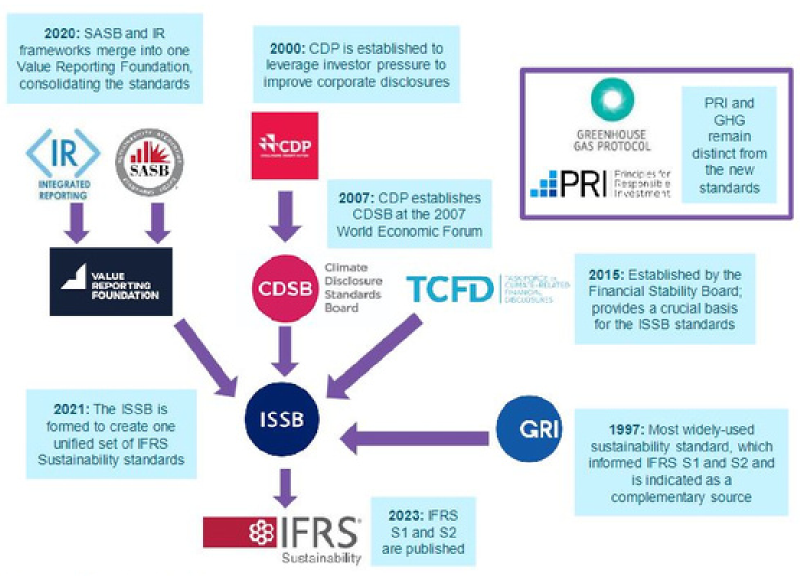
WHAT ARE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)?

International Financial Reporting Standards (IFRS) are accounting standards created by the International Sustainability Standards Board (ISSB), an independent private-sector organization based in London, UK. These standards aim to establish a universal global language for business transactions, ensuring that corporate financial statements are transparent and comparable worldwide.

Supported internationally and endorsed by influential bodies like the G7, G20, the International Organization of Securities Commissions (IOSCO), and the Financial Stability Board, the ISSB's standards will assist in addressing the issue of "greenwashing" by companies. This will enable stakeholders to make more informed decisions confidently.



Source: BloombergNEF

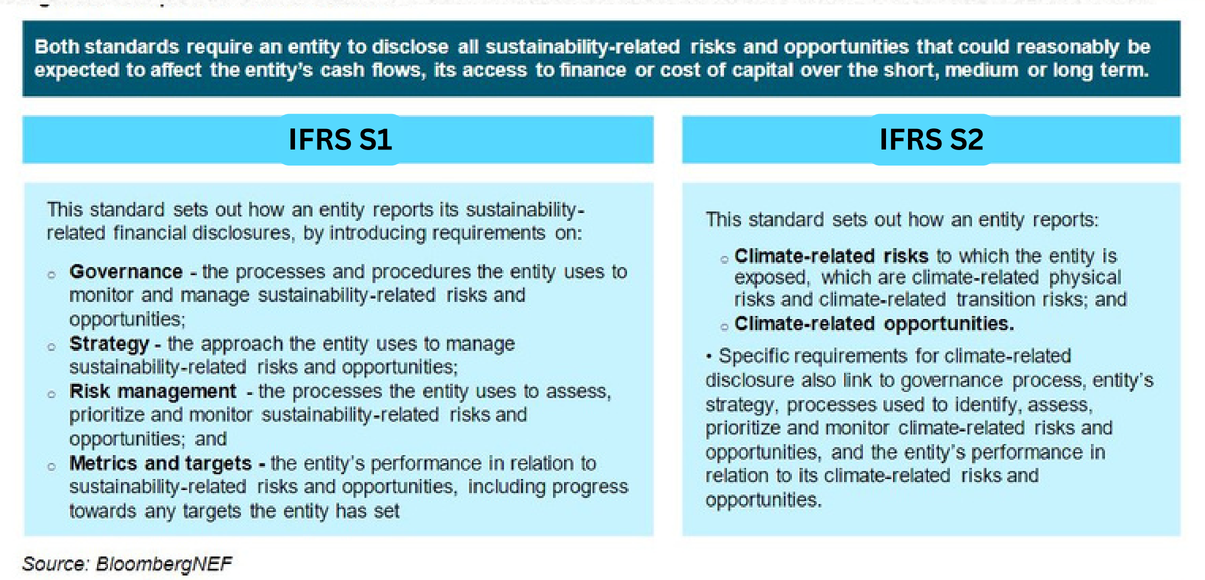
How do IFRS S1 and S2 interlink with other reporting standard

IFRS S1 ‘General Requirements for Disclosure of Sustainability-related Financial Information’ focuses on disclosing all relevant information regarding sustainability-related risks and opportunities that may impact a company’s future outlook.

IFRS S2 ‘Climate-related Disclosures’ This Standard focuses on specific climate-related information to be disclosed.

KEY FEATURES OF IFRS:

- **Principles-based Approach:** IFRS is based on principles rather than specific rules, allowing for flexibility in application. This principle-based approach aims to reflect the economic substance of transactions rather than just their legal form.
- **Global Applicability:** IFRS is widely adopted around the world, with more than 140 countries requiring or permitting its use for financial reporting. This global adoption enhances comparability and transparency in financial reporting.
- **Hierarchy of Standards:** IFRS consists of a hierarchy of authoritative pronouncements issued by the IASB. These include International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC).
- **Continual Evolution:** IFRS is subject to ongoing review and revision to ensure relevance and effectiveness in a constantly changing business environment. The IASB regularly updates and develops new standards to address emerging issues and align with international best practices.
- **Disclosure Requirements:** IFRS emphasizes the importance of transparent and comprehensive financial disclosures to provide users of financial statements with relevant information for decision-making. Disclosures are often extensive and cover risks, uncertainties, and accounting policies.



Comparision of IFRS S1 and S2

BENEFITS OF USING IFRS:

- **Enhanced Comparability:** By adopting a common set of accounting standards, IFRS facilitates comparability of financial information across companies, industries, and countries. This promotes better understanding and analysis by investors, creditors, and other stakeholders.
- **Reduced Costs:** Standardizing accounting practices under IFRS can lead to cost savings for multinational companies operating in multiple jurisdictions by streamlining reporting processes and reducing the need for multiple sets of financial statements.
- **Increased Transparency:** IFRS promotes transparency by requiring comprehensive disclosures and providing guidance on fair value measurement, which helps users of financial statements to better understand the financial position and performance of an entity.
- **Improved Access to Capital:** Compliance with IFRS can enhance a company's access to global capital markets by increasing investor confidence and reducing information asymmetry. Many investors prefer companies that report under IFRS due to its international recognition and comparability benefits.
- **Alignment with Economic Reality:** The principles-based approach of IFRS aims to reflect the economic substance of transactions, providing a more accurate representation of a company's financial position and performance.

"We cannot solve our problems with the same thinking we used when we created them."
– Albert Einstein, Physicist

CHALLENGES OF IMPLEMENTING IFRS:

- **Complexity:** The principles-based nature of IFRS can lead to interpretation challenges and increased complexity in accounting for certain transactions, requiring careful judgment and expertise.
- **Transition Costs:** Adopting IFRS may involve significant costs related to training, systems upgrades, and changes in internal processes to ensure compliance with the new standards.
- **Jurisdictional Differences:** While IFRS aims to promote global harmonization, differences in local regulations and legal frameworks may still exist, leading to challenges in applying the standards consistently across jurisdictions.
- **Lack of Enforcement:** In some jurisdictions, enforcement mechanisms for ensuring compliance with IFRS may be weaker than others, raising concerns about the quality and reliability of financial reporting in those regions.
- **Ongoing Updates:** The continual evolution of IFRS means that companies must stay abreast of changes and updates to ensure ongoing compliance, which can require significant resources and effort.

STRATEGY FOR IMPLEMENTING BOTH IFRS S1 AND S2

- **Establish a Cross-functional Implementation Team:** Form a team comprising members from finance, sustainability, risk management, legal, and relevant business units. Assign roles and responsibilities to team members, including a project manager to oversee the implementation process.
- **Conduct a Gap Analysis:** Assess the organization's current practices and disclosure frameworks against the IFRS S1 and S2 requirements. Identify gaps and areas for improvement in data collection, reporting processes, and internal controls related to sustainability and climate-related disclosures.
- **Develop a Roadmap and Timeline:** Create a detailed implementation roadmap outlining key milestones, activities, and timelines for compliance with IFRS S1 and S2. Prioritise actions based on urgency, materiality, and complexity, considering dependencies between different tasks.
- **Enhance Data Collection and Management:** Improve data collection mechanisms to gather relevant information for sustainability and climate-related disclosures. Implement systems and processes to ensure the accuracy, completeness, and reliability of sustainability-related data.
- **Integrate Disclosure Requirements into Reporting Frameworks:** Align sustainability and climate-related disclosure requirements with existing reporting frameworks, such as annual reports, integrated reports, and sustainability reports. Integrate sustainability-related financial information with traditional financial reporting to provide stakeholders with a holistic view of the organisation's performance.
- **Conduct Training and Awareness Programs:** Provide training and awareness programs for employees on the importance of sustainability reporting and climate-related disclosures. Educate relevant stakeholders, including board members, executives, and employees, on their roles and responsibilities in complying with IFRS S1 and S2.

- **Engage with External Stakeholders:** Communicate with investors, regulators, and other external stakeholders to understand their expectations and requirements regarding sustainability and climate-related disclosures. Seek feedback and input from stakeholders to enhance the relevance and effectiveness of disclosures.
- **Implement Robust Governance and Oversight Mechanisms:** Establish governance structures to oversee the implementation of IFRS S1 and S2, including clear accountability and reporting lines. Ensure ongoing monitoring, review, and validation of sustainability-related data and disclosures to maintain compliance with the standards.
- **Conduct Pilot Testing and Iterative Improvements:** Pilot test sustainability and climate-related disclosures to identify any issues or challenges before full-scale implementation. Gather feedback from internal stakeholders and external auditors to iteratively improve disclosure processes and enhance the quality of disclosures.
- **Monitor Regulatory Developments and Evolving Best Practices:** Stay informed about regulatory developments, emerging trends, and evolving best practices in sustainability reporting and climate-related disclosures. Continuously adapt and update disclosure practices to reflect changes in regulatory requirements and stakeholder expectations.
- **Communicate Progress and Achievements:** Transparently communicate progress, achievements, and challenges related to implementing IFRS S1 and S2 to internal and external stakeholders. Highlight the organization's commitment to sustainability, climate resilience, and responsible corporate citizenship through enhanced disclosures.

REFERENCES

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