design in reporting

FOLLOW US ON LINKEDIN

VISIT OUR WEBSITE