Exposure Drafts

IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2

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GLOSSARY

1. ESG: Environment, 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 a proposed Exposure Draft 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 a proposed Exposure Draft 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. SASB: Sustainability Accounting Standards Board. It is an organization that sets industry-specific sustainability reporting guidance.
8. GRI: Global Reporting Initiative. It is a widely recognized framework for sustainability reporting.
9. CDP: Carbon Disclosure Project. It is an organization that collects and discloses environmental data from companies and cities.
10. UN PRI: UN Principles of Responsible Investment. It is a United Nations-supported initiative that promotes sustainable investing.
11. UN EPFI: UN Environmental Programme Finance Initiative. It is a partnership between the United Nations and the financial sector to promote sustainable finance.
12. UN GC: UN Global Compact. It is a voluntary initiative that encourages businesses to adopt sustainable and socially responsible policies.
13. EFRAG: European Financial Reporting Advisory Group. Serves the European public interest by developing and promoting European views in the field of financial reporting.

ESG [Environment, 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 proposed Exposure Draft IFRS Sustainability Disclosure Standard IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Reporting, would require companies to disclose information relevant to their significant sustainability-related risks and opportunities.

The proposed Exposure Draft IFRS Sustainability Disclosure Standard IFRS S2 Climate-related Disclosures focuses on climate-related risks and opportunities. Like the S1 Exposure Draft, it incorporates the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

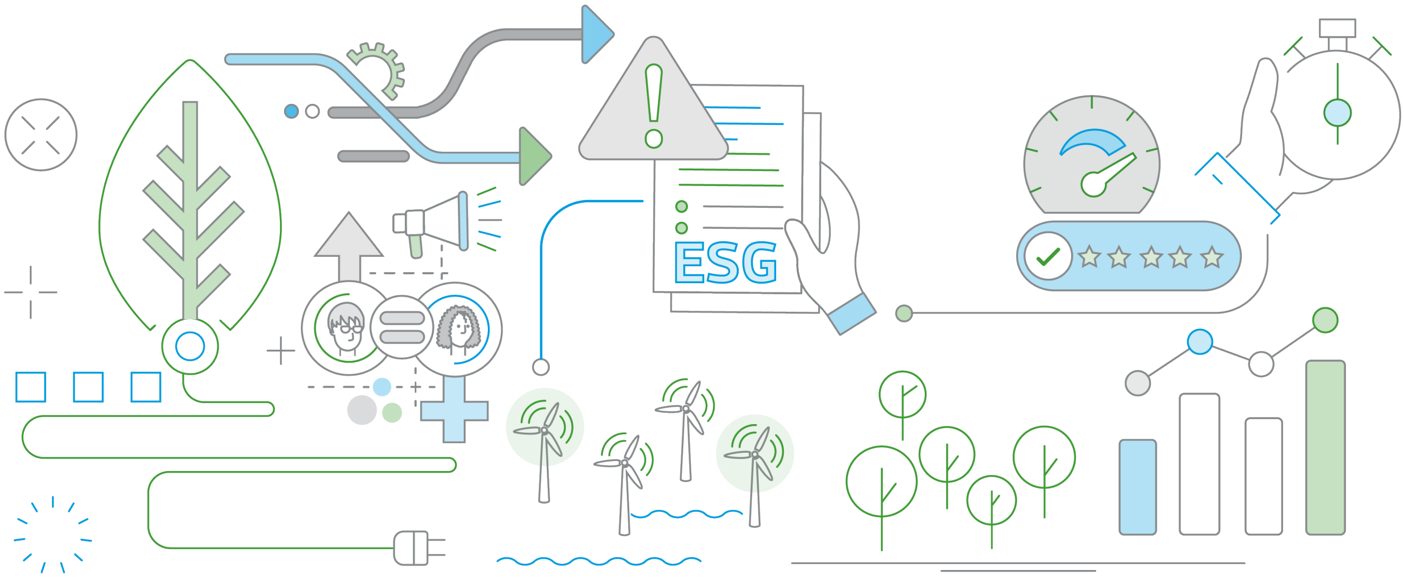


TABLE OF CONTENT

Content | Page

I. Foreword 5

II. Introduction 6

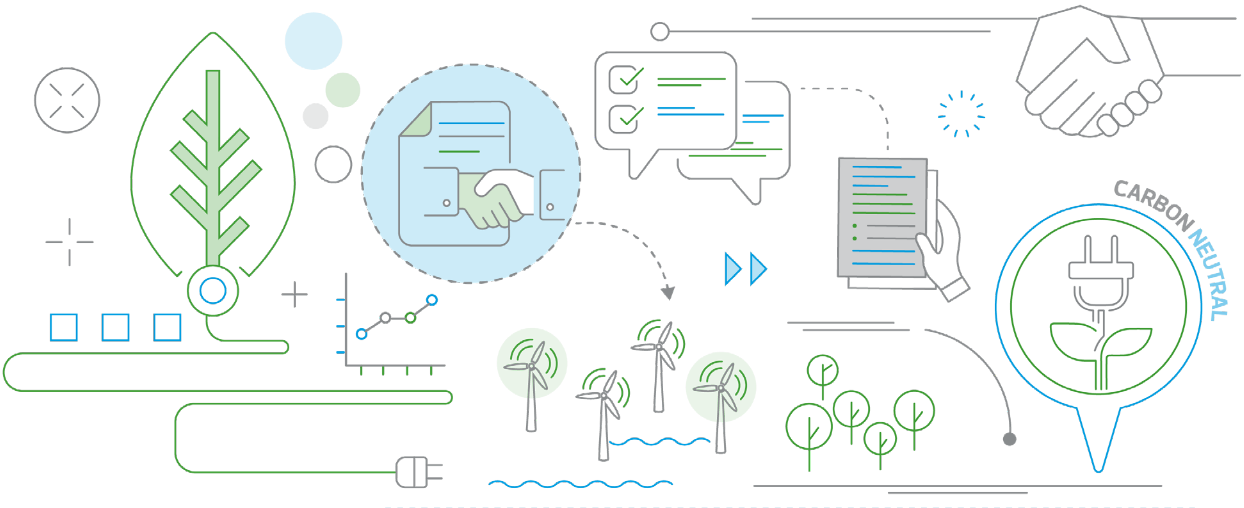
III. The proposed Exposure Drafts IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2 6

IV. Why the change? 7

V. Regulatory requirement 7

VI. Core content and disclosures required 8

VII. How RSM Kuwait can assist businesses 12



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I. FOREWORD

The International Financial Reporting Standards (IFRS) Foundation has proposed two Exposure Drafts 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, incorporating recommendations from the Task Force on Climate-related Financial Disclosures (TCFD). IFRS S2 specifically addresses climate-related risks and opportunities, aligning with TCFD, the Greenhouse Gas Protocol, and industry-specific standards from the Sustainability Accounting Standards Board (SASB).

The International Sustainability Standards Board (ISSB), under the IFRS Foundation, is working on implementing the proposed Exposure Drafts IFRS Sustainability Disclosure Standards IFRS S1 and S2. The ISSB is collaborating with international organizations and jurisdictions to ensure global consistency and alignment with stakeholder expectations.

Adopting sustainability reporting and adhering to the proposed Exposure Drafts IFRS 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.

The proposed Exposure Drafts IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2 outline key disclosures in governance, strategy, risk management, and metrics and targets. These disclosures 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 proposed Exposure Drafts IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2 are expected to become 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

i. Companies with climate change concerns.

ii. Expectations of corporate stewardship to adapt sustainability reporting standard.

iii. 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.

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

v. 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 its environment at the regional and global levels.

III. THE PROPOSED EXPOSURE DRAFTS IFRS SUSTAINABILITY DISCLOSURE STANDARDS IFRS S1 & IFRS S2

The ISSB of IFRS Foundation, published its first two Exposure Drafts IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2:

i. S1 - establishing a sustainability framework, and

ii. S2 – addressing climate-related risks and opportunities,

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

iv. The ISSB is working closely with other international organizations and jurisdictions to support the incorporation of global baseline into domestic jurisdictional requirements and ensure its compatibility with requirements aimed at broader stakeholder groups.

v. The new standard would encourage organizations to manage Sustainability performance with similar diligence as financial performance. Companies would comprehend that their obligations go beyond compliance, to be "good citizens" that would give faith and confidence for investors to determine enterprise value.

vi. Companies that integrate Sustainability in their corporate strategy would have to assess, monitor, manage, and report on sustainability risks and opportunities. This would lead to various potential outcomes, including helping improve and communicate their sustainability performance to stakeholders, ensuring sufficiency of capital, enhancing profitability, retaining employees, and improving in terms of environmental, social, and governance impacts.

IV. WHY THE CHANGE?

i. There are more 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. It helps in attracting capital and business, due to enhanced stakeholder acceptability when organizations disclose how they manage their environmental and social imprint.

ii. Sustainability standards promote consistency, comparability, and transparency in reporting as it is developed by various organizations, including industry associations, non-profit organizations and governments.

iii. The Central Bank of Kuwait (CBK) Circular on Sustainable Finance directs fintech to keep pace with the international best practices on sustainability by achieving social and climate-related goals through innovative products and services. Companies adapting Sustainability practice will be given priority, is to be included in principles and basic directives that banks should consider for sustainability evaluation.

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, which include the deterioration in climate changes, and the widening gap in resources between developed and developing countries. This has compelled authorities to adapt sustainability standards in various jurisdictions.

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

iii. Sustainability Regulatory requirements are rules that hold organizations to be accountable for their environmental, societal and governance performance and practices, and could serve as a strategic tools for risk management.

iv. ISSB was formed under the IFRS Foundation for implementing the proposed Exposure Drafts IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2.

v. The Sustainability Accounting Standards Board [SASB] also under IFRS, that sets out industry-specific standards for a wide range of industries.

Besides, 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 with multiple products and service lines, and operating jurisdictions involving Sustainability disclosures complying with industry-specific standards, implementation would be required.

SASB's rigorous and transparent standard-setting process includes evidence-based research, broad and balanced participation from companies, investors, and subject matter experts, and oversight and approval from an independent Standards Board.

VI. CORE CONTENT AND DISCLOSURES REQUIRED

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

i. The General Requirements Exposure Draft 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.

A. GOVERNANCE

Good governance in Sustainability expects an acceptable level of Accountability and Transparency in reporting to stakeholders.

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

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

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

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

B. STRATEGY

An Entity shall disclose the Information about the significant sustainability-related risks and opportunities that could affect its business model, strategy, and cash flows along with its impact. 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.

C. RISK MANAGEMENT

The objective of sustainability-related financial disclosures on risk management is to help users of financial reports understand how sustainability-related risks and opportunities are identified, assessed, and managed in an entity. 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.

D. METRICS AND TARGETS

The aim of sustainability-related financial disclosures on metrics and targets is to inform users about how an entity measures, monitors, and manages its significant sustainability-related risks and opportunities.

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. The Exposure Draft known as "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. The Exposure Draft published by the IFRS Foundation in November 2021, sets out recommendations from TCFD and the Greenhouse Gas protocol includes industry-specific disclosure requirements from SASB Standards.

iii. 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.

iv. The proposed Exposure Drafts IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2 would 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.

v. The Exposure Draft emphasizes the interrelationships between sustainability disclosures and other financial disclosures and encourages entities to present their disclosures in a way that facilitates understanding of these interrelationships.

II. DISCLOSURES REQUIRED FOR IFRS S2

A. GOVERNANCE

The objective of climate-related financial disclosures on governance is to provide information to users of financial reports about the governance processes, controls, and procedures used to monitor and manage 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 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.

B. STRATEGY

The objective of climate-related financial disclosures on strategy is to provide information to users of financial reports about an entity's strategy to manage significant 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 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. The Entity must also disclose information on its climate-related targets and the use of carbon offsets to achieve those targets.

vi. The Entity must provide 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.

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.

D. METRICS AND TARGETS

The disclosure requirements for climate-related financial metrics and targets, aim to provide insight into how an entity manages climate risks and opportunities. 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.

VII. HOW RSM KUWAIT CAN ASSIST BUSINESSES

i. Sustainability reporting requires system implementation and data management within a limited time, noting that the proposed Exposure Drafts IFRS Sustainability Disclosure Standards IFRS S1 & IFRS S2 are expected to become effective on or after January 1, 2024.

ii. The Sustainability disclosures would have to stand the scrutiny of minimum compliance of domestic regulators, ISSB as well as ESG rating agencies and should be comparable to peers.

iii. Our methodology includes the following key phases:

   a) **Assessing** your Company's Sustainability disclosure needs, including risks and opportunities, commensurate 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 implementation including:

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

   b) Responding to new and evolving/changing regulations

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

   d) Deciding on Reporting Boundary in case 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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