The Institute of Chartered Accountants of Pakistan

CA PAKISTAN

IFRS Sustainability Disclosure Standards - Study, consultation and recommendations for implementation in Pakistan

Sustainability Working Group
Accounting Standards Board

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Preamble

In the dynamic landscape of contemporary business and finance, the integration of sustainability into financial reporting has emerged as a revolutionary requirement. In this connection, the issuance of IFRS Sustainability Disclosure Standards [i.e. IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2, *Climate-related Disclosures*] by The International Sustainability Standards Board (ISSB), marks a pivotal shift, acknowledging the mutual relationship between financial success and environmental, social, and governance considerations.

In this endeavor, the ISSB has leveraged and expanded upon the invaluable contributions of market-driven, investor-focused reporting initiatives. ISSB has not only laid foundations for global sustainability standards, but has also laid the groundwork for harmonizing different frameworks, ensuring coherence and relevance for the diverse stakeholders navigating the complexities of sustainable finance, through this amalgamation of expertise.

As these IFRS Sustainability Disclosure Standards are yet to be adopted / implemented, this necessitates a comprehensive understanding and preparedness within our ranks to seamlessly transition into the new era of sustainability reporting.

The benefits of adoption / implementation of these standards for Pakistan and business community are multifaceted. Aside from regulatory compliance when enacted, the implementation of IFRS Sustainability Disclosure Standards will position Pakistan to attract responsible investments, strengthen stakeholder confidence, and strengthen resilience in the face of changing global demands. It will signify a commitment to responsible business practices, positioning Pakistan as a responsible global player dedicated to sustainable development. Moreover, the application of these standards will empower companies to describe the financial effects of their ESG dynamics in a comprehensive manner.

On the regulatory side, the implementation and adherence to IFRS Sustainability Disclosure Standards are endorsed by the International Organization of Securities Commissions (IOSCO) and importantly SECP is a member of IOSCO. The adoption / implementation of these standards by Pakistan will represent commitment to align with global best practices, transcending regulatory compliance to embrace transparency, accountability, and sustainability.

It is with great pleasure that we present this report, encapsulating the outcomes of extensive consultations conducted with companies, auditors, and other stakeholders in Pakistan on the adoption and implementation of the IFRS Sustainability Disclosure Standards. This report, inter-alia, reflects the collective insights and perspectives gathered through aforementioned consultative sessions.

We extend our gratitude to all participants for their active involvement and candid discussions. It is our belief that this report will serve as a foundation for informed decision-making for the adoption and implementation of IFRS Sustainability Disclosure Standards in Pakistan.

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1. Introduction on Sustainability reporting, ISSB and IFRS Sustainability Disclosure Standards

1.1 What is corporate sustainability and sustainability reporting?

It is not all about profits now. As the world becomes more aware of the environmental, social and governance (ESG) impacts of business activities, companies are increasingly expected to disclose their sustainability practices and report on their impact. For companies there are risks and opportunities that will impact their ability to create long term value. The market wants to know how the companies are weighing these risks and shaping the business strategy in the context of ESG issues. And also that stakeholders can make informed decisions about the companies they invest in or do business with. The government can also act where necessary.

On sustainability reporting, objective paragraph 2 of *IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information'* states as follows:

> *"2. Information about sustainability-related risks and opportunities is useful to primary users because an entity's ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. Together, the entity and the resources and relationships throughout its value chain form an interdependent system in which the entity operates. The entity's dependencies on those resources and relationships and its impacts on those resources and relationships give rise to sustainability-related risks and opportunities for the entity."*

1.2 Frameworks presently in use for corporate sustainability reporting world-wide

The most commonly used frameworks for sustainability reporting world-wide are as follows:

1. GRI standards
2. SASB standards
3. TCFD Framework
4. United Nations Global Compact

GRI Standards [1]

The GRI Standards are a modular system comprising of three series of interconnected standards (i.e. Universal Standards, Sector Standards, and Topic Standards). They allow organizations to publicly report the impacts of their activities in a structured way that is transparent to stakeholders and other interested parties.

These standards allow an organization to report information in a way that covers all its most significant impacts on the economy, environment, and people, or to focus only on specific topics, such as climate change or child labor. GRI recommends reporting in accordance with the GRI Standards. Under this approach, the organization reports on all its material topics and related impacts and how it manages these topics. This reporting approach provides a comprehensive picture of an organization's most significant impacts on the economy, environment, and people. However, if an organization cannot fulfill some of the requirements to report in accordance with the GRI Standards or only wants to report specific information for specific purposes, such as when complying with regulatory requirements; in that case, it can use selected GRI Standards or parts of their content, and report with reference to the GRI Standards.

SASB Standards [2]

SASB Standards enable organisations to provide industry-based disclosures about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital over the short, medium or long term.

SASB Standards identify the sustainability-related issues most relevant to investor decision-making in 77 industries. The Standards were developed using a rigorous and transparent standard-setting process that included:

- evidence based research
- broad and balanced participation from companies, investors and subject-matter experts; and
- oversight and approval from the independent SASB Standards Board

Global investors recognise SASB Standards as essential requirements for companies seeking to make consistent and comparable sustainability disclosures.

As of August 2022, the International Sustainability Standards Board (ISSB) of the IFRS Foundation assumed responsibility for the SASB Standards. The ISSB has committed to maintain, enhance and evolve the SASB Standards and encourages preparers and investors to continue to use the SASB Standards.

[1] https://www.globalreporting.org/media/wtaf14tw/a-short-introduction-to-the-gri-standards.pdf

[2] https://sasb.org/standards/

The SASB Standards play an important role in the first two IFRS Sustainability Disclosure Standards, IFRS S1 General Requirements for Sustainability-related Disclosures and IFRS S2 Climate-related Disclosures.

United Nations Global Compact (UNGC) [3]

Corporate sustainability starts with a company's value system and a principles-based approach to doing business. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption. Responsible businesses enact the same values and principles wherever they have a presence, and know that good practices in one area do not offset harm in another.

By incorporating the Ten Principles of the UN Global Compact into strategies, policies and procedures, and establishing a culture of integrity, companies are not only upholding their basic responsibilities to people and planet, but also setting the stage for long-term success.

The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

Task Force on Climate related Financial Disclosures [4]

The TCFD recommendations on climate-related financial disclosures are widely adoptable and applicable to organizations across sectors and jurisdictions. They are designed to solicit decision-useful, forward-looking information that can be included in mainstream financial filings.

The recommendations are structured around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets.

[3] https://unglobalcompact.org/what-is-gc/mission/principles

[4] https://www.fsb-tcfd.org/recommendations/

1.3 Comparison of currently most used sustainability reporting frameworks

Feature[5]	Global Reporting Initiative (GRI)	Sustainability Accounting Standards Board (SASB)	United Nations Global Compact (UNGC)	Task Force on Climate-related Financial Disclosures (TCFD)
What do these frameworks involve?	An international independent standards organization that helps businesses, governments and other organizations understand and communicate their impacts on issues such as climate change, human rights, and corruption. GRI is the most widely used reporting framework, with 82% of the world's largest 250 corporations reporting in accordance with GRI Standards.	A sector-based, industry specific guidance framework used primarily to help publicly traded companies determine the financial materiality of sustainability-related information for disclosure to the SEC (USA) and the public.	A voluntary initiative to implement universal sustainability principles; A way for companies to support and advance the UN's Sustainable Development Goals, which have been adopted by all UN member states.	A voluntary framework of recommendations on climate-related financial disclosures that are applicable to organizations across sectors and jurisdictions. Organizations can use the recommendations to help them prepare more consistent and comparable disclosures.
Framework structure	There are two primary groups: Universal standards and topic-specific standards. The universal standards, also called the "100 Series of the GRI Standards" includes three standards to use in preparing a sustainability report.	The SASB standards are broken down by industry, making SASB metrics comparable from company to company within an identified peer group. There are 77 identified industries in the SASB Standards, in 11 different Sectors.	The Global Compact consists of ten principles intended for incorporation into companies' value systems and business operations. The SDG program provides 17 lofty goals with a 2030 target date for attainment.	The TCFD recommendations are designed to help organizations comply with existing mainstream reporting requirements, rather than impose additional reporting standards.
Materiality	YES – GRI requires an organization to identify material topics in order to establish the scope and included issues covered by a company's report. GRI's framework contemplates that materiality may have a different meaning for different stakeholders. Therefore, material topics are those that may reasonably be considered important for reflecting the organization's economic, environmental, and social impacts, or influencing the decisions of stakeholders.	YES – SASB is intended to identify financially material sustainability information. Materiality under the SASB framework is determined exclusively through the lens of the "reasonable investor," the definition of which has been established by the courts.	NO – The UNGC and SDGs are not intended to be used to narrowly identify specific material information, but rather as goal-oriented guideposts for companies seeking to attain the SDGs themselves.	YES – The task force recommends that organizations assess materiality for climate-related information in the same way they determine the materiality of other information included in their financial filings.
Stakeholder audience	investors, labor, civil society and governments.	investors and other providers of financial capital.	business, government, investors and civil society.	investors and other providers of financial capital.

[5] https://pro.bloomberglaw.com/brief/comparison-of-esg-reporting-frameworks/

1.4 Formation of International Sustainability Standards Board (ISSB) by IFRS Foundation to deliver on Corporate Sustainability Reporting

IFRS Foundation & ISSB

The IFRS Foundation is a not-for-profit organisation founded in 2001 on the belief that better information supports better economic and investment decisions. As a public interest organisation, the IFRS Foundation works to achieve this vision through the development of high-quality, global standards that result in corporate information that helps informed investment decision-making. This work contributes towards efficient and resilient capital markets, thus fulfilling society's needs.

In its first two decades (2001-2020), the IFRS Foundation through the first of its independent standard-setting boards, the International Accounting Standards Board (IASB) transformed the global landscape of financial information by introducing IFRS Accounting Standards. The Standards have become the de facto global language of financial statements trusted by investors worldwide and required for use by more than 140 jurisdictions.

Today, economic and investment decisions are increasingly incorporating sustainability information. Responding to the need for such information, in 2021, the Trustees of IFRS Foundation announced the formation of the ISSB on 3 November 2021 at COP26 in Glasgow as a sister board to the IASB.

The ISSB is responsible for developing IFRS Sustainability Disclosure Standards, to provide a truly global baseline of sustainability disclosures to further help in making informed economic and investment decisions.

IFRS Accounting Standards and IFRS Sustainability Disclosure Standards are developed using the same rigorous, inclusive and transparent due process. The two boards ensure connections in their work to enable the Standards to operate effectively together and to support connected reporting.

The ISSB was established as part of the IFRS Foundation because investors, companies and international policy makers (including the G20, G7, IOSCO and the Financial Stability Board) demand for:

- decision-useful, comparable information
- ending the 'alphabet soup' of voluntary initiatives
- an efficient reporting landscape

It is pertinent to mention that the two key bodies the Climate Disclosures Standards Board (CDSB) and the Value Reporting Foundation [which itself was formed in June 2021 through consolidation of International Integrated reporting committee (IIRC) and Sustainability Accounting Standards Board (SASB)] were consolidated into ISSB in January 2022 and August 2022 respectively. Further, the Financial Stability Board has asked the IFRS Foundation to take over the monitoring of the progress on companies' climate-related disclosures from the Task Force on Climate-related Financial Disclosures (TCFD), which ISSB shall be performing from 2024 when ISSB Standards are applied from 2024.

The ISSB has a transparent, rigorous due process to develop market-informed Standards that respond to these needs. The ISSB develops, in the public interest, standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets.

ISSB Standards use work of already established and most widely accepted investor-focused frameworks for sustainability reporting

The ISSB builds on the work of market-led investor-focused reporting initiatives, including the Climate Disclosure Standards Board (CDSB), the Task Force on Climate-related Financial Disclosures (TCFD), the Value Reporting Foundation's Integrated Reporting Framework and industry-based SASB Standards, as well as the World Economic Forum's Stakeholder Capitalism Metrics.

ISSB at COP 28

In COP 28 held on December 1, 2023, close to 400 organisations from 64 jurisdictions committed to advance the ISSB climate global baseline. The declaration of support, announced during Finance Day at COP28, demonstrates the strong support to advance action-oriented responses to the risk of climate change. Regulators and standard setters have also welcomed the work of the ISSB.

1.5 IFRS Sustainability Disclosure Standards

ISSB issued following two standards on June 26, 2023, (which are effective for annual reporting periods beginning on or after January 1, 2024):

- IFRS S1, *General Requirements for Disclosure of Sustainability-Related Financial Information; and*
- IFRS S2, *Climate-related Disclosures.*

The IFRS S1 requires companies to disclose information about all of their significant sustainability-related risks and opportunities. The IFRS S2 focuses on climate-related risks and opportunities. IFRS S1 and IFRS S2 can be accessed by first registering with www.ifrs.org and then using following links which are available at this website.

https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf

https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s2-climate-related-disclosures.pdf

As set out in IFRS S1, an entity is required to refer to and consider the applicability of the disclosure topics in the SASB Standards and other sources of guidance in identifying sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. SASB Standards cover disclosure guidance for 77 industries and are available on:

https://www.ifrs.org/issued-standards/sasb-standards/

Further, the International Organization of Securities Commissions (IOSCO) has, on July 25, 2023, announced its endorsement of the above two standards. IOSCO's endorsement sends a strong signal to jurisdictions around the world that the ISSB Standards are fit for purpose for capital market use, enabling pricing in of sustainability-related risks and opportunities, and facilitate enhanced data collection and analysis. With global endorsement and focus, these standards will soon become the global baseline for sustainability reporting.

IFRS Sustainability Disclosure Standards offer a complete framework, covering disclosures, and important reporting aspects such as materiality, correction of errors, frequency of reporting, location of sustainability report etc. The standards are intended to meet the requirements of primary users of general purpose financial reports in making decisions relating to providing resources to the entity. Primary users include existing and potential investors, lenders and other creditors.

IFRS Sustainability Disclosure Standards (IFRS SDSs) coupled with SASB Standards, as IFRS SDSs require entities to consider and refer to SASB Standards for industry-specific disclosure topics, are industry-focused and offer a comprehensive suite of standards for sustainability reporting for companies from different sectors.

It would also be pertinent to mention that IFRS Sustainability Disclosure Standards are built on and consolidate the TCFD recommendations, SASB Standards, CDSB Framework, Integrated Reporting Framework and World Economic Forum metrics to streamline sustainability disclosures.

Things to know about the IFRS Sustainability Disclosure Standards

They provide a universal global baseline

The IFRS Sustainability Disclosure Standards define a global baseline of sustainability disclosure requirements, which is applicable for any jurisdiction and can be applied in conjunction with any financial reporting framework. Specific additional jurisdiction requirements needed to address public policy and broader stakeholder needs can be applied on top of that baseline.

The purpose of these standards is to address investors' concerns of fragmented and inconsistent reporting. The focus of the standards is on the information needs of capital market participants, requiring disclosure of sustainability information that is material, proportionate and decision-useful for investors.

The baseline approach also allows global companies to streamline their reporting processes and reduce duplicative reporting across jurisdictions. This should lead to better quality reporting rather than just more pages of disclosures, which are hard to compare.

IFRS SDSs are built on the concepts underpinning IFRS Accounting Standards, already required for use by more than 140 jurisdictions

Reducing duplicative reporting

The baseline approach provides a way to achieve global comparability for financial markets and allow jurisdictions to further develop additional requirements if needed to meet public policy or broader stakeholder needs. This approach helps to reduce duplicative reporting for companies subject to multiple jurisdictional requirements.

Disclosure of decision useful, material information

The ISSB standards are designed to meet investors' information needs. They require that material information about the sustainability-related risks and opportunities is disclosed. Information is considered material if omitting, misstating or obscuring it could reasonably be expected to influence investors decisions. Focusing exclusively on capital markets means that ISSB Standards only require information that is material, proportionate and decision-useful to investors. Moreover, by beginning with climate, companies can phase-in their sustainability disclosures.

They are built on existing sustainability reporting initiatives

The requirements of IFRS S1 and S2 are built on and consolidate existing sustainability reporting initiatives including TCFD recommendations, SASB Standards, CDSB Framework, Integrated Reporting Framework and World Economic Forum metrics. Companies, which already apply some of these requirements can utilize their existing reporting frameworks to achieve compliance with these standards.

The core content of both standards is structured on the basis of the four pillars of TCFD: Governance, Strategy, Risk Management, Metrics and Targets.

SASB Standards and CDSB Framework guidance are explicitly referenced in the IFRS S1 as source of guidance in cases that the IFRS Sustainability Disclosure Standards do not cover a specific topic.

Building on existing internationally accepted initiatives and including those initiatives under the IFRS Foundation is a powerful argument for companies and regulators to adopt the new standards as the consistent framework for global sustainability reporting. This is expected to improve consistency and ease of compliance.

Connections with financial statements

The information required by the ISSB Standards is designed to be provided alongside financial statements as part of the same reporting package. ISSB Standards have been developed to work with any accounting requirements, but they are built on the concepts underpinning IFRS Accounting Standards, already required for use by more than 140 jurisdictions.

Interoperability with broader sustainability reporting

The ISSB's partnership with the Global Reporting Initiative enables the ISSB to build its requirements to be interoperable with GRI standards helping to reduce the disclosure burden for companies using both ISSB and GRI Standards for reporting.

Highlights of disclosure requirements of IFRS S1 and IFRS S2

IFRS S1 is an overall general standard governing overall requirements of sustainability reporting under IFRS Sustainability Disclosure Standards.

IFRS S1 provides conceptual foundations for sustainability reporting in terms of the following:

- Fair presentation;
- Materiality (definition of materiality in these standards is same as that in IFRS Accounting Standards);
- Reporting entity and connected information

IFRS S1 also provides 'core content' in terms of requirements relating to governance, strategy, risk management & metrics and targets in relation to sustainability-related risks and opportunities.

IFRS S1 requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.

IFRS S1 also broadly provides for the following:

- Sources of guidance to identify sustainability-related risks and opportunities
- Sources of guidance to identify material information (including metrics) about sustainability-related risks and opportunities
- Location of disclosures and timing of reporting
- Comparative information
- Statement of compliance
- Judgements, uncertainties and errors
- Transitional reliefs (e.g. no comparatives in first year of reporting)

IFRS S1 lays down following hierarchy of sources of guidance for identification of sustainability-related risks and opportunities:

1.	Required to apply IFRS Sustainability Disclosure Standards
2.	Required to refer to and consider the applicability of the disclosure topics in the SASB Standards
3.	may refer to and consider applicability of CDSB Framework Application Guidance for Water- and Biodiversity-related Disclosures
4.	may refer to and consider applicability of most recent pronouncements of other standard-setting bodies designed to meet information needs of users of general purpose financial reports
5.	may refer to sustainability-related risks and opportunities identified by entities in same industry or geographical region

IFRS S1 lays down following hierarchy of sources of guidance for identification of material information (including metrics) about sustainability-related risks and opportunities:

1.	Apply specific IFRS Sustainability Disclosure Standards that applies to that sustainability-related risk or opportunity (such as *IFRS S2 Climate-related disclosures*)
2.	In the absence of specific IFRS SDSs applicable to a risk or opportunity, refer to and consider the applicability of the metrics associated with the disclosure topics included in the SASB Standards

3.	may refer to and consider applicability of CDSB Framework Application Guidance for Water- and Biodiversity-related Disclosures
4.	may refer to and consider applicability of most recent pronouncements of other standard-setting bodies designed to meet information needs of users of general purpose financial reports
5.	may refer to information, including metrics, disclosed by entities that operate in same industry or geographical region
6.	may refer to and consider applicability of the Global Reporting Initiative Standards and the European Sustainability Reporting Standards.

IFRS S2 sets out the requirements for identifying, measuring and disclosing information about climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.

IFRS S2 broadly requires disclosures of information on:

- Exposure to climate-related risks
- Plans to mitigate these risks
- Opportunities to benefit from climate change.

IFRS S2, inter-alia, provides disclosure requirements for information on the following:

- Core content – governance, strategy, risk management & metrics and targets in relation to climate-related risks and opportunities;
- Climate-related physical risks;
- Climate-related transition risks;
- Climate-related opportunities;
- Entity's climate resilience
    - Capacity to manage climate-related risks and opportunities
    - Ability to respond and adapt to climate related transition risks and climate-related physical risks.
    - Strategic resilience, operational resilience to manage climate-related changes, developments and uncertainties.
    - steps being taken to mitigate the impact of climate change on its strategy and business model
    - Whether and how entity uses climate-related scenario analysis to inform its identification of climate-related risks;
- Disclosures on Scope 1, 2 and 3 Greenhouse Gas Emissions (GHG) including financed emissions

ISSB's future projects

Based on research into the information needs of investors, the ISSB has identified four potential projects: three sustainability-related research projects—1) biodiversity, ecosystems and ecosystem services; 2) human capital; 3) human rights—and a fourth project researching integration in reporting. The ISSB had sought feedback on these four potential projects and an assessment of all feedback received is still being carried out and these projects have not been finalized yet.

Further, ISSB also recently carried out a Project "International Applicability of SASB Standards" for which exposure draft "Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates" was issued this year with comments period ended during August, 2023. On October 11, 2023, blackline documents were published detailing revisions to the SASB Standards in connection with the International Applicability of SASB Standards Project. The documents were available for information purposes to allow stakeholders to familiarise themselves with the amendments. The ISSB finalised the amendments and published amendments to SASB Standards in December 2023 to enhance their international applicability.

2. Sustainability reporting frameworks already in use in Pakistan

In Pakistan, around 20 listed companies are publishing their sustainability reports or providing sustainability disclosures in accordance with globally recognized frameworks like, GRI standard/ International Integrated Reporting Framework/ UN SDGs/SASB standards, whereas around 100 listed companies are giving certain disclosures in their financial reports on Corporate Social Responsibility, diversity inclusion, employees well-being, and environment in line with internationally recognized Frameworks. However, as of now, neither sustainability reporting nor assurance thereon, is a mandatory requirement for enterprises in Pakistan.

It is important to mention here that ICAP has been awarding best sustainability report awards annually to selected companies every year.

2.1 Challenges for Pakistan in relation to adoption and implementation of IFRS Sustainability Disclosure Standards

In Pakistan, the importance of sustainability reporting and disclosures is becoming increasingly recognized. The country faces a range of environmental challenges, including climate change, air and plastic pollution, waste production, water scarcity, and deforestation. Not the least, last year's flood situation arising out of the climate related developments is a realty. At the same time, the social and economic impacts of business activities are also of growing concern, particularly in areas such as labor practices, product safety and data security. Also the subject of biodiversity considering it provides vital ecosystem functions and contribute directly to local livelihood is essential for poverty reduction and sustainable development. At the companies, the use of accurate and transparent accounting methods, pursuing integrity and diversity in selecting its leadership and being accountable to shareholders are the significant governance part of sustainability.

By reporting on sustainability practices, entities in Pakistan can demonstrate their commitment to addressing these challenges and their efforts to operate in a responsible and sustainable manner. Sustainability reporting can also help entities identify areas where they can improve their performance and reduce their environmental, social and governance impacts.

It is to be noted that there are a growing number of investors and stakeholders who are demanding greater transparency and accountability from entities on sustainability issues. Investors are increasingly recognizing the importance of sustainability performance in assessing an entity's long-term financial prospects, and are therefore seeking better information on sustainability practices and impacts.

Also, consumers and other stakeholders are demanding greater transparency and accountability from entities. They want to know that the products and services they are purchasing are produced in a sustainable and responsible manner, and that the companies they do business with are committed to addressing environmental and social issues.

We are observing that a growing number of companies in Pakistan are beginning to report on their sustainability practices and disclose their impacts. This is a positive trend, as it demonstrates a growing recognition of the importance of sustainability in business and the need for greater transparency.

However, there is still much work to be done. Many companies in Pakistan are still not reporting on their sustainability practices, and there is a need for greater awareness and understanding of the importance of sustainability reporting and disclosures.

The adoption and implementation of sustainability reporting and disclosures in Pakistan is not without challenges. There is lack of awareness and understanding among companies as to what sustainability reporting entails. This may be due to the fact that sustainability reporting is a relatively new concept in Pakistan, and there is a lack of guidance in this regard. Further sustainability reporting requires commitment of resources, including time, money, and expertise. Many companies in Pakistan may not have the necessary resources to undertake sustainability reporting, particularly smaller and medium-sized enterprises (SMEs). There is also a big challenge around the availability of data. Sustainability reporting requires the collection and analysis of data on environmental, social, and governance factors. In Pakistan, there may be limited availability of data on these factors. Lastly, the sustainability reporting requires engagement with stakeholders, including investors, employees, customers, and suppliers. However, many companies in Pakistan may not have a culture of stakeholder engagement, which could make it challenging to collect relevant information and ensure that stakeholders are aware of sustainability issues.

To address these challenges, it is absolutely necessary to have collaboration between companies, government, civil society organizations, and other stakeholders, as well as greater investment in sustainability reporting capacity building and awareness-raising initiatives.

2.2 Challenges for Pakistan in the area of sustainability

Water and Food systems are crucial for addressing problems of food insecurity, malnutrition, and diet related health problems. Adequate nourishment in terms of quantity and quality is necessary for healthy living life. Pakistan has consistently ranked among the top 10 most vulnerable countries on the Climate Risk Index during the last two decades. The impacts of climate change on the water are more pronounced than other resources evident as frequent drought and flooding significantly result in reduced water supply, increased water stress, and long-term impacts on the life cycles of water, energy, and food.

Other than water scarcity and drought due to frequent variations in extreme temperatures, the frequency of flash floods has increased in Pakistan. The most recent flash flooding occurred from June to August 2022, and affected 116 districts; 66 districts were declared completely ‘calamity hit’ with absolute loss of standing crops. Over 1200 people lost their lives and 1,343 people faced traumatic injuries. Floods-2022 earmarked PKR 35 billion to aid flood-affected people for their survival and restoration of disrupted livelihoods. The recurrent drought and flood situation, groundwater depletion, inefficient water supply systems, and less crop per unit of water also result in low productivity of agricultural land due to increased costs of input and low prices of outputs. This situation ultimately turns the water resources management into a challenge creating water and food security crises and ultimately affects the ability of Government to progress the country’s economic development [6].

Pakistan is facing a severe water crisis that is putting millions of lives at risk. The latest UN report ‘Global Water Security 2023 Assessment’ places Pakistan in the critically water-insecure category, indicating that the country is facing a water emergency that requires immediate attention. The report highlights the alarming fact that Pakistan is among the most water-stressed countries in the world, with rapidly declining water availability per capita.

It is a cause for great concern that Pakistan’s water resources are under severe stress due to climate change, rapid population growth and mismanagement of water resources. The country is already facing water scarcity, and the situation is feared to worsen in the

[6] https://pcrwr.gov.pk/pakistan-water-week-2023/#:~:text=The%20recurrent%20drought%20and%20flood,and%20low%20prices%20of%20outputs

coming years. Pakistan's water availability per capita has decreased by more than 80% in the last 70 years, and the country is now facing a looming water crisis. A general realisation must prevail that this is not just an environmental issue but also a social and economic one. The lack of access to clean water is affecting people's health, education and livelihoods. Women and children in rural areas are most affected, as they have to travel long distances to fetch water, which takes up their time and affects their education and employment opportunities. Pakistan needs to take immediate action to address the water crisis. The government needs to prioritise water management and invest in water infrastructure. There is a need to increase water storage capacity, improve irrigation systems and promote water conservation practices. The government should also take measures to reduce water pollution, which is a major cause of waterborne diseases. The water crisis in Pakistan is a complex issue that requires a comprehensive approach. The government, civil society and the private sector need to work together to ensure that Pakistan has sufficient water resources to meet the needs of its people [7].

Pakistan is a developing country with a population of over 220 million, and plastic waste has become a significant environmental challenge due to the lack of proper waste management systems. According to a report by the United Nations Development Programme (UNDP), Pakistan generates approximately 20 million tons of solid waste annually, of which 5 to 10 percent is plastic waste. Additionally, a study conducted by the Worldwide Fund for Nature (WWF) in 2018 found that Pakistan is one of the top 10 countries in the world for plastic pollution, with an estimated 90 percent of plastic waste being improperly disposed of [8].

The plastic waste in Pakistan is primarily generated by urban areas, and the waste collection and disposal infrastructure is inadequate to handle the volume of plastic waste generated. As a result, plastic waste is often burned or dumped in open areas, including water bodies, which leads to environmental pollution and health hazards.

The plastic pollution problem in Pakistan has severe environmental and human health impacts. The accumulation of plastic waste in the environment leads to soil, air, and water pollution, which can cause long-term damage to the ecosystem. The plastic waste often clogs drains and waterways, leading to flooding during the monsoon season. The burning of plastic waste also releases harmful chemicals into the atmosphere, leading to air pollution.

The plastic pollution problem also poses a severe threat to human health. Plastic waste can release harmful chemicals into the soil and water, which can then enter the food chain, leading to adverse health effects. Additionally, plastic waste can attract pests and vectors that can cause the spread of diseases.

[7] https://tribune.com.pk/story/2408326/critical-water-shortage

[8] https://www.pakistantoday.com.pk/2023/03/07/plastic-pollution-and-pakistan/

In terms of its pollution levels, Pakistan has shown numbers that have come in very poorly in the past, with many of its megacities creating vast amounts of smoke, haze and deadly smog that permeates the air, causing a multitude of issues for its inhabitants. In 2019, Pakistan came in with a PM2.5 reading of 65.81 μg/m³, not only putting it into the ‘unhealthy’ ratings category, which requires a reading of anywhere between 55.5 to 150.4 μg/m³ to be classed as such, but also into the 2nd place position out of most polluted countries in the world. PM2.5 refers to particulate matter that is 2.5 micrometers or less in diameter, roughly 3% the size of an average human hair [9].

It has a slightly larger cousin known as PM10 (10 micrometers or less) which has a number of ill effects on people’s health, but far less prominently than that of PM2.5. Due to its incredibly small size, it has some very serious health implications on those who respire it, and as such it is used as a major component in the calculation of overall air quality ratings.

With yearly average readings of numbers such as 65.81 μg/m³, Pakistan has a long way to go in order to remove itself from the top spot of most polluted countries worldwide, coming in with a reading that was nearly double that of China’s in2019 (39.12 μg/m³). Two of its major cities, Gujranwala and Faisalabad, both came in the top 5 most polluted cities spot, taking 3rd and 4th place, with PM2.5 readings of 105.3 μg/m³ and 104.6 μg/m³ respectively, numbers that place them into the higher end of the unhealthy bracket, making the air quality not only detrimental but outright severe for all members of the population.

Pakistan, despite its contribution of only 0.9 percent to global greenhouse gas (GHG) emissions, is highly vulnerable to the impacts of climate change. While the government of Pakistan has made commendable efforts in addressing environmental challenges through its current climate change policy, there are critical areas that require evaluation and improvement. Specifically, issues such as coal-based power generation, importation of used vehicles, operation of traditional brick kilns, rapid urbanization, and agricultural burning significantly contribute to pollution and environmental degradation in the country. To effectively tackle these challenges, a comprehensive policy reorientation at the national level is essential.

Pakistan presently adheres to Euro II and Euro III emission standards for gasoline and diesel fuels, respectively. However, the country has made limited progress toward implementing Euro VI emission standards. Additionally, there are ongoing projects and plans for the development of new coal-fired power plants, both domestically and through foreign investments.

Another pressing concern is the high number of older vehicles in circulation, coupled with the lack of comprehensive vehicle scrappage programs. Traditional brick kilns, employing outdated and inefficient technologies, contribute to air pollution, deforestation, and environmental degradation, too. Furthermore, rapid urbanization in Pakistan poses numerous challenges in terms of infrastructure, housing, transportation, and environmental sustainability. The lack of proper planning and uncontrolled urban development strain resources, lead to inadequate infrastructure, and cause further environmental degradation.

[9] https://www.iqair.com/pakistan

Agricultural burning, particularly in Punjab after the rice and wheat harvesting seasons, adds to the environmental concerns. Farmers resort to burning crop residues, such as rice straw and wheat stubble, due to limited time between harvest and planting seasons, labor constraints, and the absence of affordable alternatives for residue management.

Industrial pollution, waste management, construction and urban development, as well as indoor air pollution caused by inefficient cookstoves and dirty fuels, are also critical priority issues in Pakistan. However, the existing mechanisms for implementation and monitoring of policies in these areas have proven to be ineffective.

Moreover, the initiation of billion-dollar projects like the Billion Tree Tsunami by the government raises skepticism about the credibility of linking such initiatives to the mitigation of effects of climate change and environmental friendliness. This, coupled with Pakistan's heavy reliance on foreign loans, raises concerns about the country's economic stability.

Pakistan has sought support from the international community, particularly in light of the damages caused by the floods in 2022. The government appealed for recognition that the costs of climate change should be shared by developed countries, as they are the primary contributors. The reconstruction needs for post-flood recovery are estimated to exceed $16 billion. Pledges of over $9 billion were made by foreign countries during an international conference held in Geneva early this year, providing much-needed assistance for reconstruction efforts.

Despite these efforts, there remains a lack of sufficient support and engagement from the government of Pakistan in addressing climate change on the global platform. The level of involvement and clarity regarding the government's commitment to addressing climate change internationally is unclear. Pakistan needs to proactively engage in international climate forums, intensify diplomatic efforts to secure funding, and strengthen partnerships with other countries to collectively address this global issue.

Another critical shortcoming is the absence of a robust and dedicated institution to coordinate and integrate efforts among various stakeholders. Effective coordination and collaboration between government departments, scientific organizations, civil society, and the private sector are vital for implementing and monitoring climate change policies. Establishing a centralized institute to bridge these gaps, facilitate information sharing, and streamline decision-making processes is crucial for a coherent and impactful climate change strategy.

While the current climate change policy focuses on mitigation and adaptation measures, it must broaden its scope to address additional factors contributing to climate change. These include deforestation, unsustainable agricultural practices, urbanization, and industrial emissions. The policy should encompass comprehensive strategies promoting sustainable land use, responsible farming practices, urban planning prioritizing green infrastructure, and stringent regulations on industrial emissions.

While the government of Pakistan's efforts for the rehabilitation of flood victims has shown commendable efforts, critical policy areas require immediate attention and improvement. Enhancing international engagement, establishing an effective coordination institute, and considering additional factors contributing to climate change will result in a more comprehensive and impactful climate change strategy. Prioritizing these aspects is imperative for effectively addressing climate change challenges and safeguarding the environment for future generations.[10]

[10] https://thediplomat.com/2023/07/climate-concerns-pakistans-environmental-challenges-and-policy-shortcomings/

Pakistan's commitment on net zero

Nationally determined contributions (NDCs) are at the heart of the Paris Agreement and the achievement of its long-term goals. NDCs embody efforts by each country to reduce national emissions and adapt to the impacts of climate change. The Paris Agreement (Article 4, paragraph 2) requires each Party to prepare, communicate and maintain successive nationally determined contributions (NDCs) that it intends to achieve. Parties shall pursue domestic mitigation measures, with the aim of achieving the objectives of such contributions[11] & [12].

Pakistan submitted its updated NDC in October 2021.

Key highlights from the NDC

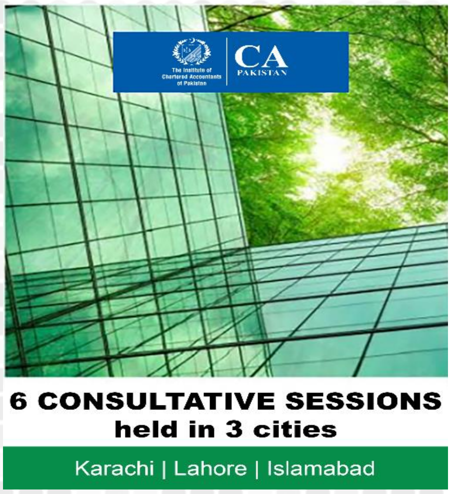
- Pakistan intends to set a cumulative ambitious conditional target of an overall 50% reduction of its projected emissions by 2030, with a 15% reduction from the country's own resources and a 35% reduction subjected to the provision of international grant finance.

- To reach the target, Pakistan aims to shift to 60% renewable energy, and 30% electric vehicles by 2030 and ban coal imports as well as expand nature-based solutions. The updated NDC has also added new sectors and new gases for enhanced contributions.

- The revised NDC envisages a broader approach to adaptation, addressing adaptation needs in several sectors and stressing the loss and damage component.

[11] https://climatepromise.undp.org/what-we-do/where-we-work/pakistan
[12] https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs

3. Results of consultative sessions on adoption / implementation of IFRS SDSs in Pakistan



We carried out interactive consultative sessions with companies and audit firms operating in Karachi, Lahore and Islamabad. For these consultative sessions, we invited 110 companies in aggregate with an option that comments on adoption / implementation of IFRS SDSs could also be provided by them through email to us.

In the consultative sessions, we provided an overview of IFRS Sustainability Disclosure Standards followed by an illustrative draft sustainability report and our proposed applicability criteria for applicability of these standards on companies (including banking companies) in Pakistan.

The consultative sessions were carried out as per following schedule:

S. No.	Consultative session with	City	Held on	Venue
1.	Companies	Karachi	September 07, 2023	ICAP House Karachi
2.	Audit Firms	Karachi	September 14, 2023	ICAP House Karachi
3.	Companies	Islamabad	October 18, 2023	ICAP Office, Islamabad
4.	Audit Firms	Islamabad	October 18, 2023	ICAP Office, Islamabad
5.	Companies	Lahore	October 19, 2023	PC Hotel, Lahore
6.	Audit Firms	Lahore	October 19, 2023	PC Hotel, Lahore

Besides above, we also had a consultative session with State Bank of Pakistan on November 14, 2023.

Stakeholders' consultation session held with companies on September 07 2023 at Karachi

Stakeholders' consultation session held with Audit Firms on September 14 2023 at Karachi

Stakeholders' consultation session held with companies on October 18 2023 at Islamabad

Stakeholders' consultation session held with Audit Firms on October 18 2023 at Islamabad

Stakeholders' consultation session held with companies on October 19, 2023 at Lahore

Stakeholders' consultation session held with Audit Firms on October 19 2023 at Lahore

In these consultative sessions, following proposed criteria for applicability of IFRS SDSs to companies in Pakistan, was presented before stakeholders for their feedback. Interactive question and answer sessions were also conducted in these consultative sessions around adoption / implementation of IFRS SDSs in Pakistan.

3.1 Proposed criteria for applicability of IFRS SDSs on companies operating in Pakistan presented in consultative sessions

All companies, subject to fulfillment of criteria given below, shall publish sustainability reports in accordance with IFRS Sustainability Disclosure Standards.

Phase I - period beginning on or after January 1, 2024

(i) Turnover greater than Rs. 25 billion in last two consecutive financial years as per their financial statements; or
(ii) employees (permanent and contractual) greater than 1000 in number; or
(iii) Total assets greater than Rs. 12.5 billion

Phase II - period beginning on or after January 1, 2025

(i) Turnover greater than Rs. 12.5 billion in last two consecutive financial years as per their financial statements; or
(ii) employees (permanent and contractual) greater than 500 (in number); or
(iii) Total assets greater than Rs. 6.25 billion

Phase III - period beginning on or after January 1, 2026

Only Listed Companies (other than those falling in Phase I and Phase II above).

Note:

1. *Reporting in first year of application of IFRS S1 and S2 will comprise of only climate-related disclosures. The first reporting may be made within 9 months from the close of financial year.*

2. *Climate-related Disclosures- Scope 3 emissions shall be applicable from second year of reporting by respective companies.*

3. *Requirement of providing assurance in accordance with International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements, shall be applicable from second year of reporting by respective companies.*

3.2 Capacity building/awareness sessions carried out by ICAP in relation to IFRS SDSs

ICAP has been holding awareness sessions on IFRS SDSs for last one year from the time when exposure drafts of these standards were released by ISSB. These are as follows:

- Seminar on Sustainability Reporting (July 22, 2022)
- ICAP & SECP Roundtable – Awareness and Capacity Building Session on Sustainability Reporting (May 8, 2023)
- Webinar on Capacity Building session on Sustainability Disclosures and Reporting (ICAP & SECP) (June 14, 2023)
- ESG Revolution (August 10, 2023)

Besides above, Chairman ASB and other ICAP Council members have been spreading awareness on IFRS SDSs at various forums such as on events / seminars held by PICG, SECP, PSX and OICCI.

3.3 Circulation of IFRS Sustainability Disclosure Standards (IFRS S1 & S2) to members

On August 25,2023, we circulated IFRS S1 and S2 to our members for their comments to be provided till September 15, 2023. We received comments from a member who appreciated disclosure requirements contained in IFRS S1 and S2.

3.4 Recommendations received during consultative sessions

During consultative sessions, we received number of views with respect to adoption and implementation of IFRS SDSs in Pakistan, which are summarized as follows:

- Adoption of IFRS SDSs effective from January 1, 2024 by industry might be a challenging task. Despite the fact that some of the companies are already performing sustainability reporting however adoption and implementation of standards effective from January 1, 2024 is too early. For majority of companies operating in Pakistan, concept of sustainability reporting is relatively new and as such there is considerable capacity and skill-set gap in terms of understanding and implementing IFRS SDSs by such companies. In regard to implementation of IFRS SDSs, majority of companies would be required to perform many activities in advance in terms of installing proper governance function, systems, controls, human resources, base-lining etc., and this requires time.

  Hence, it does not seem practical to have IFRS SDSs implemented in Pakistan effective from January 1, 2024 and it will be appropriate if industry is provided reasonable time to prepare itself before these standards become effective / applicable on them.

- In the proposed applicability criteria, the three factors (i.e. turnover, assets base, and number of employees) have been considered to be applied in isolation. It means that if anyone criteria for applicability for a phase is met, company meeting such criteria falls into that phase. It was suggested by audience in consultative sessions that it would be more appropriate if two factors in combination are considered to be met when deciding a company to fall in either phase 1 or phase 2.

- For some of the industries such as those involved in exports, it is their business need to make reporting on sustainability and such companies have performed a lot of work in terms of installing systems, controls and procedures, in order to be able to make accurate sustainability reporting. As such, it would be appropriate if IFRS SDSs are made applicable for industries / entities in exports on priority basis and this is considered in final recommendations in connection with adoption of IFRS SDSs in Pakistan.

- IFRS S2 requires disclosure of results of scenario analysis and Scope 3 GHG Emissions. As per audience present in consultative sessions, these two are most challenging areas for industry. They do not have appropriate systems, skills, understanding and resources in order to be able to report results relating to these areas in their sustainability reports. It was suggested by audience in consultative sessions that companies would need some time in order to able to put in place appropriate systems, processes, resources, and have appropriate capacity in order to be able to generate information to report numbers in respect of IFRS SDSs requirements to report on Scope 3 GHG emissions and result of scenario analysis.

- Public sector entities and government owned / controlled entities generally do not have adequate systems, processes, resources and skills in order to be able to make sustainability reporting and as such it will be a challenging task for them to be able to make sustainability reports. This should be considered while forming final recommendations for adoption of IFRS SDSs in Pakistan.

- Some of the industries have relatively high carbon footprint compared to others and therefore those industries should be brought into the applicability bracket earlier than those with lesser carbon footprint.

4. Recommendations

4.1 IFRS SDSs should be adopted as approved framework for use in Pakistan for sustainability reporting

Pakistan IFRS adoption story is as old as IFRS (previously, International Accounting Standards). These standards have been made applicable and implemented since the very early years of their issuance by International Accounting Standards Committee. In Pakistan's journey towards IFRS, the Institute has been at forefront not only in the adoption process of IFRS but also in facilitating the implementation of these standards. The Institute has also formed the multi-stakeholder Accounting Standards Board (the ASB) with the objective to strengthen Pakistan financial reporting in the public interest, through collaborative and consultative approach.

Considering that there have not been any regulations in force, in Pakistan, mandating use of a specific framework for sustainability reporting for companies, there has been lack of consistency in use of framework for sustainability reporting and multiple frameworks have been used by companies in Pakistan to report their sustainability-related information. This has resulted in information emanating from different companies which is inconsistent and incomparable, thus hampering usability of such information for meaningful actions on macro level. Simultaneously, this necessitates use of a single framework for sustainability reporting in order for the sustainability-related financial information / sustainability reports presented by companies to be comparable and actionable at wider level.

The ISSB works in close cooperation with the IASB, ensuring connections between IFRS Accounting Standards and IFRS Sustainability Disclosure Standards. Each board is independent, and their Standards complement each other to provide investors and other capital market participants with comprehensive information to meet their needs. The staff of the IASB and the ISSB work in coordination at all times to ensure their Standards are compatible.

IFRS Accounting Standards and IFRS Sustainability Disclosure Standards are developed using the same rigorous, inclusive and transparent due process. The two boards ensure connections in their work to enable the Standards to operate effectively together and to support connected reporting.

In view of the fact that ISSB IFRS SDSs are standards that have been developed with thorough research and taking inputs from the works carried out by various other bodies (as explained in paragraph 1.4 above), and also being considered by many jurisdictions globally for adoption (as per information contained in Annexure to this report), and Pakistan being member of IFRS Foundation, we understand that there are strong reasons to support adoption and implementation of IFRS SDSs in Pakistan.

4.2 Implementation to be in phased manner

Consistent with other jurisdictions (e.g. Brazil, Singapore, Japan, Australia, Europe,) that have followed a phased approach for adoption / implementation of sustainability frameworks, we recommend that a phased approach should be applied for adoption / implementation of IFRS SDSs in Pakistan.

This gradual approach aims to strike a balance between ambition and market readiness and will allow companies of different sizes and industries to better understand and incorporate sustainability-related disclosures into their reporting practices.

Accordingly, our recommended phased approach aims to bring very large entities into implementation bracket first and then entities with lesser size and so on in first two phases (i.e. Phase I & Phase II). In the third phase III, we are proposing to bring in listed companies (which do not fall within Phase I & Phase II) to be mandated to apply IFRS SDSs.

Our proposed criteria for application / adoption of IFRS SDSs is as follows:

All companies, subject to fulfillment of criteria given below, shall publish sustainability reports in accordance with IFRS Sustainability Disclosure Standards.

Phase I – IFRS SDSs to be applicable from periods beginning on or after January 1, 2025	***Phase II – IFRS SDSs to be applicable from periods beginning on or after January 1, 2026***
Companies fulfilling any two criteria (i) to (iii) below shall qualify to fall in Phase I of adoption / implementation.	***Companies fulfilling any two criteria (i) to (iii) below shall qualify to fall in Phase II of adoption / implementation.***
*(i) **Annual turnover** greater than **Rs. 25 billion** in last two consecutive financial years as per their financial statements; or*	*(i) **Annual turnover** greater than **Rs. 12.5 billion** in last two consecutive financial years as per their financial statements; or*
*(ii) Number of **employees** (permanent and contractual) greater than **1000** as at last financial year-end; or*	*(ii) Number of **employees** (permanent and contractual) greater than **500** as at last financial year-end; or*
*(iii) **Total assets** greater than **Rs. 12.5 billion** as at last financial year-end*	*(iii) **Total assets** greater than **Rs. 6.25 billion** as at last financial year-end*

Phase III – IFRS SDSs to be applicable from periods beginning on or after January 1, 2027
Only Listed Companies (other than those falling in Phase I and Phase II above).

Note:

1. *Reporting in first year of application of IFRS S1 and S2 will comprise of only climate-related disclosures. The first reporting may be made within an extended period as explained in paragraph 4.3 below.*

   Reporting from second year shall comprise both climate-related disclosures and other than climate related disclosures.

2. *Climate-related Disclosures- Scope 3 emissions shall be applicable from second year of reporting by respective companies.*

3. *Requirement of providing assurance in accordance with International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements, shall be applicable from second year of reporting by respective companies.*

4. *Companies are encouraged to and may voluntarily apply the IFRS Sustainability Disclosure Standards in preparation of their sustainability-related financial information / sustainability reports for the financial years for which it is not mandatory for them to prepare sustainability-related financial information / sustainability as per the applicability criteria.*

Listed companies falling in criteria based on our analysis of their financial statements for June / September / December 2022 year ends

We extracted sector-wise listing of companies listed on Pakistan Stock Exchange as of September 20, 2023 and extracted their 2022 annual reports. We extracted following financial information from their published financial statements:

- Turnover for the year 2022 and 2021;
- Total assets at 2022 year end; and
- Number of employees at 2022 year end.

We applied proposed criteria for applicability of IFRS SDSs to the extracted financial information of listed entities to identify entities meeting any two criteria in Phase I & II. Based on such study, we identified listed entities which fall in Phase 1, 2 and 3 of proposed criteria.

Sector-wise summary of such listed entities is stated below:

S #	Sector Name	Companies falling in			Total
		Phase I	Phase II	Phase III	
1	Oil & Gas Exploration Companies	4	0	0	4
2	Oil & Gas Marketing Companies	5	1	2	8
3	Refinery	4	0	0	4
4	Power Generation & Distribution	3	5	7	15
5	Cement	9	4	5	18
6	Sugar & Allied Industries	3	9	15	27
7	Commercial Banks	19	0	0	19
8	Cable & Electrical Goods	2	2	3	7
9	Engineering	5	2	7	14
10	Automobile Parts & Accessories	3	4	3	10
11	Automobile Assembler	6	3	2	11
12	Pharmaceutical	5	4	3	12
13	Insurance	3	4	20	27
14	Tobacco	2	0	1	3
15	Glass & Ceramics	2	1	5	8
16	Paper & Board	1	2	6	9
17	Transport	1	3	2	6
18	Property	0	0	3	3
19	Miscellaneous	2	1	17	20
20	Chemical	6	3	17	26
21	Fertilizer	4	0	2	6
22	Textile	28	13	63	104
23	Technology & Communication	3	2	12	17
24	FMCG	9	2	14	25
25	NBFI & Mutual funds	1	0	58	59
	Total	**130**	**65**	**267**	**462**

Note: There were 59 companies listed on Pakistan Stock Exchange whose annual reports were not publicly available on internet, and as such analysis on financial information of such companies could not be performed. Further, as the data of unlisted companies was not publicly available, therefore, unlisted companies were not included in above analysis.

4.3 Timing of preparation and submission of sustainability reports by companies

As the IFRS SDSs require connectivity between the financial statements and sustainability-related financial information/ sustainability report, it seems appropriate that both the financial reporting (i.e. financial statements and sustainability-related financial disclosures/ sustainability reports) should make part of the general purpose financial report.

Our recommendation in this respect is that sustainability-related financial disclosures / sustainability reports prepared under IFRS SDSs should be prepared, presented, approved and submitted at the same time at which annual statutory financial statements are prepared, presented, approved and submitted except for first year of reporting for which paragraph E4 of Appendix E of IFRS S1 states that In the first annual reporting period in which an entity applies this Standard, the entity is permitted to report its sustainability-related financial disclosures after it publishes its related financial statements.

The aforesaid paragraph E4 states that in applying this transition relief for first year reporting, an entity shall report its sustainability-related financial disclosures:

(a) at the same time as its next second-quarter or half-year interim general purpose financial report, if the entity is required to provide such an interim report;

(b) at the same time as its next second-quarter or half-year interim general purpose financial report, but within nine months of the end of the annual reporting period in which the entity first applies this Standard, if the entity voluntarily provides such an interim report; or

(c) within nine months of the end of the annual reporting period in which the entity first applies this Standard, if the entity is not required to and does not voluntarily provide an interim general purpose financial report.

Our recommendation for the first year of reporting is same as that stated in above-referred paragraph E4 of Appendix E of IFRS S1.

Hence, sustainability-related financial disclosures / sustainability reports prepared using IFRS SDSs should become part of annual reports except for the first sustainability-related financial disclosures / sustainability report which may be issued separately within period stated in preceding paragraph.

Moreover, ICAP is in process of developing illustrative formats of sustainability-related financial disclosures / sustainability reports for various industry types which shall be placed on ICAP's website for helping companies in developing their sustainability-related financial disclosures / sustainability reports in accordance with IFRS SDSs.

4.4 Assurance of sustainability-related financial disclosures / sustainability reports prepared under IFRS SDSs

Since the companies in the first year of applicability of IFRS SDSs will be in process of establishing related governance systems, controls, processes etc., it is but natural that they would not be well prepared to have assurance on their sustainability reports / sustainability-related financial disclosures prepared using IFRS SDSs. Accordingly, our recommendation is to enforce assurance on sustainability reports / sustainability-related financial disclosures to kick-in from their second year of reporting i.e. reports prepared for second year (and onwards) reporting should be subject to assurance thereon.

As ICAP members in practice are well versed on forming opinion on financial statements (prepared using IFRS Accounting Standards) and bound by ICAP's Code of Ethics, we recommend that only ICAP's practicing members be allowed to perform assurance services on sustainability-related financial disclosures /sustainability reports prepared using IFRS SDSs.

ICAP members undergo a robust process of professional training and subject to ongoing Continuing Professional Development (CPD) program which ensure that our members are up-to-date and possess professional skills and knowledge. ICAP's recurring professional trainings, seminars, awareness sessions ensure that our members are well equipped and proficient in performing their professional duties.

4.5 Digital Taxonomy on sustainability reporting

A common digital taxonomy is necessary to facilitate structured digital reporting of sustainability-related financial disclosures / sustainability reports prepared applying the ISSB Standards, which will improve the accessibility and comparability of sustainability information for investors. The ISSB is also in process of finalising an IFRS Sustainability Disclosure Taxonomy to facilitate users of general purpose financial reports to consume sustainability-related financial information digitally, regulators to require the digital reporting of sustainability-related financial information, and preparers to implement digital reporting of sustainability-related financial information, enabling tagging without undue cost. Details of ISSBs project on IFRS Sustainability Disclosure Taxonomy can be found at https://www.ifrs.org/projects/work-plan/ifrs-sustainability-disclosure-taxonomy/

We recommend that SECP should work on this area in Pakistan to facilitate digital consumption of sustainability-related financial disclosures / sustainability reports across companies from various sectors in Pakistan.

Annexure - Countries adopting IFRS Sustainability Disclosure Standards & Others

United Kingdom [13]

For IFRS Sustainability Disclosure Standards (IFRS SDSs) to be available to UK companies, as per process, they must first be endorsed for use in the UK.

In its March 2023 Green Finance Strategy, the UK Government reconfirmed its commitment to assess and decide whether to endorse the standards. The Secretary of State for the Department for Business and Trade (DBT) in UK, is responsible for this endorsement decision. In guidance issued in August 2023, DBT confirmed the aim for endorsement decisions to create the first two UK Sustainability Disclosure Standards (UK SDS) to be made by July 2024. UK SDS will be based on the International Sustainability Standards Board's (ISSB) standards and will only divert from the global baseline if absolutely necessary for UK specific matters.

The Secretary of State's endorsement decision will be informed by the UK Sustainability Disclosure Technical Advisory Committee (TAC), which will assess the suitability of the standards for application in the UK. <u>As a first step in its assessment, the TAC secretariat published a call for evidence to seek the views of stakeholders with an interest in sustainability reporting in the UK, which could be provided till October 11, 2023</u>. TAC will then provide recommendations to the Secretary of State, via DBT, to inform the decision on whether to endorse the ISSB's standards for use in the UK.

The UK Endorsement Board (UKEB), which endorses IFRS Accounting Standards for use by UK companies, will be a member of TAC. While UKEB will not have responsibility for endorsement of the sustainability standards, it will be considering connectivity issues between IFRS Sustainability Disclosure Standards and IFRS Accounting Standards.

In addition to TAC, a second advisory committee - the UK Sustainability Disclosure Policy and Implementation Committee (PIC) – has been established by the government to support decision-making both on the endorsement of the standards and on subsequent implementation.

<u>Scope and implementation</u>

If the Secretary of State endorses the standards, UK SDS may be referred to in any legal or regulatory requirements for UK entities.

Decisions on scope and implementation of any mandatory reporting requirements against the UK-endorsed standards will be taken following further consultation. Decisions mandating disclosure will be taken independently by the UK government - for UK registered companies and limited liability partnerships - and by the Financial Conduct Authority (FCA) for UK listed companies. This would include decisions on, for example, whether the standards would apply on a 'comply or explain' basis, and whether wholly-owned subsidiaries should benefit from a reporting exemption if the parent also reports using the standards. PIC will coordinate the implementation of UK SDS by the UK government and the FCA.

As ISSB standards are designed to be GAAP agnostic, the scope of companies potentially required to adopt the standards will not be dependent on whether the entity uses IFRS or UK GAAP.

Decisions on implementation will include any effective date for UK SDS. The effective date of 1 January 2024 stated in the ISSB standards therefore is not relevant in the context of UK reporting.

The location of disclosures within company reporting will also be subject to consultation. However, the Strategic Report is a key component of UK reporting and already contains information which is similar in nature to that required by the standards. While no decisions have yet been taken on how to implement IFRS S1 and IFRS S2 in the UK, a separate 'sustainability' report would not be consistent with the current UK framework.

<u>Transitional reliefs</u>

IFRS S1 and IFRS S2 as issued by the ISSB contain a suite of transitional reliefs, including a one-year relief on disclosure of comparative information and Scope 3 greenhouse gas emissions. TAC's call for evidence asked for views on whether the reliefs set out in the standards are sufficient to allow companies to develop the systems and capabilities necessary to report.

[13] https://www.frc.org.uk/news-and-events/news/2023/07/uk-sustainability-disclosure-tac-issues-call-for-evidence/

Hong Kong [14]

ISSB, at the time of issuance of IFRS S1 and S2, indicated that it would develop an adoption guide to support regulators in implementing the IFRS Sustainability Disclosure Standards, including parameters for jurisdictional scaling and phasing-in.

The adoption guide is expected to be released by the end of 2023 and the Hong Kong Stock Exchange has indicated that it will take into account the recommendations in the adoption guide when finalizing the Listing Rule amendments. The proposed amendments by Hong Kong Stock Exchange to the Listing Rules enhance climate-related disclosures in the light of IFRS S2 *Climate-related disclosures* issued by ISSB. The rule changes are expected to come into effect on 1 January 2025.

Australia [15]

In October 2023, the Australian Accounting Standards Board (AASB) released an exposure draft (ED) for disclosure of climate-related financial information.

The ED includes three proposed Australian Sustainability Reporting Standards (ASRS Standards) that include modifications to the baseline of the ISSB Standards with a climate-first approach. It is proposed to be applicable for both profit and not-for-profit entities.

The ASRS have been developed using the International Sustainability Standards Board's (ISSB) two sustainability disclosure standards released in June 2023.

The AASB is proposing the ASRS Standards would apply to annual reporting periods beginning on or after 1 July 2024. However, the financial period in which an entity is first required to apply these ASRS Standards will be subject to decisions of the Australian Government.

Submissions on the ED are due by 1 March 2024.

Malaysia [16]

Formation of Advisory Committee on Sustainability Reporting (ACSR)

In May 2023, the Securities Commission Malaysia (SC) set up a national level Advisory Committee on Sustainability Reporting (ACSR) to support the implementation of the ISSB Standards in Malaysia. The ACSR comprises representatives from SC (as Chair), Bank Negara Malaysia, Bursa Malaysia, the Companies Commission of Malaysia, the Audit Oversight Board and the Financial Reporting Foundation.

Securities Commission to Adopt ISSB Sustainability Principles

The Securities Commission Malaysia (SC) plans to adopt the International Sustainability Standards Board (ISSB), which is custom-fitted to the local context, with the aim to install sustainability principles within Malaysian businesses.

Local sustainability reporting landscape in Malaysia

Since 2015, listed issuers on Bursa Malaysia (Bursa) have been required to provide sustainability disclosures through the inclusion of a Sustainability Statement in their annual report. Bursa enhanced its sustainability reporting requirements in September 2022 to better align with global reporting expectations, including recommendations of the TCFD.

The enhanced requirements are built on the TCFD core pillars adopted by the ISSB in developing the ISSB Standards. These are governance, strategy, risk management, as well as key metrics and targets. This similarity between Bursa's sustainability reporting requirements and the ISSB Standards provides good grounds for listed issuers on Bursa to move towards more advanced reporting requirements.

14 https://hsfnotes.com/esg/2023/11/08/hong-kong-delays-enhanced-climate-related-disclosures-for-listed-companies-pending-issbs-adoption-guide/

15 https://kpmg.com/au/en/home/insights/2022/04/issb-sustainability-reporting-disclosures-guide.html

16 https://bursasustain.bursamalaysia.com/droplet-details/news/securities-commission-to-adopt-issb-sustainability-principles

Nigeria [17]

In November 2022 at the Conference of Parties (COP) 27, the Financial Reporting Council (FRC) of Nigeria announced Nigeria's intention to be an early adopter of the IFRS Sustainability Disclosure Standards. The FRCN is a Federal Government agency established to, among other things, develop and publish accounting and financial reporting standards to be observed in the preparation of financial statements of public entities in Nigeria; and for other related matters.

The FRC, International Sustainability Standards Board (ISSB) and Nigeria Exchange Group Regulation Limited (NGX Reg Co.) launched the two ISSB Sustainability Disclosure Standards, IFRS S1 & S2 on Monday June 26, 2023. The landmark event, which was held at the Nigerian Exchange Group House in Lagos, was one of the many events hosted simultaneously to celebrate the launch by Stock Exchanges around the world including Frankfurt, Montreal, London, Santiago de Chile, and Singapore. Nigeria is the only country in Africa selected to co-launch same day globally.

Nigeria has adopted the IFRS Sustainability Disclosure Standards effective from January 1, 2024.

Brazil [18]

The Brazilian Ministry of Finance and the Comissão de Valores Mobiliários (CVM) have announced that the International Sustainability Standards Board's (ISSB) IFRS Sustainability Disclosure Standards will be incorporated into the Brazilian regulatory framework, setting out a roadmap to move from voluntary use starting in 2024 to mandatory use on 1 January 2026.

Canada [19]

The Canadian Securities Administrators (CSA) determine the reporting requirements for Canadian public companies and are responsible for decisions regarding mandatory adoption of sustainability disclosure standards. The CSA first issued its own climate disclosure proposals in 2021. It has since indicated that it will consider ISSB and U.S. developments before proceeding with their final rule.

The process will also involve the new Canadian Sustainability Standards Board (CSSB), which will review final ISSB standards for their suitability for adoption in Canada.

The CSSB is also working in collaboration with various Canadian regulatory bodies which will ultimately be responsible for creating a consistent set of standards and reporting framework that governs sustainability reporting [20].

One of the underlying objectives of the CSSB is to introduce reporting standards that demand greater accountability from Canadian companies. Coordinating its efforts with the ISSB and thereby developing standards that are both fair and equitable for Canadian corporations will better enable this country to compete on an international level.

As per statement given by CSSB chairman, *"With the current climate emergency and the groundswell of market support for climate disclosure, there is an urgency for us to act on IFRS S1 and S2. At the same time, we need to be thoughtful about the needs of our Canadian market and fully understand the implementation needs of our country. We expect to consult with Canadians on IFRS S1 and S2 implementation in 2024".*

17 https://www.ifrs.org/news-and-events/news/2022/11/issb-at-cop27-frc-of-nigeria-to-adopt-ifrs-sustainability-disclosure-standards/

18 https://www.ifrs.org/news-and-events/news/2023/10/brazil-adopts-issb-global-baseline/

19 https://www.cpacanada.ca/en/news/accounting/the-profession/sustainability-disclosure-standards#:~:text=IFRS%20S1%20sets%20out%20general,flows%2C%20strategy%20and%20business%20model

20 https://sustainablebiz.ca/canadian-sustainability-standards-board-set-to-take-up-global-esg-standards

Singapore [21]

The Sustainability Reporting Advisory Committee (SRAC) of Singapore published a public consultation paper seeking market feedback on proposals to make climate-related disclosures mandatory for listed and certain non-listed companies in Singapore. The consultation paper was published on July 6, 2023 and closed on September 30, 2023.

The consultation proposed to mandate listed issuers to report climate-related disclosures in line with the requirements of *IFRS S2 Climate-related disclosures* starting from financial year 2025 (FY2025). Large non-listed companies with annual revenue of at least S$1 billion will follow suit in FY2027.

The SRAC was set up by the Singapore Accounting and Corporate Regulatory Authority (ACRA) and Singapore Exchange Regulation (SGX RegCo) in June 2022 to advise on a roadmap for wider implementation of sustainability reporting by companies in Singapore.

Since 2017, listed issuers have been required to publish sustainability reports. Currently, only listed issuers in five prioritised industries are required to provide Task Force on Climate-related Financial Disclosures (TCFD)-aligned climate-related disclosures progressively from FY2023. All other listed issuers are required to apply TCFD on a "comply-or-explain" basis. The recommendations of SRAC in this consultation, therefore, significantly expands the number of companies that will have to report climate-related disclosures, and which shall be in line with the ISSB standards. This development is part of the wider aim to uphold Singapore's attractiveness as a global business hub while contributing to its national agenda on sustainable development under the Singapore Green Plan 2030.

What are the key recommendations of the SRAC?

Mandatory climate-related disclosures for listed issuers

All listed issuers of equity securities (including those incorporated overseas, business trusts and real estate investment trusts) are required to report on climate-related disclosures from FY2025.

Mandatory climate-related disclosures for non-listed issuers

All large non-listed companies with an annual revenue of at least S$1 billion will be required to report climate-related disclosures from FY2027. This is estimated to cover 300 companies.

A review will be conducted by 2027 with the view to mandate climate reporting by large non-listed companies with revenue of at least S$100 million to less than S$1 billion, by around FY2030. This is estimated to cover 2,200 companies. The review will consider factors such as international developments, industry capacity and the implementation experience of large non-listed companies.

This gradual approach aims to strike a balance between ambition and market readiness and will allow companies of different sizes and industries to better understand and incorporate climate-related disclosures into their reporting practices.

The revenue threshold for non-listed company should be measured using company-level financials, unless the non-listed company is a parent (according to the prescribed accounting standards in Singapore), in which case, revenue should be measured based on group-level financials.

An exemption applies for a large non-listed company if: (a) its immediate, intermediate or ultimate parent (local or foreign) is minimally preparing climate or sustainability reports in accordance with prescribed climate-related disclosures in Singapore or deemed equivalent; and (b) its activities are included in that parent's report, which is available for public use.

Adoption of the ISSB standards

Both listed issuers and large non-listed companies should report climate-related disclosures using the local prescribed standards that mirror the requirements in the ISSB standards, to the extent practicable.

The ISSB standards include (temporary) transition reliefs for certain requirements to provide more time to certain companies to implement the requirements. The SRAC recommends applying at least the same duration of the temporary transition reliefs in the ISSB standards to all companies that are subject to mandatory reporting.

In addition, SRAC recommends extending the duration of relief on reporting on Scope 3 GHG emissions for non-listed companies, allowing such

[21] https://sustainablefutures.linklaters.com/post/102illp/singapore-consults-on-adopting-mandatory-climate-related-corporate-disclosure-req

companies to opt to make climate-related disclosures on their Scope 3 GHG emissions two years after the mandatory reporting requirements kick in.

A review will be conducted in due course on the application of the ISSB standards for disclosure of sustainability-related risks and opportunities beyond climate-related disclosures for all companies subject to mandatory reporting.

To cater to the diverse needs and circumstances of companies (for example where companies operate in jurisdictions that mandate the use of other standards) the recommendation is to allow for disclosures in compliance with other standards and frameworks in the same report if both of the following conditions are met:

- the standards and frameworks applied are prominently disclosed; and
- the additional disclosure does not contradict or obscure the information required by the prescribed climate-related disclosure.

External assurance requirements

Companies subject to mandatory climate reporting should obtain external limited assurance on Scope 1 and Scope 2 GHG emissions two years after the mandatory reporting requirements take effect (i.e., from FY2027 for all listed issuers, and FY2029 for large non-listed companies with annual revenue of at least S$1 billion). This will allow time for companies to be "assurance ready".

Companies are encouraged to voluntarily obtain "reasonable assurance" over their entire climate report (including Scope 3 GHG emissions).

The external assurance can be provided by ACRA-registered audit firms and testing, inspection, certification firms accredited by the Singapore Accreditation Council (SAC), the national accreditation body that manages and promotes accreditation schemes and registration programmes. To align with global best practices, it is also recommended that assurance be conducted based on:

- a Singapore standard equivalent to ISSA 5000 (General Requirements for Sustainability Assurance Engagements) that is being developed by the IAASB; or
- SS ISO 14064-3 (Greenhouse gases – Part 3: Specification with guidance for the verification and validation of greenhouse gas statements) – this is Singapore's national standard which is the identical national adoption of ISO 14064-3 published by the ISO.

Reporting and filing timelines

Climate-related disclosures for companies should have the same reporting and filing timelines as financial statements under the Companies Act 1967.

The SRAC also recommends that climate-related disclosures should be filed in a digital structured format.

Listed Issuers can include climate-related disclosures in a separate report or as part of the annual report. If the climate-related disclosure is included in a separate report, both reports must be published at the same time.

Other legal requirements

The requirements will be mandated through the Companies Act 1967 and the SGX listing rules.

Legal responsibilities should also be imposed on the company, its directors, and/or officers to ensure accountability for climate-related disclosures. It is recommended that the existing legal requirements related to financial reporting should be imposed on climate reporting, except for internal controls that should be encouraged.

Europe [22]

CSRD for sustainability reporting in European Union

The final EU Corporate Sustainability Reporting Directive (CSRD) was published in the EU Official Journal and came into force on 5 January 2023, after adoption by the European Parliament and the Council of the EU.

EU Member States are given a period of 18 months to transpose the Directive into their own national laws. The final Directive confirms the outcome of the provisional political agreement reached in June 2022.

The CSRD regulates extensive new sustainability reporting requirements that are expected to affect

22 https://www.ibm.com/topics/csrd#:~:text=The%20CSRD%20is%20European%20Union,%2C%20social%20and%20governance%20(ESG))

many companies based inside, but also outside, the EU.

The first companies within the scope of the CSRD will have to apply the new sustainability regime starting FY 2024.

Which companies must comply with the CSRD?

By 2028, all of the following organizations, or *undertakings*, will need to comply with the CSRD:

Large listed undertakings

These include any companies listed on an EU-regulated market exchange—*except for 'micro undertakings' that fail to meet two of the following three criteria on consecutive balance sheet dates:*

- at least EUR 350,000 in total assets
- at least EUR 700,000 in net turnover (revenue)
- at least 10 employees (average) throughout the year

EU-based large undertakings, listed or not

These include any listed or non-listed companies that meet two of the following three criteria on any two consecutive balance sheet dates:

- at least EUR 20 million in total assets
- at least EUR 40 million in net turnover
- at least 250 employees (average) during the year.

'Third-country' undertakings.

These include EU subsidiaries of non-EU parent companies, with annual EU revenues of at least EUR 150 million in the most recent two years, and also own:

- a large EU-based undertaking, or
- an EU-based subsidiary with securities listed on an EU-regulated market exchange, or
- an EU branch office with at least EUR 40 million in net turnover.

When must companies comply with the CSRD?

CSRD compliance is being phased in from 2024 through 2029, and is based primarily on NFRD legacy or company size.

Starting in financial year 2024 (and reporting in 2025): Compliance is mandated for organizations (or 'entities') already mandated to comply with the NFRD. This includes all organizations listed in an EU-regulated market with 500 or more employees.

Starting in financial year 2025 (reporting in 2026): Compliance is mandated for large listed undertakings (see above) not already mandated to comply with the NFRD.

Starting in financial year 2026 (reporting in 2027): Compliance is mandated for small and medium-sized undertakings (also called small and medium sized entities, or SMEs)—companies listed on an EU-regulated market that meet at least two or three of the following criteria:

- at least EUR 4 million in total assets
- at least EUR 8 million in net turnover
- at least 50 employees average throughout the year

Starting in the financial year 2028 (reporting 2029): Compliance is mandated for third-country undertakings.

CSRD reporting standards and disclosure requirements

European Sustainability Reporting Standards

In 2022, the European Financial Reporting Advisory Group (EFRAG) released its first set of European Sustainability Reporting Standards (ESRS). The ESRS provide the framework for what metrics companies need to report, and how they need to report them, in order to meet CSRD disclosure requirements.

There are 13 ESRS in all, which detail disclosures and metrics across sustainability matters in four (4) categories:

- Cross-cutting: General principles and general disclosures
- Environmental: Climate change, pollution, water and marine resources, biodiversity and ecosystems, resource use and circular economy
- Social: Own workforce, workers in the value chain, affected communities, consumers and end-users
- Governance: Business conduct

Cross-cutting reporting is required of all organizations governed by the CSRD, while environmental, social and governance reporting is mandatory for those organizations that consider them material.

India [23]

India's efforts to scale back its carbon footprint extend to regulatory activity, which includes a reporting requirement for large, publicly listed companies. The Business Responsibility and Sustainability Report (BRSR) is required for India's top 1,000 listed companies, and it's mandatory for FY2022-23, which ended on March 31, 2023.

In a May 2021 circular, SEBI announced that its Business Responsibility Report would be replaced with the Business Responsibility and Sustainability Report, which would be required from India's top 1,000 listed companies. These companies are expected to supply information in the BRSR about any environmental, social and governance (ESG) initiatives undertaken, along with information on their performance against nine principles that were included in the national guidelines.

The Format of the BRSR in India

The BRSR includes three reporting sections, which cover general disclosures, management and process disclosures and principle-related performance disclosures. The nine principles come into play in the last section, where companies must explain how they have incorporated the principles into key processes and decisions.

The nine principles, which can be found in the Business Responsibility and Sustainability Reporting Format, state that businesses should:

1. Conduct and govern themselves with integrity and in a manner that is ethical, transparent and accountable.
2. Provide goods and services in a manner that is sustainable and safe.
3. Respect and promote the well-being of all employees, including those in their value chains.
4. Respect the interests of stakeholders and be responsive to them.
5. Respect and promote human rights.
6. Respect and make efforts to protect and restore the environment.
7. Engage—if they so choose—in influencing public and regulatory policy in a manner that is responsible and transparent.
8. Promote inclusive growth and equitable development.
9. Engage with and provide value to their consumers in a responsible manner.

Beneath each of the nine principles are essential indicators and leadership indicators. All reporting companies are expected to disclose the essential indicators, while the reporting of leadership indicators is voluntary, providing companies the opportunity to demonstrate an aspiration "to progress to a higher level in their quest to be socially, environmentally and ethically responsible".

What Must Indian Companies Report in Their BRSR?

Among the indicators that listed companies must report are:

- The participation / inclusion / representation of women among its employees.
- R&D and capital expenditure investments in specific technologies to improve the environmental and social impacts of products and processes, as a percentage of total R&D and capex investments.
- Total electricity and fuel consumption.
- Total volume of water withdrawal, including surface water, groundwater, third-party water and seawater / desalinated water.
- Scope 1 and Scope 2 emissions.
- Total waste generated, including plastic waste, bio-medical waste and construction and demolition waste.

These are just a few examples of the indicators covered in the BRSR. Note that while Scope 3 disclosures are included, they are listed as leadership indicators, making them voluntary disclosures. This differentiates the BRSR from the EU Corporate Sustainability Reporting Directive (CSRD) and the International Sustainability Standards Board's (ISSB) IFRS sustainability-related disclosure standards, which include Scope 3 disclosures.

Those companies that are already using disclosure frameworks such as the Task Force on Climate-Related Financial Disclosures (TCFD), Sustainable Development Goals (SDGs), Global Reporting Initiative (GRI) or CDP are still required to submit a BRSR, however, they can cross-reference documents prepared for these frameworks in their BRSR reports. The BRSR incorporates key performance indicators from several international frameworks in order to align it with global ESG reporting trends.

[23] https://sphera.com/spark/esg-reporting-is-required-for-indias-top-listed-companies/

Japan [24]

For many years, Japan has been recognized as one of the countries with the largest number of companies and organizations declaring their support for the Task Force on Climate-related Financial Disclosures (TCFD).

In June 2021, the Tokyo Stock Exchange, Inc. (TSE) implemented revisions to the Corporate Governance Code which required Prime Market-listed companies to report TCFD disclosures and address social matters in a "comply-or-explain" manner.

In March 2023, new rules designed by the Financial Services Agency (FSA) of Hong Kong were made effective representing what might be called the **first stage of mandatory sustainability disclosure rules in Japan.** These rules mandated the creation of a new section for sustainability-related information in the annual securities report (i.e., the statutory report). Under the rules, **all listed companies** in Japan (approximately 4,000 including foreign companies listed in Japan) are required to disclose sustainability-related information using the TCFD pillars (Strategy, Metrics and Targets, Governance and Risk Management).

Importantly, the rules do not prescribe specific standards (e.g., TCFD) and do not require third-party assurance.

The future state of sustainability and reporting disclosure in Japan

The second stage of sustainability disclosure rules in Japan are expected to be made effective no later than April 2025. The rules will be drafted by the newly established Sustainability Standards Board of Japan (SSBJ).

The SSBJ, launched in July 2022 after the formation of the ISSB in November 2021, outlined its project plan for the development of prescriptive sustainability disclosure standards. The plan includes exposure drafts and then final drafts no later than March 2024 and March 2025, respectively. While mandatory effective dates have not been set, companies may choose to voluntarily apply the standards beginning in or around April 2025.

The standards are expected to be consistent with the standards developed by the International Sustainability Standards Board (ISSB): *IFRS S1 – General Sustainability-related Disclosures (S1)* and *IFRS S2 – Climate-related Disclosures (S2)*.

The work of the SSBJ and the ISSB has been welcomed and encouraged by Japanese Prime Minister Fumio Kishida. In March 2023, Mr. Kishida hosted IFRS Foundation leadership in Tokyo as they marked an agreement to extend the IFRS Foundation's Asia-Oceania office in Tokyo. The office has supported the work of the International Accounting Standards Board (IASB) since 2012 and is now supporting the work of the ISSB as well.

The disclosure rules drafted by the SSBJ are expected to apply to all listed companies in Japan including foreign companies listed on the Tokyo Stock Exchange.

[24] https://www.ey.com/en_jp/sustainability/whats-next-for-japanese-sustainability-disclosure-standards