FOCUS

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At The Inflection Point Of Sustainability Reporting

Where Are We Headed Next?

TAKE AWAYS

- Within the past three years alone, we have witnessed a slew of important developments that are driven by the demand for decision-useful information from stakeholders who support climate action or other sustainability causes. We are at the cusp of sustainability reporting being part of mainstream reporting.
- Just as adapting to the climate crisis is an existential priority, making available credible sustainability-related disclosures is fast becoming the licence to operate.
- Accountants should equip themselves with the requisite sustainability-related knowledge to drive progress within their companies.


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THE NEED FOR IMMEDIATE AND DRASTIC CLIMATE ACTION GROWS EVER MORE URGENT. As a grim reminder of what is at stake, the month of July 2023 saw a spate of deadly heatwaves and wildfires across Europe, which are among other extreme weather events that experts have attributed to climate change.

The Paris Agreement was adopted by 196 Parties in December 2015 to tackle climate change and its negative impacts. It marked the beginning of a race against time to mitigate climate change. In recent years, we have witnessed a slew of important developments that are driven by the demand for decision-useful information from stakeholders who support climate action or other sustainability causes.

In September 2020, a public consultation confirmed widespread global support for the IFRS Foundation to assume the role of developing comprehensive global baseline standards for sustainability reporting. Thereafter, the International Sustainability Standards Board (ISSB) was formed in November 2021 alongside the International Accounting Standards Board (IASB). A mere 20 months later, in June 2023, ISSB issued IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* to great anticipation.

Almost around the same time in July 2023, the Accounting and Corporate Regulatory Authority (ACRA) and Singapore Exchange Regulation (SGX RegCo) launched a public consultation on the recommendations by the Sustainability Reporting Advisory Committee (SRAC), which was just set up in June 2022, to advance climate reporting in Singapore. One recommendation is for listed entities and non-listed entities with annual revenue of at least $1 billion to provide climate-related disclosure in accordance with the IFRS Sustainability Disclosure Standards. The SRAC recommendations offer a glimpse into the regulators' plans for the future.

Under current rules and regulations, only entities listed on the Singapore Exchange (SGX) are required to issue sustainability reports. Listed entities in five identified industries have to go one step further and make climate-related disclosures based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) from financial years commencing in 2023 or 2024, as applicable. The climate reporting requirements were introduced by SGX RegCo in December 2021, following its public consultation titled "Climate and Diversity: The Way Forward" in August 2021.

ISCA is developing qualification programmes for sustainability professionals and sustainability assurance professionals

Before these developments, there was considerable uncertainty over how to go about sustainability reporting, resulting in significant inertia against its adoption. Today, global stakeholders are rallying around the initiative by the IFRS Foundation to develop comprehensive baseline standards for the disclosure of sustainability-related information.

It is unlikely for the existing challenges in sustainability reporting to go away immediately or entirely. Notwithstanding this, all signs point to us being at the final stages of mapping the best way forward, as we stand at the cusp of sustainability reporting being part of mainstream reporting. The pieces are quickly falling into place, and we can

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expect the adoption of sustainability reporting to accelerate in the near future.

POINTING THE WAY FORWARD

As a financial hub with aspirations to be a leading centre for green finance and carbon services in Asia, Singapore can be expected to take the lead in promoting comparable and credible sustainability-related information. Consequently, the corporate reporting landscape in Singapore is set to change profoundly. How might it look for Singapore businesses and accountants?

Firstly, the recommendations by SRAC propose requirements for climate-related disclosures only for now, and the requirement to disclose other sustainability-related matters in accordance with the IFRS Sustainability Disclosure Standards will be reviewed a few years later. This is in line with concerted global efforts to address climate change as a foremost priority, and it should not be taken as a lack of importance of other sustainability-related issues.

Indeed, ISSB is already consulting on its agenda priorities for its two-year work plan, which could potentially include projects for standard setting on biodiversity, ecosystems and ecosystem services, human capital and human rights. In particular, biodiversity is an emerging topic that is prominent enough to have its own standard-setting body in the form of the Taskforce on Nature-related Financial Disclosures, which was launched in June 2021. It is only a matter of time before ISSB and regulators move on from climate topics to other issues.

Secondly, the recommendations by SRAC build on synergies between financial reporting and sustainability reporting. The recommendations include non-listed companies for mandatory reporting if they meet certain thresholds for revenue, which is a financial metric seen as consistently prepared under the requirements of the financial reporting standards as well as a good proxy for emissions. Beyond this, the recommendations also leverage established processes for financial reporting, for example, the requirements for the filing of the financial statements and legal responsibilities for financial reporting.

The potential to capitalise on such synergies was a key reason behind the support for the IFRS Foundation to establish ISSB. It was intended for ISSB to work closely with IASB to develop the connectivity between financial reporting and sustainability reporting in the course of their respective standard-setting activities. Already, both the IFRS Accounting Standards and IFRS Sustainability Disclosure Standards are beginning to share common concepts, such as the definition of materiality. The complementary relationship between financial reporting and sustainability reporting will only grow as advanced reporters seek to quantify the impacts of sustainability-related risks and opportunities, fulfilling SGX's vision for the combined financial and sustainability reports to enable a better assessment of the issuer's financial prospects and quality of management when taken together.

Thirdly, external assurance over sustainability reporting is poised to take on a bigger role. The recommendations by SRAC propose for a minimal scope of limited assurance on Scope 1 and Scope 2 greenhouse gas emissions at this juncture but explicitly specify that reasonable assurance over the whole report will be the eventual goal as industry capabilities develop over time.

Unsurprisingly, as sustainability reporting gains traction, so too will attention turn to sustainability assurance. To prepare for that inevitability, the International Auditing and Assurance Standards Board (IAASB) is developing a profession-agnostic standard for sustainability assurance, designated as the International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*. The exposure draft for ISSA 5000 was published earlier in August, and final approval is targeted for September 2024. The International Ethics Standards Board for Accountants (IESBA) will follow suit with ethics and independence standards for sustainability assurance and sustainability reporting by December 2024.

If the recommendations by SRAC follow through, ACRA-registered audit firms retain a slight competitive advantage in providing

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sustainability assurance services as they would be automatically included as climate auditors without the need for application, in recognition of the robust registration regime for audit firms. Testing, Inspection, Certification (TIC) firms will need to meet requirements as robust as this registration regime to qualify as climate auditors, in order to maintain a high level of credibility in the assurance provided, and to safeguard public interests. Through the efforts of SRAC, IAASB and IESBA, a level playing field will be created between audit firms and TIC firms in the provision of sustainability assurance services.

IMPLICATIONS

As the consultation paper by ACRA and SGX RegCo also pointed out, Singapore is not the only jurisdiction looking into mandating sustainability reporting for non-listed companies.

Notably, the European Union (EU)'s Corporate Sustainability Reporting Directive (CSRD), which entered into force in January 2023, introduced mandatory sustainability reporting for both EU and non-EU companies that meet certain criteria. Singapore companies that fall under the criteria will need to disclose sustainability-related information in accordance with the prescribed standards for financial years beginning in 2028 in order to continue operating in EU. Even if they do not hit the relevant thresholds, they might be asked to provide more pertinent information to large customers or vendors in EU which need to meet the CSRD requirements for disclosure on environmental, social and human rights, and governance topics.

With increasing awareness of sustainability issues, more jurisdictions and stakeholders are demanding sustainability-related information from companies. Just as adapting to the climate crisis is an existential priority, making available credible sustainability-related disclosures is fast becoming the licence to operate. The message is not new – it is imperative to get started on sustainability reporting now or risk being left behind. Are you one of them?

For companies which need to start the process now, it is critical for their leaders to set the right tone at the top. The importance of leading by example cannot be overstated. It is vital for leaders to demonstrate awareness and support for all sustainability-related initiatives including those related to reporting, and maintain a clear direction to drive the sustainability mission throughout the company.

Inevitably, there would be companies placing sustainability-related issues on the backburner, but it is really a matter of time that these issues would be moved to the top of the agenda. Hence, accountants should equip themselves with the requisite knowledge to drive progress within their companies. In this regard, there is a wealth of relevant resources in the public domain for accountants to get started.

Global bodies such as the International Federation of Accountants and Accounting for Sustainability publish thought leadership articles and practical guidance that can be accessed for free. ISCA strives to pull its weight as well, by contributing to this pool of resources. For example, with the support of its Sustainability and Climate Change Committee, ISCA has developed the Climate Disclosure Guide series[1], which currently comprises two volumes of guidance, to help users implement the various requirements of the TCFD recommendations. ISCA has also carried out relevant research projects and issued research publications, including a study[2] in August 2022 on the skills that accountancy and finance professionals would need in order to perform new and emerging sustainability roles. ISCA will also release its latest research report on sustainability transformation in the manufacturing sector, at the upcoming ISCA Conference on November 29[3]. By reading widely, accountants will be able to gain an appreciation of how to get started in order to assume a bigger role in the sustainability-related initiatives of their companies.

To go one step further, accountants should also be interested in the various training options available to them. For example, ISCA is developing qualification programmes for sustainability professionals and sustainability assurance professionals. These programmes will address the different learning needs of accountants with different levels of experience and knowledge. Through this way, candidates can benefit from a tailored approach to level up their sustainability skills.

CONCLUSION

The approaches by both ISSB and SRAC appear to share a common philosophy. They aim to set a high standard of reporting for preparers to aspire to, but also acknowledge that not everyone is ready to reach that ideal standard just yet. We are optimistic that the important changes to climate reporting regulations will further boost positive climate action and kickstart a more robust sustainability reporting ecosystem in Singapore. As accountants, it is yet another invaluable opportunity for us to grow more involved in Singapore's sustainability landscape. ISCA

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[1] https://isca.org.sg/standards-guidance/sustainability-and-climate-change/thought-leadership/isca-green-sustainable-finance-guide-for-smes
[2] https://isca.org.sg/resource-library/sustainability/sustainability-jobs-and-skills
[3] https://isca.org.sg/member-support/corporate-events/isca-conference-2023