IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2

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GLOSSARY

1. ESG: Environmental, Social, and Governance. It refers to the three main factors used to evaluate the sustainability and societal impact of a company.

2. IFRS: International Financial Reporting Standards. They are a set of accounting standards developed by the International Financial Reporting Standards Foundation that provide guidelines for financial reporting.

3. IFRS S1: IFRS Sustainability Standard 1. It is an IFRS Sustainability Disclosure Standard that establishes a sustainability framework for disclosing general information on sustainability-related financial information.

4. IFRS S2: IFRS Sustainability Standard 2. It is an IFRS Sustainability Disclosure Standard that focuses on climate-related risks and opportunities for disclosure.

5. ISSB: International Sustainability Standards Board. It is a board created by the IFRS Foundation to develop and implement sustainability reporting standards.

6. TFCD: Task Force on Climate-related Financial Disclosures. It is a task force that provides recommendations for disclosing climate-related risks and opportunities in financial reporting.

7. GRI: Global Reporting Initiative. It is a widely recognized framework for sustainability reporting.

8. CDP: Carbon Disclosure Project. It is an organization that collects and discloses environmental data from companies and cities.

9. UN PRI: UN Principles of Responsible Investment. It is a United Nations-supported initiative that promotes sustainable investing.

10. UN EPFI: UN Environmental Programme Finance Initiative. It is a partnership between the United Nations and the financial sector to promote sustainable finance.

11. UN GC: UN Global Compact. It is a voluntary initiative that encourages businesses to adopt sustainable and socially responsible policies. 12. EFRAG: European Financial Reporting Advisory Group. Serves the European public interest by developing and promoting European views in the field of financial reporting.

ESG [Environmental, Social and Governance] and Sustainability Reporting is fast becoming the new norm for companies, in addition to financial reporting, due to its inclusion within the IFRS and national level regulations.

The IFRS Sustainability Disclosure Standard IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Reporting requires companies to disclose information relevant to their significant sustainability-related risks and opportunities.

The IFRS Sustainability Disclosure Standard IFRS S2 – Climate-related Disclosures focuses on climate-related risks and opportunities.

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I. FOREWORD

The International Financial Reporting Standards (IFRS) Foundation has published the Sustainability Disclosure Standards IFRS S1 & IFRS S2 to meet the growing demand for sustainability reporting. These standards aim to provide a global baseline for disclosing sustainability-related risks and opportunities, including climate-related factors.

IFRS S1 focuses on disclosing significant sustainability-related risks and opportunities beyond climate-related aspects. IFRS S2 specifically addresses climate-related risks and opportunities.

The International Sustainability Standards Board (ISSB), under the IFRS Foundation has collaborated with international organizations and jurisdictions to ensure global consistency and alignment with stakeholder expectations.

Adopting sustainability reporting and adhering to the Sustainability Disclosure Standards IFRS S1 & IFRS S2 brings benefits such as enhanced reputation, capital attraction, improved profitability, employee retention, and positive environmental and social impact.

These standards outline key disclosures in governance, strategy, risk management, and metrics and targets. They enable users of financial reports to assess an entity's resilience, future cash flows, and enterprise value.

Entities need to act promptly to meet the IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2 as these are effective on or after January 1, 2024.

RSM Kuwait offers sustainability services to assist companies in implementing sustainability reporting disclosure, ensuring compliance, and providing support in data collection, validation, and reporting.

II. INTRODUCTION

Rising concerns on climate change has forced businesses to take notice and act urgently. Stakeholders are urging companies to measure, monitor and mitigate their environmental, social and governance (ESG) footprint. There is now an expectation from corporate stewardship to adopt sustainability reporting standards. As a result, global capital markets demand better information from companies about sustainability-related matters to enable investors to factor in sustainability-related risks and opportunities in their assessment of enterprise value.

The International Sustainability Standards Board [ISSB] has been created by the International Financial Reporting Standards (IFRS) Foundation to meet this demand.

The ISSB of IFRS Foundation, issued two Sustainability Disclosure Standards (IFRS S1 & IFRS S2) in June 2023:

i. S1 – General Requirements for Disclosure of Sustainability-related Financial Information
ii. S2 – Climate-related Disclosures

RSM Kuwait (RSMK) through its ESG and sustainability services assists businesses in establishing a sustainability reporting and ESG framework, thus creating value for the enterprise, people, society, and the environment at regional and global levels.

III. THE IFRS SUSTAINABILITY DISCLOSURE STANDARDS IFRS S1 & IFRS S2

i. These standards are effective on or after January 1, 2024, and are expected to establish a comprehensive global baseline for sustainability disclosure designed to meet the information needs of investors when assessing enterprise value.

ii. The new "standards" encourage organizations to manage sustainability performance with similar diligence as financial performance. Companies would comprehend that their obligations go beyond compliance and be "good citizens"; entities that would give faith and confidence to investors while determining enterprise value.

IV. WHY THE CHANGE?

i. There are many compelling reasons today for businesses to incorporate sustainability reporting, as these factors play a crucial role in determining business risk and opportunities. Sustainability-based decisions mainly focus on long-term value creation for businesses and society. Sustainability reporting helps in attracting capital and business, due to enhanced stakeholder acceptance when organizations disclose how they manage their environmental and social imprint.

ii. Sustainability standards promote consistency, comparability, and transparency in reporting as they are developed through the collaboration of various organizations, including industry associations, non-profit organizations and governments.

iii. The Central Bank of Kuwait (CBK) Circular on Sustainable Finance directs the financial sector (especially banks) to keep pace with the international best practices on sustainable finance by achieving social and climate-related goals through innovative products and services. Companies adopting sustainability practices will be given priority in banks' sustainability evaluation under bank principles and directives.

iv. In line with the New Kuwait Vision 2035, listed and licensed companies are permitted to raise funds from banks through Bonds and sukuks to finance their non-oil operations on terms specified by the Kuwait Capital Markets Authority (CMA) regulations.

V. REGULATORY REQUIREMENT

i. Sustainability is a global concern due to a number of factors, including climate change and the widening gap in resources availability between developed and developing countries. This has compelled authorities in numerous jurisdictions to adopt sustainability standards.

ii. Disastrous impacts on the environment and society due to the lower priority accorded to sustainability, by nations and organizations and lack of consensus on contentious issues have highlighted the importance of sustainability regulations.

iii. Sustainability regulatory requirements hold organizations accountable for their environmental, societal and governance performance and practices, and could serve as a strategic tools for risk management.

Apart from the standards created by IFRS, the most widely recognized sustainability reporting frameworks and standards include:

a) Global Reporting Initiative (GRI)
b) The Task Force on Climate-related Financial Disclosures (TCFD)
c) United Nations Sustainable Development Group (UNSDG)
d) European Financial Reporting Advisory Group (EFRAG)
e) Carbon Disclosure Projects (CDP) & other recognized guidance like Greenhouse Gas protocol,
f) UN Principles of Responsible Investment (UN PRI)
g) UN Environmental Programme Finance Initiative (UN EPFI)
h) UN Global Compact (UN GC)

For businesses that operate in jurisdictions where sustainability reporting is mandated, it is crucial to assess their value chains and reporting requirements and choose suitable standards against which they could report their sustainability performance. In many cases, the authorities specify which standard(s) businesses should use for reporting.

VI. CORE CONTENT AND DISCLOSURES REQUIRED

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

i. The General Disclosure Requirements issued by ISSB in June 2023 sets out the core content for a complete set of sustainability-related financial disclosures, establishing a comprehensive baseline of sustainability-related financial information.

ii. Information that could be relevant to the assessment of enterprise value is broader than information reported in the financial statements. It includes information about a company's impacts and dependencies on people, the planet, and the economy when relevant to the assessment of the company's enterprise value.

iii. This approach is consistent with the recommendations of the TFCD but extends them to sustainability-related financial risks and opportunities in addition to climate-related risks and opportunities.

1. A. Governance

The objective of sustainability-related financial disclosures on governance is to enable users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee sustainability-related risks and opportunities. An entity shall disclose:

i. Information on how the Board of Director (BoD)'s responsibilities are reflected in the entity's policies and mandates, and how often the BoD and its committees consider sustainability-related risks and opportunities.

ii. Information on how the BoD and its committees oversee the setting of targets related to sustainability-related risks and opportunities and monitor progress towards them.

iii. Management's role in assessing and managing sustainability-related risks and opportunities and how they are integrated with other internal functions.

1. B Strategy

The objective of sustainability-related financial disclosures on strategy is to enable users of general purpose financial reports to understand an entity's strategy for managing sustainability-related risks and opportunities. An entity shall disclose

i. A description of sustainability-related risks and opportunities, and the time horizon over which they could affect the entity.

ii. The current and anticipated effects of these risks and opportunities on their value chain.

iii. How it is responding to significant sustainability-related risks and opportunities; quantitative and qualitative information about the progress of plans disclosed in prior reporting periods.

iv. How significant sustainability-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows, and material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year.

v. An entity shall disclose information that enables users of general-purpose financial reporting to understand its capacity to adjust to the uncertainties arising from significant sustainability- related risks.

vi. An entity shall disclose a qualitative and, when applicable, a quantitative analysis in single amounts or a range, of the resilience of its strategy and cash flows in relation to its significant sustainability-related risks.

1. C Risk Management

The objective of sustainability-related financial disclosures on risk management is to enable users of general purpose financial reports:

a) to understand an entity's processes to identify, assess, priorities and monitor sustainability-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process; and

b) to assess the entity's overall risk profile and its overall risk management process.

The disclosure should include:

i. Information about the processes used to identify sustainability-related risks and opportunities, how the entity assesses and prioritizes these risks, and how it manages them.

ii. Information about how sustainability-related risk and opportunity management processes are integrated into the entity's overall risk and management processes.

1. D Metrics And Targets

The objective of sustainability-related financial disclosures on metrics and targets is to enable users of general purpose financial reports to understand an entity's performance in relation to its sustainability-related risks and opportunities, including progress towards any targets the entity has set, and any targets it is required to meet by law or regulation.

The metrics shall be aligned with an entity's business model and the metrics shall include those defined in any other applicable IFRS Sustainability Disclosure Standard, metrics identified from other sources, and metrics developed by the entity itself. The entity shall disclose:

i. How the metric is defined, including whether it is an absolute measure or expressed in relation to another metric (such as revenue or floor space), whether measurement of the metric is validated by an external body and, if so, which body; and explanations of the methods used to calculate the targets and the inputs to the calculation and the limitations of those methods

ii. The targets it has set to assess progress towards achieving its strategic goals, specifying the metric used, the period over which the target applies, the base period from which progress is measured, and any milestones or interim targets.

iii. The performance against its disclosed targets, and revisions to its targets.

2. IFRS S2 – Climate-related Disclosures

I. OVERVIEW

i. IFRS S2 - Climate-Related Disclosures proposes requirements for identifying, measuring, and disclosing climate-related risks and opportunities to provide users of financial information with information about an entity's exposure to such risks and opportunities.

ii. Greenhouse Gas Protocol covers accounting and disclosure of an entity's indirect emissions that are tied to indirect emissions occurring across an entity's value chain, purchase goods or services, business travel, upstream and downstream transportation, investments, etc.

iii. The IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2 cover governance, strategy, risk management, and metrics and targets, and aim to enable users to assess an entity's future cash flows and enterprise value.

II. DISCLOSURES REQUIRED FOR IFRS S2

II. A Governance

The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate related risks and opportunities. To achieve this objective, an entity is required to disclose:

i. Information about the governance body or bodies responsible for overseeing climate-related risks and opportunities, and about management's role in those processes.

ii. Information about the body or individual responsible for oversight, how their responsibilities are set out in policies, oversight of monitoring of targets and management's role in assessing and managing climate-related risks.

iii. Integrated governance disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity.

II. B Strategy

The objective of climate-related financial disclosures on strategy is to enable users of general purpose financial reports to understand an entity's strategy for managing climate-related risks and opportunities. An entity must disclose:

i. Whether the risks identified are physical or transition risks and the current and anticipated effects of significant climate related risks and opportunities on its value chain and where they are concentrated.

ii. Acute physical risks, which could include the increased severity of extreme weather events such as cyclones and floods, putting a company's assets at risk or disrupting its supply chain.

iii. Risks associated with a company's transition to a lower-carbon economy. Transition risk includes policy or legal, market, technology, and reputation.

iv. Information on how the entity is responding to climate-related risks and opportunities, such as changes to its business model, direct and indirect adaptation, and mitigation efforts.

v. Information on its climate-related targets and the use of carbon offsets to achieve those targets.

vi. Quantitative and qualitative information on the progress of its climate-related plans disclosed in prior reporting periods.

vii. An explanation of how significant climate-related risks and opportunities have affected its most recently reported financial position, financial performance, and cash flows. A company would also be required to explain how it expects its financial position to change over time given its strategy to address significant climate-related risks and opportunities.

viii. Information that helps users to understand its strategy's resilience to climate-related changes, risks, and opportunities and how the analysis was conducted, including the scenarios used, time horizons, inputs, and assumption.

II. C Risk Management

The objective of climate-related financial disclosures on risk management help users understand how an entity identifies, assesses, and manages climate-related risks and opportunities. To achieve this, entities must:

i. Disclose their processes for identifying and assessing climate-related risks and opportunities,

ii. Prioritizing these risks relative to other types of risks,

iii. Monitoring and managing these risks and opportunities, and

iv. Integrating these processes into their overall risk and management processes.

II. D Metrics And Targets

The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reports to understand an entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation. To achieve this, the entity must:

i. Disclose cross-industry metric categories, industry- based metrics, metrics used to measure progress towards targets, and the targets themselves. (The cross-industry metric categories include greenhouse gas emissions, transition risks, physical risks, climate - related opportunities, capital deployment, internal carbon prices, and remuneration).

ii. Greenhouse gas emissions, which include Scope 1, 2, and 3 emissions, and the approach used to include emissions for relevant entities.

iii. Its climate-related targets, including the metrics used to measure progress towards them.

Refer to the Sustainability Disclosure Standard Project Summary by IFRS: https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/project-summary.pdf

VII. HOW RSM KUWAIT CAN ASSIST BUSINESSES

Our methodology includes the following key phases:

a) **Assessing** your company's sustainability disclosure needs, including risks and opportunities, in line with the complexity and spread of operations

b) **Assisting** in the selection of the minimum environment-related social indicators for mandatory and optional disclosures (covering employee, human rights, anti-corruption, and climate matters)

c) **Implementation support** in setting up and/or automating data collection for control, validation, and reporting, as well as for monitoring and measuring KPIs for disclosures

d) **Ascertaining** the impact to incorporate in operational strategy and use insights to improve sustainability planning

e) **Advising** on an implementation schedule with milestones & arranging resources

f) **Developing** sustainability metrics and targets for ongoing progress tracking

g) **Benchmarking** sustainability disclosures to recognized global and regional guidance and industry-specific requirements

Our professionals can help clients navigate the challenges of sustainability standards implementation including:

a) Managing complexities in implementing a framework for clients with diversified operations, having multiple domestic and global regulations

b) Responding to new and evolving/changing regulations

c) Consolidating sustainability data for multi-jurisdictional regulations when industry verticals of the client entities are different in diverse locations

d) Deciding on the Reporting Boundary in cases of multi-locational operations

e) Ensuring and obtaining data for sustainability disclosures from vendors and clients in the value chain

f) Generating retrospective data and required comparative sustainability disclosures

g) Deciding on materiality threshold for sustainability disclosures , which is not the same as in IFRS financial reporting

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