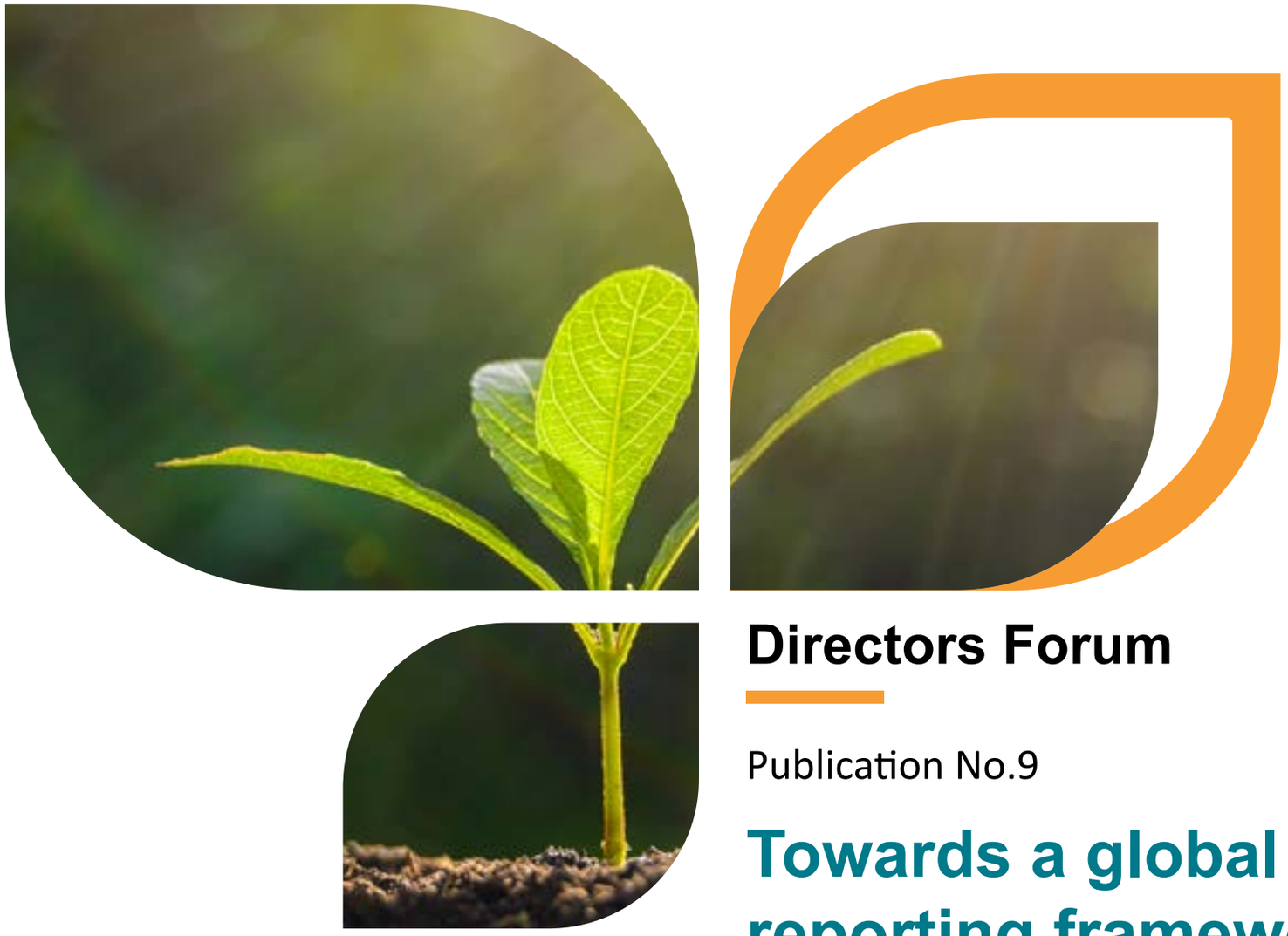
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MIoD Mauritius Institute of Directors
Promoting Corporate Governance across the board



Directors Forum

Publication No.9

Towards a global sustainability reporting framework

The role of ISSB's S1 and S2 standards and their impact on Directors

December 2024

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1 Executive Summary

IFRS S1 and S2 of the International Sustainability Standards Board (ISSB) are transforming directors' and board members' roles by placing sustainability at the core of corporate governance. These standards require boards to integrate Environmental, Social, and Governance (ESG) factors into their oversight functions.

Directors must now oversee sustainability integration into governance structures, reassess corporate strategy to account for ESG risks and opportunities, and ensure robust sustainability risk management. They are responsible for approving sustainability metrics, targets, and overseeing more rigorous reporting processes.

This shift demands enhanced sustainability knowledge from board members and broadens their accountability. It also necessitates considering a wider range of stakeholders in decision-making.

Ultimately, these changes position directors as key drivers of their organisation's sustainability agenda, reflecting a move towards more integrated governance that aligns sustainability with long-term value creation and ensures longer viability.



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2 Introduction

2.1 IFRS S1 and IFRS S2

In March 2022, the ISSB published two Exposure Drafts:

General requirements for disclosing sustainability-related financial information

Guidance on incorporating TCFD recommendations and SASB Standards

In June 2023, these drafts evolved into two new sustainability-related standards.

Key features:

- Cover different aspects of sustainability reporting
- Share a common approach to disclosure
- Structured around four key pillars

These standards aim to standardise sustainability reporting, integrate established frameworks (TCFD, SASB), and provide a comprehensive approach to sustainability disclosure.

Although globally the standards are applicable to reporting periods starting from January 2024, there is currently no indication of when such reporting will become mandatory in Mauritius. Therefore, adopting these standards remains voluntary until further notice.

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2 Introduction (Continued)

The four-pillar structure ensures a consistent and thorough approach to sustainability reporting across different organisations and industries:

Governance:
The governance processes, controls and procedures the entity uses to monitor and manage risks and opportunities

Strategy:
The approach the entity uses to manage risks and opportunities

Risk Management:
The processes the entity uses to identify, assess, prioritise and mitigate, monitor risks and opportunities

Metrics & Targets:
The entity's performance in relation to risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation

IFRS S1 - General Requirements for Disclosure of Sustainability - related Financial Information focuses on providing general guidance disclosure on sustainability - related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or the cost of capital over the short, medium or long term. This standard hence prescribes the content and presentation of sustainability - related financial disclosures such that information disclosed allows users to make decisions relating to providing resources to the entity. IFRS S1 provides, moreover, a conceptual framework that serves as the basis for all the other upcoming standards.

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2 Introduction (Continued)

IFRS S2 - Climate Related Disclosures provides guidance on disclosure of information about climate related risks and opportunities that could affect the entity's cash flows, its access to finance or cost of capital in view of allowing users to understand risks and opportunities impacting the entity from climate change. It introduces two specific kinds of risks:

- Physical risks (stemming from direct events linked to climate change)
- Transition risks (stemming from changes in policy or regulations that would impact on an organisation)

2.2 Location and timing of disclosures

IFRS S1 aims to prevent greenwashing and ensure comparable data across organisation by recommending specific parameters for sustainability and climate-related reporting.

Disclosure Locations: Organisations should provide disclosures in their general-purpose financial reports. Acceptable locations include:

- Management commentary section in Annual Reports
- Regulatory disclosure sections within Annual Reports (e.g. Corporate Governance section)
- Separate reports referenced section within the Annual Reports

Reporting Period: The standard typically aligns with a 12-month period matching the financial statements. For longer or shorter periods, the additional requirements include:

- Specifying the period covered by sustainability-related financial disclosures
- Explaining the reason for using a longer or shorter period
- Including a disclaimer about potential lack of comparability

These guidelines aim to enhance transparency and consistency in sustainability reporting across organisations.

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3 Core Framework

3.1 Pillar 1: Governance

Pillar 1 focuses on the Directors' role in managing sustainability and climate-related risks and opportunities.

It emphasises the integration of these factors into the organisation's overall strategy, disclosure of the processes behind sustainability-related computations, and the importance of governance frameworks, including processes, controls and structures.

These elements are designed to monitor and manage sustainability and climate-related risks and opportunities, providing stakeholders with a clearer understanding of the organisation's approach.

3.2 Pillar 2: Strategy

The second pillar aims to provide users with information on the organisation's:

- Specific risks and opportunities from climate change and sustainability events
- Short-term impacts on operations
- Integration into strategy and decision-making processes
- Effects on the financial performance
- Strategy resilience in face of these risks and opportunities

This pillar emphasises the organisation:

- Adaptating to disruptions from physical risks and regulatory changes
- Embedding sustainability and climate risks into overall strategy
- Linking these risks to various operational aspects
- Demonstrating resilience in both short and long term

The framework requires organisations to provide a comprehensive view of how they identify, assess, and respond to sustainability-related challenges, giving stakeholders insight into the company's preparedness and adaptability.

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3 Core Framework (Continued)

3.3 Pillar 3: Risk Management

Pillar 3 focuses on the mechanisms to identify and assess sustainability and climate-related risks and opportunities, and the integration of these mechanisms into the organisation's overall risk management process.

The main objective is to provide users with an understanding of:

- How risks and opportunities are identified
- The assessment process for these risks and opportunities
- Mitigation strategies employed

This pillar builds upon the previous one by delving into the 'how' behind risk management, rather than just the 'what' of the risks themselves. It emphasises the importance of having robust processes in place to handle sustainability and climate-related challenges.

By requiring disclosure of these mechanisms, the framework aims to give stakeholders insight into the organisation's risk management capabilities and preparedness in the face of sustainability and climate-related issues.

3.4 Pillar 4: Metrics and Targets

The Final Pillar focuses on:

- Quantifying the organisation's sustainability performance
- Monitoring progress through measurable figures
- Enabling readers to understand achievements relative to set targets

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3 Core Framework (Continued)

Key aspects of this pillar include:

- Translating sustainability efforts into tangible metrics
- Providing a means to track progress over time
- Allowing comparison against internal goals or legal requirements
- Enhancing transparency and accountability in sustainability reporting

This pillar complements the previous ones by moving from strategy and risk management to concrete performance measurement. It provides stakeholders with quantifiable data to assess the organisation's sustainability efforts and outcomes.

By requiring organisations to report on their progress using specific metrics, this pillar facilitates the objective evaluation of sustainability initiatives, identification of areas for improvement, and demonstration of compliance with regulations or industry standards which will need to be defined and benchmarked.



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4 Implications for the Directors

4.1 Embedding sustainability into governance and strategy

IFRS S1 requires the Directors to consider the impact of sustainability into governance and strategy. This translates to two major changes in the way the Boards operates:

4.1.1 Impact on governance

Options for sustainability oversight include assigning to an existing committee or creating a dedicated sustainability committee.

Factors to consider

The size of each organisation	Impact of sustainability risks on strategy and operations	Time dedicated to sustainability matters in meetings	Potential overlaps in duties and membership with existing committees

Key points to consider

- IFRS S1 does not prescribe a specific governance structure
- Decisions left to the discretion of the Board
- Sustainability risks can be viewed as a category of risks to be managed
- A dedicated committee could focus solely on sustainability matters

This approach allows organisations to tailor their governance structure to their specific needs and circumstances, while ensuring that sustainability matters receive appropriate attention and oversight at the Board level.

4 Implications for the Directors (Continued)

4.1.2 Impact on strategy

Directors' responsibilities in strategy setting includes to consider sustainability-related risks and opportunities, evaluate the financial impact on these changes and assess long-term viability of the organisation in its current state, and evaluate necessary changes for survival.

Key areas of focus for sustainability reporting include value chain and regulatory impact assessments.

Value chain assessment involves examining the impact of climate change on production facilities, the effects on raw material sources, and changes in product sales. This comprehensive approach ensures that organisations consider sustainability throughout their entire operational process.

Regulatory impact assessment requires organisations to anticipate and prepare for potential regulatory changes, considering both global and local contexts. This forward-looking approach helps companies stay ahead of evolving sustainability requirements.

Several examples illustrate these concepts in practice. In Mauritius, increased cyclone activity, flash floods and other health hazards could affect hotel occupancies, demonstrating how climate change can directly impact local businesses.

On a broader scale, EU regulations on vehicle emissions and the shift to electric vehicles show how global policies can reshape entire industries. At a local level, incentives for electric and hybrid vehicles can significantly affect car dealerships, highlighting the importance of adapting to changing market conditions driven by sustainability concerns.

These examples underscore the wide-ranging implications of sustainability issues and the need for organisations to consider both immediate and long-term impacts in their strategic planning and reporting.

Strategic approach is to integrate sustainability-related risks into existing risk registers and develop effective risk treatment methodologies.

This approach emphasises the need for Directors to take a proactive stance on sustainability, considering both immediate and long-term impacts on their business model and operations. It highlights the importance of adapting to changing environmental conditions and regulatory landscapes to ensure the company's future viability.

4 Implications for the Directors (Continued)

4.2 Enhanced reporting obligations

Under Principle Four of the National Code of Corporate Governance, the Directors are responsible to ensure that annual reports are “fair, balanced and understandable” with regarding financial, environmental, social and governance reporting.

This responsibility requires Directors to oversee comprehensive reporting across multiple domains, verify the quality and integrity of reported information, and implement systems and processes to support accurate reporting.

Potential organisational changes may include:

- Enhancing data collection and management systems
- Implementing robust internal controls for non-financial data
- Developing expertise in sustainability reporting within the organisation
- Establishing clear accountability for different aspects of reporting
- Integrating sustainability considerations into existing financial reporting processes

These changes aim to ensure the organisation produces reliable and comprehensive reports that provide stakeholders with a true and fair view of its performance across all relevant dimensions. These changes would necessitate the following:

- Establishing an appropriate and coherent Sustainability Framework
- Ensuring additional human and financial resources are made available
- and where necessary; identifying climate related risks, opportunities and financial impact; identifying climate change issues that most concern stakeholders

4 Implications for the Directors (Continued)

4.2.1 Capture of accurate data

Like typical financial accounting, accurate sustainability reporting would rely heavily on data captured during the routine operations of a company. Ensuring the completeness and accuracy of data is hence important and would necessitate the implementation of processes which marry internal controls and technology solutions to ensure that the data collected can be used for further analysis.

IFRS S2 introduces specific requirements which must be disclosed. These includes the rationale for choosing the particular approach to measuring gas emissions, including a description of the inputs and assumptions used.

These elements collectively emphasise the importance of robust data management in sustainability reporting. They highlight the need for organisations to have well-structured processes and systems in place to capture, verify, and analyse sustainability-related data effectively.

Directors' responsibilities are to ensure accuracy of reported sustainability figures, and to pay special attention to data collection methods.

Potential actions for Audit Committees will include the review of sustainability-related controls in internal audit plans and consider engaging independent sustainability consultants for process audits.



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4 Implications for the Directors (Continued)

4.2.2 Consistency in reporting

IFRS S1 and IFRS S2 are to provide a global framework for comparable sustainability reporting across companies and jurisdictions.

Considerations for Key Performance Indicators (KPIs):

- Source of KPIs (if not prescribed by Disclosure Standards)
- Definition of internally developed KPIs
- Targets and completion rates
- Industry-standard KPIs
- Materiality of KPIs for investors

Directors need to be mindful of several future considerations. Firstly, they should maintain awareness of upcoming sustainability standards, staying informed about potential changes and new requirements in the regulatory landscape.

Currently, the focus is primarily on greenhouse gas emissions, as outlined in IFRS S2. However, Directors should anticipate a potential expansion of sustainability metrics in future standards. This expansion may encompass a broader range of environmental, social, and governance factors.

By keeping the future considerations in mind, Directors can help their organisations stay ahead of evolving reporting requirements.

This forward-thinking approach enables organisations to adapt their strategies and reporting processes proactively, rather than reactively.

Ultimately, this awareness allows Directors to guide their organisations towards more comprehensive and future-proof sustainability practices and reporting mechanisms. It underscores the dynamic nature of sustainability standards and the need for ongoing adaptability in corporate governance and reporting practices.

This approach emphasises the need for Directors to be actively involved in sustainability reporting, ensuring compliance with current standards while also preparing for future developments. It highlights the importance of choosing appropriate KPIs that are both relevant to the organisation and comparable across the industry.

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5 Preparing for the implementation

5.1 Gap assessment and development of a roadmap

Directors should ensure a seamless integration of sustainability reporting under the standards. This process involves conducting a gap analysis between the current reporting structure and the new requirements. Once gaps are identified, a roadmap towards full compliance can be developed with a defined target date.

During the gap analysis, Directors should pay specific attention to existing disclosures, internal controls and processes supporting reporting, and the quality of data obtained.

Implementing these standards requires expertise in sustainability. Directors might consider the need to seek expert advice from outside the organisation specialising in sustainability reporting to perform the gap analysis and develop a compliance roadmap.

Additionally, Directors may want to explore the need for a sustainability audit performed by an external consultant. This audit would attest that the controls and processes involved in sustainability reporting are present and are operating effectively and allow for accurate and complete figures.

This approach emphasises the importance of a systematic and thorough integration of the new sustainability reporting standards. It highlights the potential need for external expertise to ensure a smooth transition and maintain the integrity of the reporting process.



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5 Preparing for the implementation

5.2 Training

Training for Directors: Directors need training on the new sustainability reporting standards, focusing on governance aspects, strategy considerations, and general reporting requirements. The goal is to ensure Directors understand what needs to be reported, how to report it, and why it matters.

Management Awareness: Directors should also ensure that the management team is well-informed about the new reporting structures. Management needs to understand their corresponding duties under the new standards.

In-Depth Training: To achieve effective reporting, Directors may request more detailed training for Management. This ensures the overall reporting process functions smoothly.

Top-Down Approach: Recognising that implementation and reporting go hand in hand, a top-down understanding is crucial. Both Directors and Management should be well-versed in the new requirements.

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6 The Evolving Sustainability Landscape

While this paper focuses on the future implementation of IFRS S1 and IFRS S2, other frameworks have already been in place. The Global Reporting Initiative (GRI) Standards, initiated by the Global Sustainability Standards Board, are already in place. Despite being currently voluntary standards, several local companies have adopted its concepts and are actively using these to enhance their sustainability reports. One Mauritian professional services firm has even been certified as GRI Certified Training Partner.

With the presence of the GRI Standards, the TCFD, SASB frameworks mentioned in the Introduction and IFRS Sustainability frameworks, the trend will be towards convergence. As these standards evolve, their requirements would align, and would allow for a more harmonised approach towards sustainability. The GRI and ISSB have already a Memorandum of Understanding in place to align their frameworks. Commenting on this alliance, the CEO of GRI Eelco Van Der Enden stated that *"GRI is fully committed to working with key partners to increase transparency by organisations around the world for their impacts, which cannot be achieved without consistent and clear sustainability reporting. From the outset, our collaboration with the IFRS Foundation has been built on a desire to ensure that GRI and ISSB standards can be used seamlessly together so that sustainability reporting is streamlined and robust. The announcement today marks an important step towards making that a reality."*

Such an alignment would however require an agreement on how materiality is considered. IFRS S1 and S2 only consider materiality in light of financial performance and value creation to the environment. This differs from the double materiality concept that the GRI adopts, which considers both reporting the impact of an organisation on its external environment and the impact of the environment on the organisation.

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7 The Mauritian Sustainability Context

Sustainability is not a new topic in Mauritius. Despite not having a harmonised framework for reporting, public and private sectors have made strides in incorporating those sustainability practices within their operations.

7.1 Sustainability targets

Mauritius has signed and ratified the Paris Agreement in 2015, and set ambitiously goals in its updated Nationally Determined Contributions 2021 as follows:

- Production of 60 percent of energy needs from green sources by 2030
- Phasing out of the use of coal by 2030
- Increasing energy efficiency by 10 % based on the 2019 figures
- The diversion of 70% of waste from the landfill by 2030
- Electric Vehicle Integration Road map 2020 -2030
- Adopting smart Agricultural practices, including natural farming systems and agro-forestry
- Promotion of efficient irrigation techniques
- Planting of trees in Mauritius and Rodrigues

7.2 Existing Legislations

In April 2021, the Climate Change Act entered into force, with the main objective of establishing a legal framework towards making Mauritius a climate-change resilient, and low carbon country. The Act aims at addressing the adverse effects of climate change and in meeting its obligations under the United Nations Framework Convention on Climate Change, the Kyoto Protocol, the Paris Agreement and any other related instrument on climate change. The Act provides for the creation of the Department of Climate Change, responsible for:

- Developing policies, programmes and action plans relating to climate change
- Coordinating research relating to climate change
- Establishing a reporting mechanism for public and private institutions on greenhouse gas emissions
- Maintaining a climate change database system to enable the monitoring of greenhouse gas emissions

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In addition to these, regulators have issued guidelines with regards to Sustainability.

In April 2022, the Bank of Mauritius issued the Guideline on Climate-related and Environmental Financial Risk Management, with the stated aim of embedding sound governance and risk management frameworks for climate-related and environmental financial risks within their existing risk management frameworks. This guideline requires individual banks to implement several changes within their governance, strategy and risk management processes, recognising that climate change poses risks in the viability of banks. This Guideline has a similar structure to IFRS S1 and IFRS S2 and approaches sustainability reporting through governance strategy and risk management and metrics.

Within the broader financial sector, the Financial Services Commission has already issued the Guideline for corporate and green bonds, which introduces the concept of the Green Bonds, and specifies the conditions under which these can be issued and regulated. The aim of such bonds is to finance green initiatives and set specific conditions to avoid greenwashing.

The National Code of Corporate Governance (2016) is currently being revised. As part of this revamp, the Code will now feature a more comprehensive guide on sustainability governance and reporting. It will align with the leading reporting requirements from major frameworks, including IFRS S1 and IFRS S2.

7.3 Nationwide Sustainability Strategies

In line with the Climate Change Act, the Government has devised a National Climate Change Mitigation Strategy and Action Plan in view of supporting the long-term objective to contribute towards achieving a net-zero carbon society. This plan focuses on development priorities, recommendations on education, training and public awareness as well as approaches for measuring, reporting and verification for five key mitigation sectors, namely Energy Industries, Land Transport, Waste Management, Industrial Processes and Product Use, and Agriculture and Forestry.



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To achieve 60% renewable energy in the

7 The Mauritian Sustainability Context (Continued)

7.3 Nationwide Sustainability Strategies (continued)

electricity mix, a Renewable Energy Roadmap has been developed for Mauritius. The roadmap includes steps to the implementation of a mix of conventional, emerging and innovative renewable energy technologies such as pure and hybrid solar PV, battery systems, biomass, wind energy, offshore wind and other marine renewables over the next seven years. This will redress our energy transition pathway and ensure a realistic implementation of the Government's 2030 target. The full implementation of this roadmap is underway and will require an investment of over GBP 1.2 billion over the coming seven years.

7.4 Public Sector Initiatives

The budgets in the previous years have distinctly emphasised the strategy of the government to move towards a carbon neutral country. This has been demonstrated through the following schemes under the EDB:

1. Solar Energy Investment Allowance
2. Exempt Income for investment in green projects
3. Fast charger for electric car investment allowance
4. Income and Excise Duty Exemption

The recent budget has also introduced a 2% Corporate Levy on profits to fund the implementation of climate action works on top of existing taxes.
Through the CEB, several initiatives have been/are being implemented by government starting with the following schemes:

1. Carbon Neutral Scheme
2. Community based Solar PV Schemes for households in vulnerable localities
3. Carbon Neutral Industrial Sector Scheme
4. CEB Agrivoltaics schemes
5. Installation of 3500 solar PV kits on rooftops of households, NGOS and charitable institutions
6. Revamping the Net Billing Scheme
7. Shifting electricity generation to biofuel

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7 The Mauritian Sustainability Context (Continued)

7.5 Private Sectors

Guided by either customer demand or regulations, private companies seem to be moving towards the implementation of sustainability practices and reporting. CIEL Textile, fuelled by demand for sustainable clothing, publishes an in-depth sustainability report on its website. In a similar vein, companies like Terra Mauricia have added sustainability reports as part of the overall reporting to stakeholders. Going along the same lines, the role of Sustainability Officer is now becoming more and more popular.

In the broader aspect of local Corporates, the SEM Sustainability Index monitors the price performances of SEM-listed companies that have undergone a comprehensive independent audit, ensuring their commitment to best sustainability practices. The sustainability criteria of SEMSI encompass the four major pillars of corporate sustainability: Environmental, Governance, Social, and Economic. These criteria are rooted in the G4 Sustainability Reporting Guidelines of the GRI, adapted to reflect the current Mauritian business environment. With the addition of New Mauritius Hotels Ltd, SEMSI consists of 18 companies, contributing to an overall market capitalisation of Rs 205.3 billion.



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In spite of being labelled as Disclosure Standards, IFRS S1 and IFRS S2 both aim at providing a new perspective on the management of risks and opportunities from sustainability standards. These imply that Directors would hence be required to adapt themselves to be compliant.

This would include shifts in how the organisations have an oversight of the governance of those specific sustainability related risks, and how those risks are identified, managed and monitored to ultimately feed in the overall risk profile of the organisation. These risks would then have to be accounted for when setting the overall strategy of the organisation, cascaded down to lower-level decision making.

Directors would hence need to have a different approach to sustainability risks by first providing a general oversight first, then by setting up targets and monitoring achievement of these targets. To achieve this, Directors would need to be upskilled.

More standards and regulations are expected to be released both locally, supporting the aim of achieving the targets set by Mauritius during the Paris Agreement, and within global space with the introduction of more sustainability standards that will enhance the quality of reporting.

Directors would need to keep abreast of the latest developments in the sustainability space.

Mauritius is not new to sustainability reporting. Taking many forms within the private and public sector, these reporting practices are setting the way towards achieving the targets set during the Paris Agreement. The implementation of IFRS S1 and IFRS S2 would further strengthen these reporting practices for the investor and the other stakeholders.



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