

Beyond Accounting –Beyond the Numbers

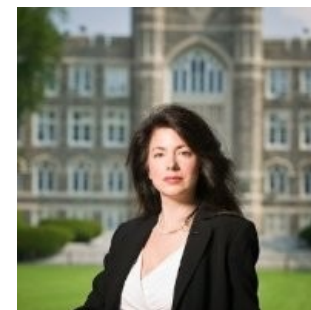
Sustainability panel



Moderator: Alyssa Rade, Chief Sustainability Officer at Sustain.Life



Panelist: Stathis Gould, Director at International Federation of Accountants, IFAC



Panelist: Dr. Barbara Porco, Director of The Center for Professional Accounting Practices and Taxation at Fordham University



Panelist: Siofra Adams, Manager, ESG Centre of Excellence at KPMG

Alphabet Soup of ESG Reporting

Framework	TCFD Task Force on Climate-Related Financial Disclosures	GRI Global Reporting Initiative	SASB Sustainability Accounting Standards Board	ISSB International Sustainability Standards Board
Type	Cross-Industry Financial Framework	Cross-Industry Non-Financial Framework	Industry-based Financial Framework	Industry-based Financial Framework
Topics Included	<u>Climate:</u> Governance Strategy Risk management Metrics and targets	ESG	ESG	ESG
Who uses it and why	Investor driven disclosure to provide consistent and comparable climate risks and opportunities	Stakeholder driven disclosure used by public and private sector and governments to convey impacts on ESG criteria	Investor driven disclosure on financially-material ESG criteria	Consolidating with SASB and CDSB in effort to standardize global investor driven disclosure on financially material ESG criteria
Stats	Supported by over 1,600 organizations across 80 countries with a combined market cap of \$16 trillion	Used by 80% of the world's largest corporations across 90 countries	2,423 unique SASB reporters since 2020 (830 in S&P Global)	Will replace SASB

SEC Climate Proposal

Proposed Rule: March 21st, 2022
Final Ruling: Expected in 2023

The Securities and Exchange Commission proposed climate rule would require registrants to include certain climate-related disclosures in their registration statements and periodic reports.



Financial statements would include:

- Financial impact metrics, line item basis
- Expenditure metrics, disaggregated
- Financial estimates and assumptions

GHG emissions disclosures would include:



- Scope 1 and 2
 - Limited assurance for (large) accelerated filers, moving to reasonable assurance after 2 years
- Scope 3 if material or part of goals/targets



Other disclosures would include:

- Governance and risk management processes
- Physical and transition risks, actual or likely impacts
- Targets, goals and any transition plan
- Scenario analysis, if used
- Carbon offsets or RECs, if used

Proposed applicability



- Large accelerated filers are first to begin reporting under the proposed rule
- Assurance requirements over GHG beginning year 2 of reporting
- Scope 3: no attestation requirement

THE STATE OF PLAY: REPORTING AND ASSURANCE OF SUSTAINABILITY INFORMATION



3rd report - based on 2021 reporting

- Still a rapidly evolving market
- Reinforces IFAC Vision for High-Quality Assurance
- Supports evidence-based policy development
- ***The goal must be high-quality, assured sustainability information that serves the needs of investors, capital markets, and other stakeholders—all in the public interest.***

MAPPING GLOBAL REPORTING AND ASSURANCE PRACTICES

- 1400 largest companies
- 22 jurisdictions
- 3rd publication / 3-year trend
- ESG Reporting & assurance

KEY FINDINGS: 2019 | 2020 | 2021



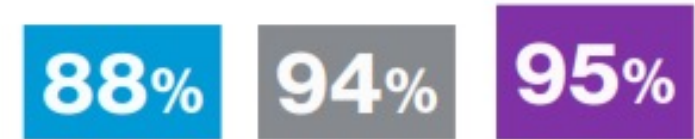
reported some ESG information



of assurance was limited



obtained some level of assurance



of firms applied ISAE 3000 (Revised)*



assurance engagements conducted by firms

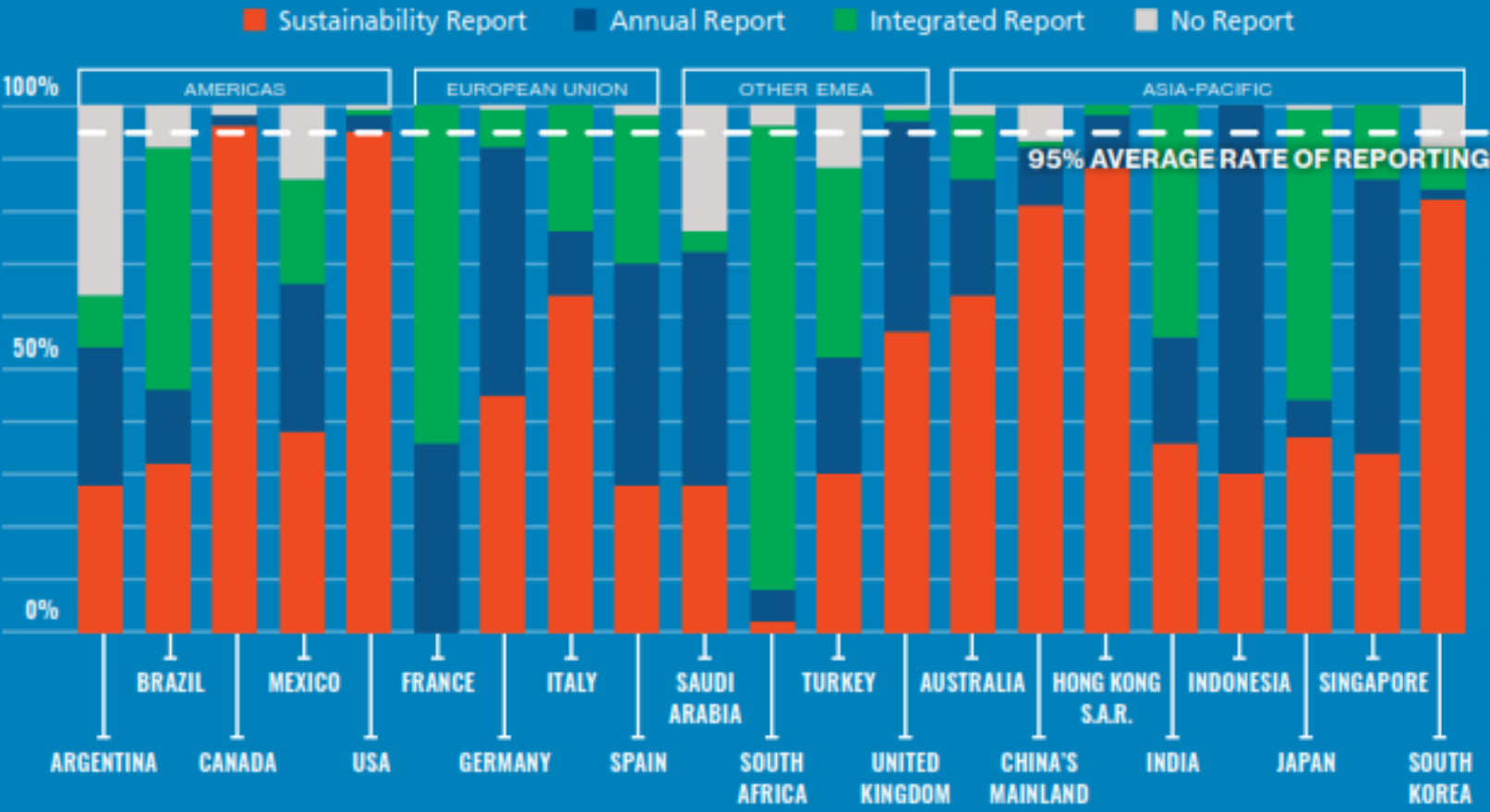


of other service providers applied ISAE 3000 (Revised)

CHANGES IN *WHERE* COMPANIES REPORTED ON ESG

Fewer companies are relying on stand-alone sustainability reports while use of integrated reports and annual reports for ESG disclosures increased.

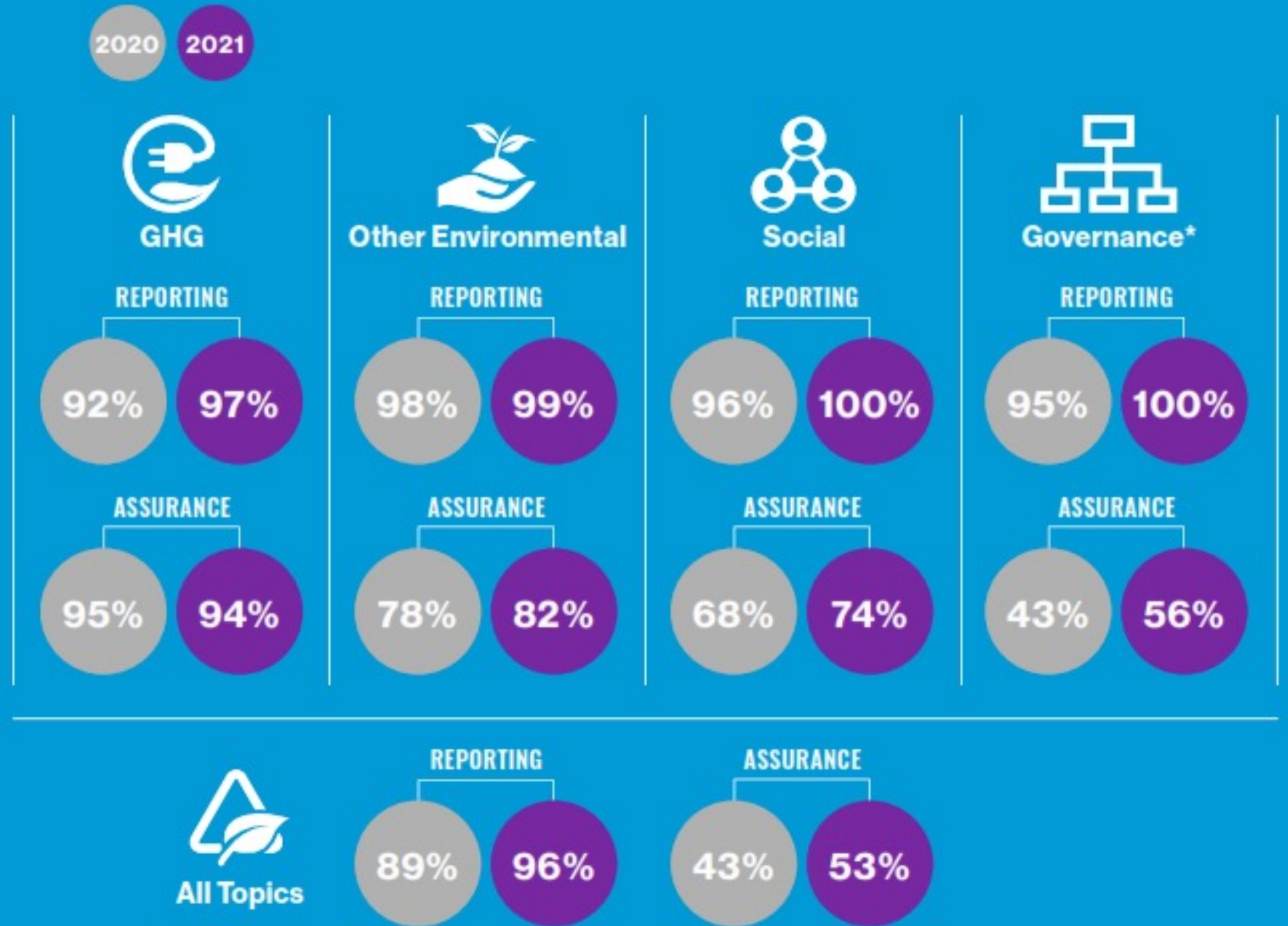
- Number of reporting companies has increased [to 95%]
- Use of sustainability reports remains prevalent in the USA



SCOPE OF REPORTING & ASSURANCE

REPORTING: Most companies provided information in all four categories of ESG information—**96%**.

ASSURANCE: Assurance continues to focus on primarily on GHG data but, but the scope of information assured in 2021 increased to **53%**.



IFAC SUPPLEMENTARY DEEP DIVE

Study designed to enhance understanding of current market practice for the assurance of ESG information:

- Who conducts assurance engagements
- What standards are used
- Scope of disclosure being assured
- How various assurance practitioners apply IAASB Standards

Engagements and resulting assurance reports were selected from the 2021 sample set underlying *The State of Play in Sustainability Disclosure & Assurance, 2019 – 2021 Trends & Analysis*.

Part of the State of Play Series

A Deep Dive into Sustainability Assurance Engagements

The Who, What, & How of Current Practice

May 2023



TYPE OF ORGANIZATION PROVIDING ASSURANCE

In 2021, other service providers held a majority of market share in seven jurisdictions—Hong S.A.R., India, Japan, South Africa, South Korea, the U.K., and the U.S.

Number of engagements performed by Firms increased but Firm market share declined:

- to 57% from 61% in 2020
- to 63% in 2019

Assurance provider is calculated as the number of assurance reports signed by firm type vs. the total number of assurance reports observed [913] in this study. See Methodology.

57% of assurance performed by Firms | 43% performed by OSPs

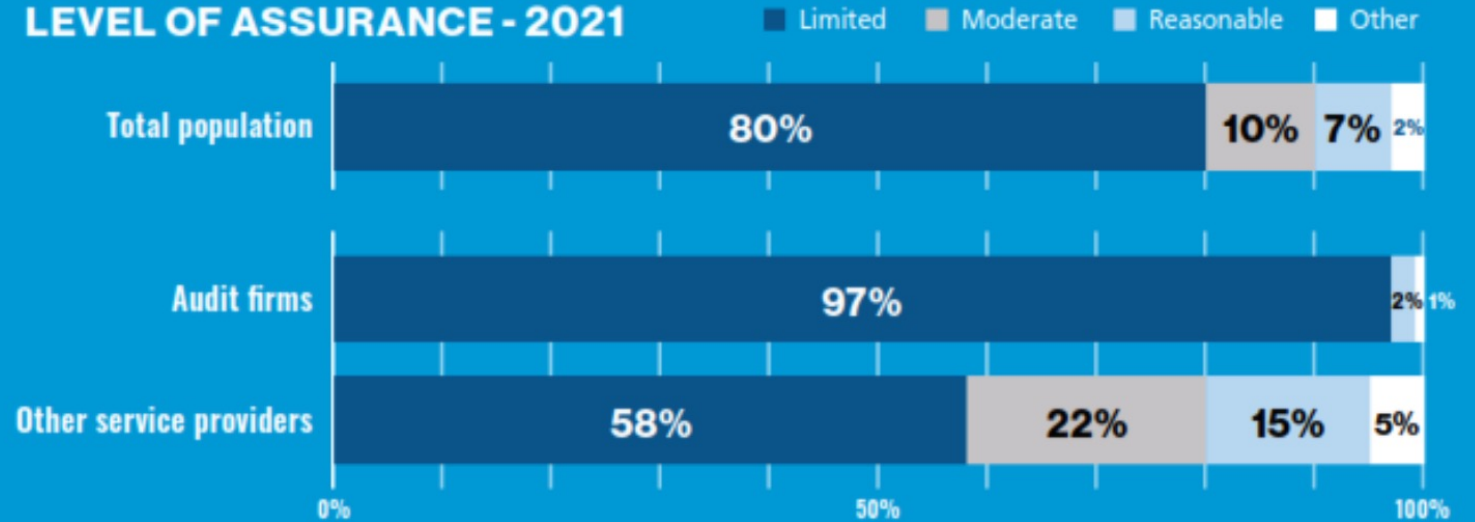


LOCATION AND LEVEL OF ASSURANCE

97% of firm engagements were limited assurance compared to **58%** of engagements performed by other service providers (OSPs).

Assurance is increasing regardless of report type, but more assurance is obtained over disclosures in integrated reports.

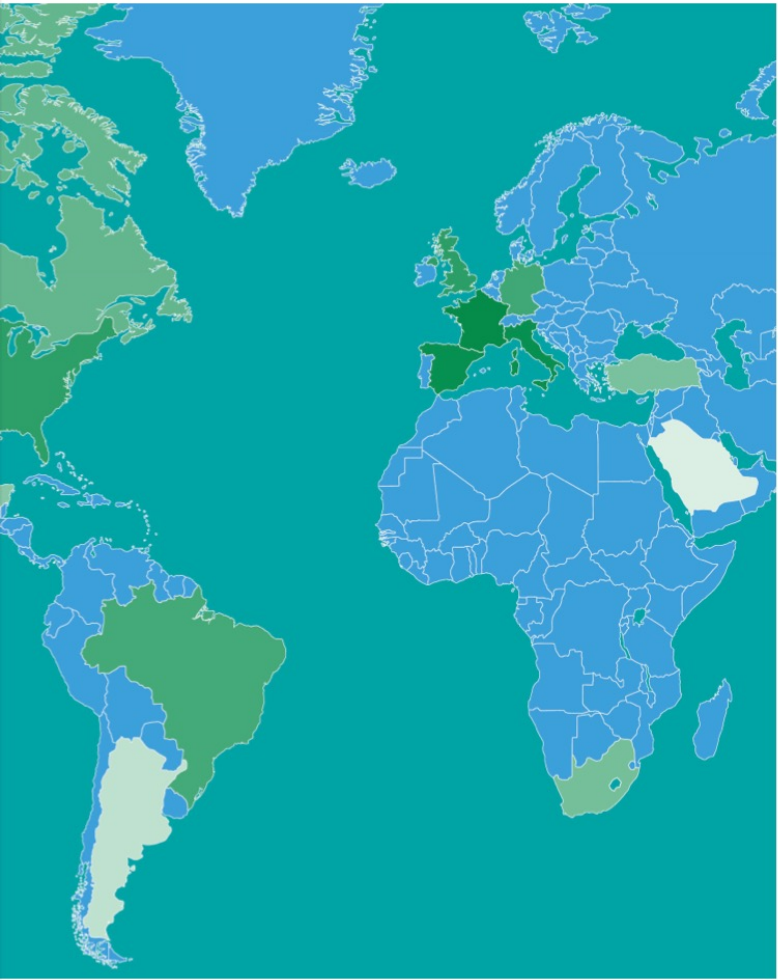
LEVEL OF ASSURANCE - 2021



ASSURANCE RATE BY REPORT TYPE

	2019	2020	2021
Sustainability Report	52%	57%	65%
Annual Report	35%	45%	50%
Integrated Report	64%	70%	77%

MAPPING ASSURANCE PRACTICE: APPLICATION OF ISAE 3000 (REVISED)



	AUDIT FIRMS	OTHER SERVICE PROVIDERS
Percent of assurance statements that use ISAE 3000(R) .	95%	38%
Percent of assurance performed “in accordance with” ISAE 3000(R).	98%	53%
Percent of ISAE 3000(R) engagements that apply IESBA Code or other international ethics code/std.	93%	28%
Percent of ISAE 3000(R) engagements that apply ISQC 1 or other international quality control standard.	91%	38%

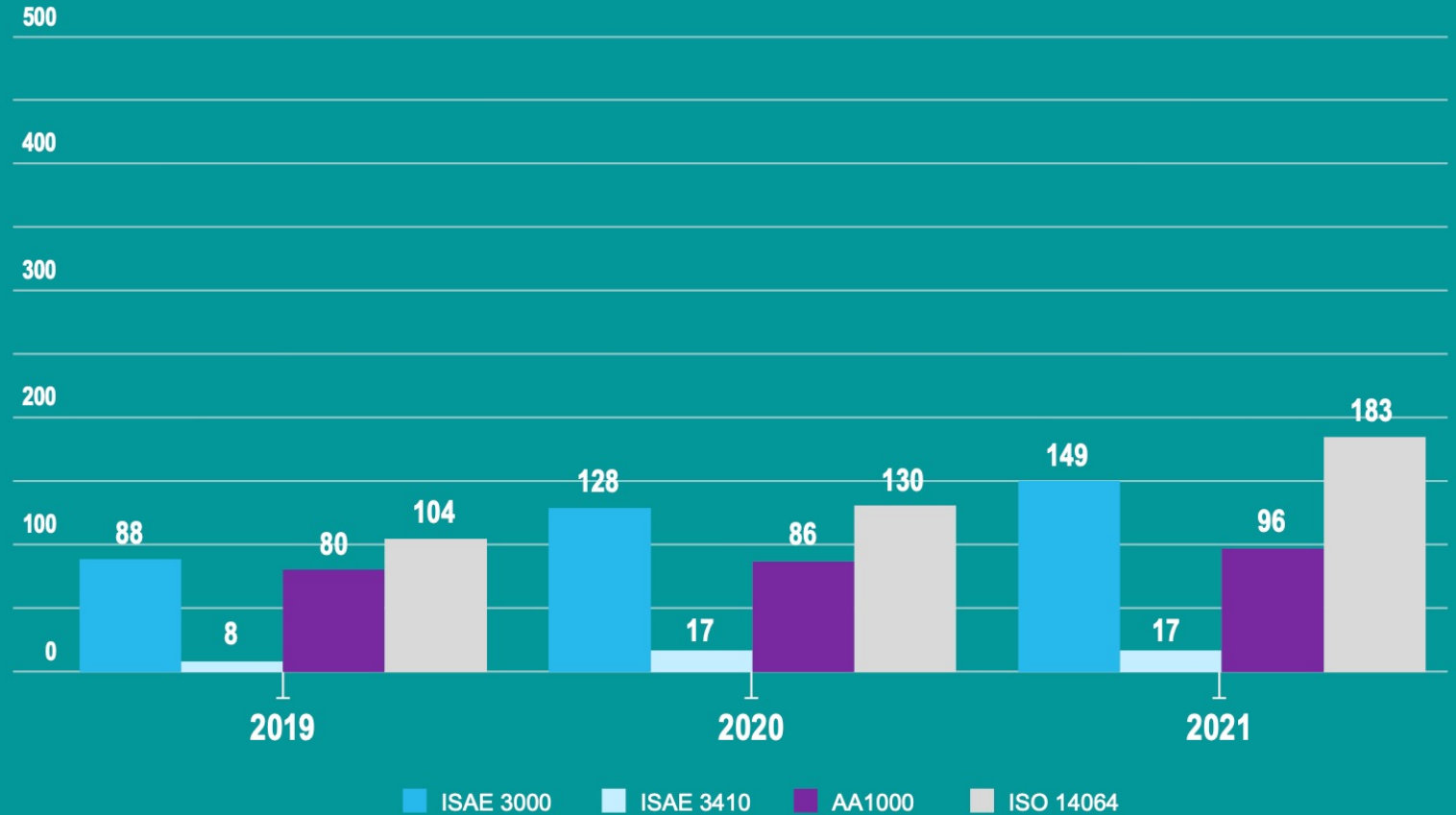
ASSURANCE STANDARDS USED BY OSPs: 3-YEAR TREND

Other Service Providers use a mix of standards for different types of engagements in different parts of the world.

- ISO 14064 – GHG verification standard – was the most common standard used by OSPs in 2021 (46%).
- ISAE 3000 (Revised) was the next most frequently used standard (38%).
- AA1000 has a meaningful market share (24%) but its use is not increasing at the same pace.

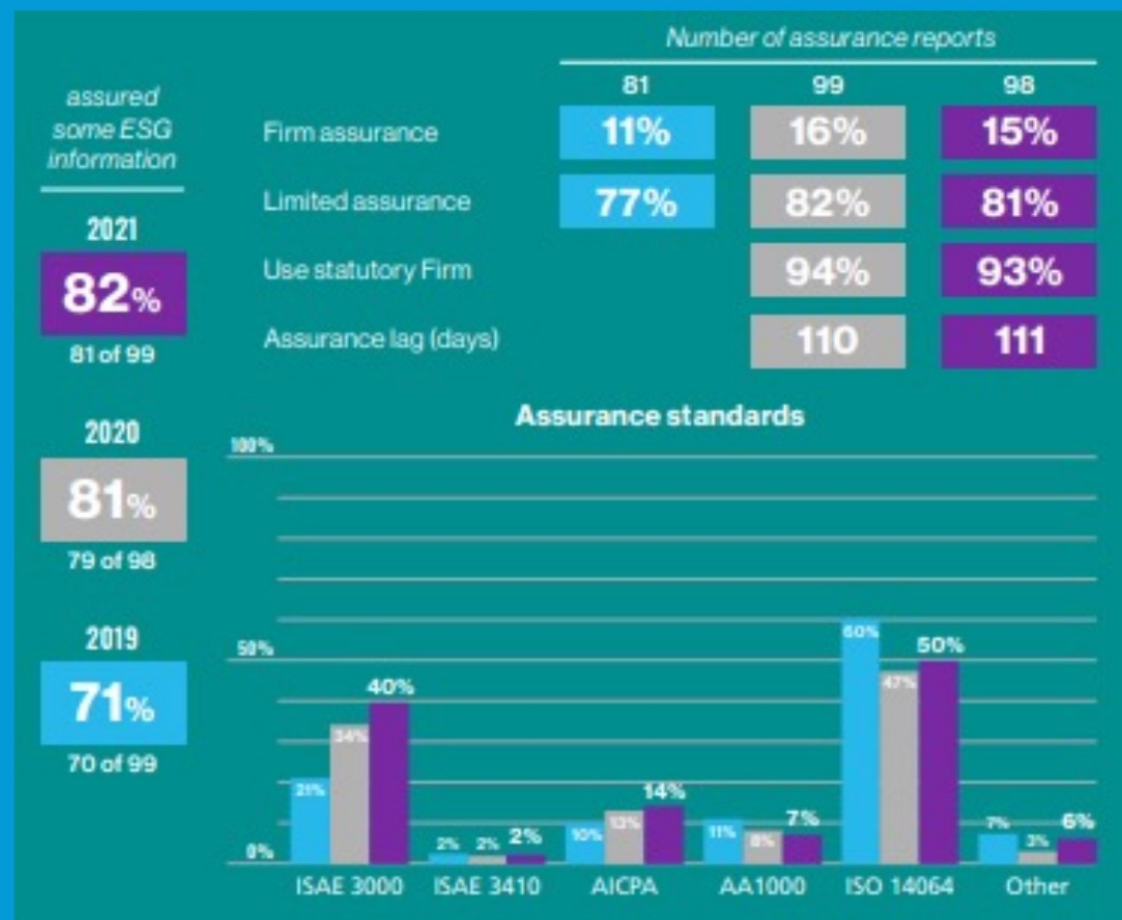
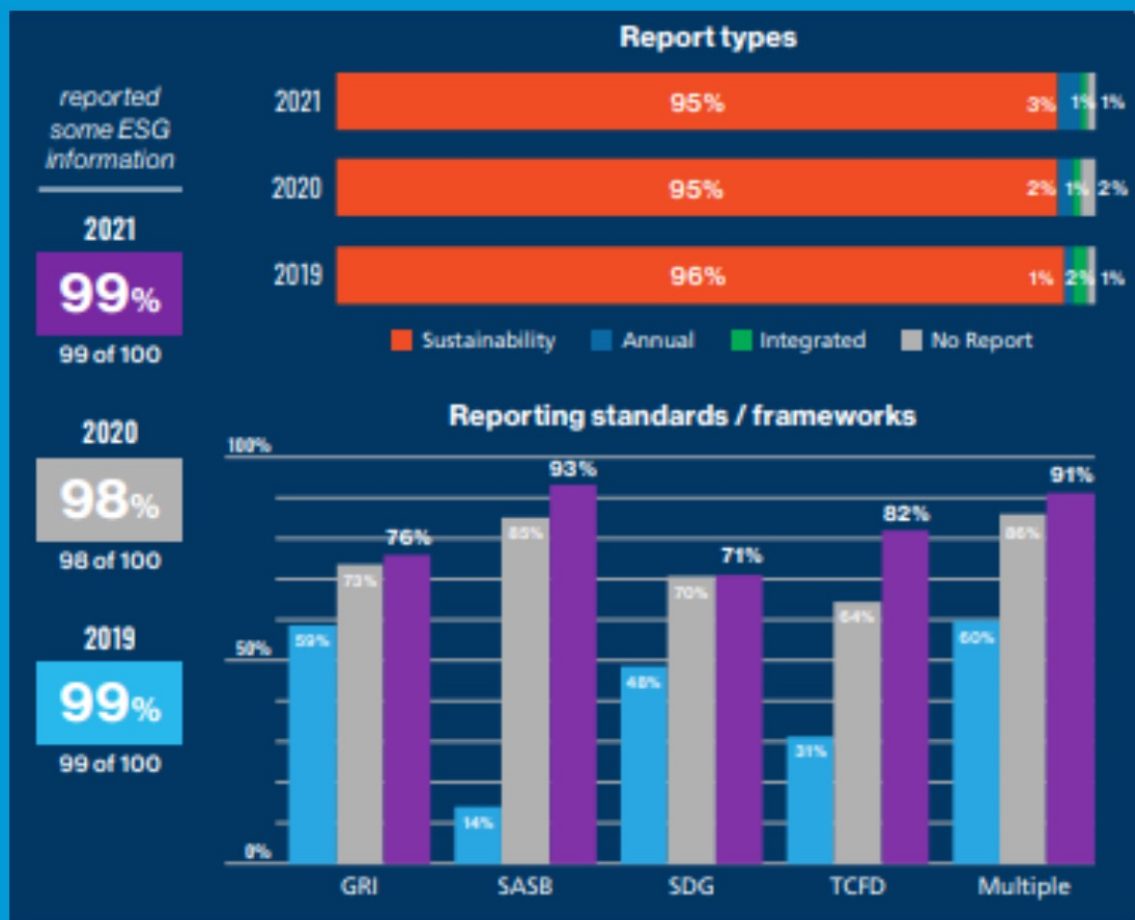
Our review identified 397 assurance reports provided by OSPs in 2021.

Number of OSP Engagements



Note: More than one standard may be used per engagement.

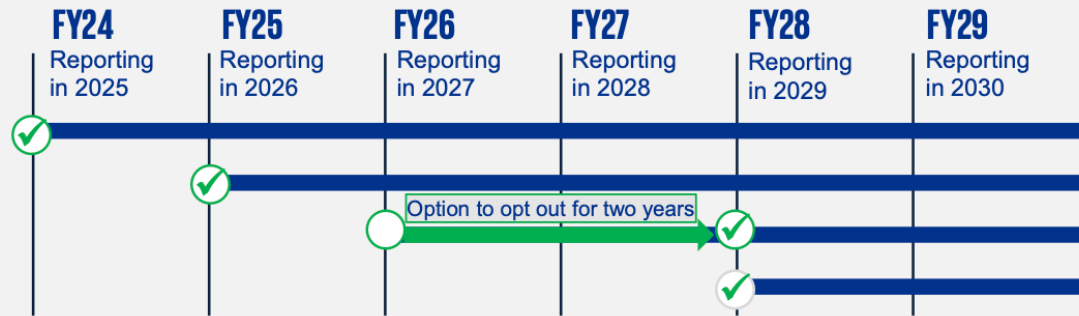
USA 2021 REPORTING AND ASSURANCE



Scoping (CSRD)

The scope of reporting entities over the years

- 1 Large EU PIEs (public interest entities)
- 2 Other large EU companies
- 3 Certain listed EU SMEs*
- 4 Ultimate non-EU parent



EU-based companies (general scoping)

- 1 Companies **subject to the existing Non-Financial Reporting Directive (NFRD)**
i.e. large public-interest companies with more than 500 employees
- 2 **All large** companies not currently subject to the NFRD
Meeting at least two of the following:
 - > 250 employees (annual average)
 - > €40M in net turnover
 - > €20M in total assets
- 3 Certain listed SMEs* and small and non-complex institutions and captive insurers
*Option to opt out until FY29 (effective date of FY28)
Meeting at least two of the following:
 - > 10 employees (annual average)
 - > €2M net turnover
 - > €2M in total assets

Non-EU parent scoping

- 4 Large subsidiaries of non-EU parents with substantial activity in the EU report for the complete Group
Reporting regulations in accordance with slightly reduced ESRS (separate disclosure standard)
An ultimate non-EU parent company would be subject to the CSRD if it has:
 - Substantial activity in the EU – i.e., it generated net turnover greater than €150M in the EU for each of the last two consecutive years; and
 - at least:
 - one subsidiary that meets the general scoping of the CSRD; or
 - one branch (in general, a physical presence) that generated net turnover greater than €40M in the preceding year

The CSRD transforms ESG reporting on two levels

Scope of application



FY 2024: EU-based Public Interest Entities (PIEs) exceeding 500 employees

FY 2025: Large EU subsidiaries of US parent companies (incl. non-capital market oriented)¹:

FY 2028: US parent companies with defined business activities in the EU¹

Reporting



Reporting only possible in the **Management Report**, the option for publishing a separate non-financial report will no longer be available

Digital reporting of sustainability information in line with the **European Single Electronic Format (ESEF)**

Assurance Obligation



Limited Assurance according to ISAE 3000 or a comparable standard will be mandatory

Reasonable Assurance possibly the next step in the process of aligning the depth of review with that of the annual financial report

Topics of CSRD

Cross-cutting

Environmental

Social

Governance

Reporting Levels of the Corporate Sustainability Reporting Directive (CSRD)

Sector-agnostic Standards

ESRS 1 – General Requirements
ESRS 2 – General Disclosures

ESRS E1 – Climate change
ESRS E2 – Pollution
ESRS E3 – Water & marine resources
ESRS E4 – Biodiversity & ecosystems
ESRS E5 – Resource use & circular economy

ESRS S1 – Own workforce
ESRS S2 – Workers in the value chain
ESRS S3 – Affected communities
ESRS S4 – Consumers & end-users

ESRS G1 – Business Conduct

Sector-specific Standards

Entity-specific Disclosures

Reporting Areas

Governance

Strategy

Implementation

Metrics & Targets

¹ refer to Chapter II for thresholds

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Q&A

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Thank you