




**Chapter
Zero**
Southern Africa



Navigating the sustainability reporting landscape

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21 September 2023



About the presenter

Joanne Henstock



Joanne is a Chartered Accountant, with a long professional services career focused on governance, climate change and sustainability.

She completed her professional accountancy qualifications in South Africa and New Zealand and is a member of both the Australian and New Zealand Institutes of Directors. Her career to date has spanned roles in academia, policy, regulation and standard-setting, and professional consulting roles with Ernst & Young and PwC, across 5 countries.

She is passionate about the need for everyone to contribute meaningfully to ongoing careful management of both the natural and social/human capital stocks we interact with through daily life and organizational life, to strive to optimize net positive impact every time, recognising our generation is the first that is having to face the particular types of challenges we see unfolding across the planet today.

We need to collectively accelerate the “just transition” and respect planetary boundaries, so that future generations will have the chance to survive within the new natural and social capital environments currently taking shape all around us.



Presentation Support Notes

NOTE

These presentation support notes are to be used as supporting information for the presentation provided by [Joanne Henstock](#) for the Chapter Zero Southern Africa event on 21 September 2023.

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- 1. The Evolving Sustainability Reporting Environment**
- 2. Policy-making, Frameworks and Standards**
- 3. Conditions for high-quality sustainability reporting**

Evolving Sustainability Reporting Environment

Key frameworks / standards

Environmental

- [Green-House Gas \(GHG\) Protocol](#)
- [Natural Capital Protocol](#)
- [Carbon Disclosure Project](#)
- National law & regulation

Social

- [Social and Human Capital Protocol](#)

ESG standards and framework

- [UN Global Compact](#)
- [GRI Standards](#)

- **Long history** alongside traditional financial reporting
- **Recent history**
 - GHG reporting - including mandatory reporting of specified GHGs
 - Largely voluntary 'non-financial' sustainability reporting
 - Supplementary disclosures for business-related priorities
 - Public sector reporting and not-for-profit reporting (esp. impact measurement)
- **International sustainability reporting standard developments**
 - Materiality assessments driving selection of matters for reporting attention
 - Largely broad stakeholder considerations - beyond shareholders
 - Sustainability reporting activism
 - UN and WEF key to mobilizing awareness and support
- **Integrated Reporting:** IFRS Foundation [Integrated Reporting and Connectivity Council](#)
- **Period of change:** investment markets *wake up* and regulators follow suit
 - Financial Stability Board ([FSB](#))
 - Taskforce on Climate-Related Financial Disclosures ([TCFD](#))
 - Taskforce on Nature-related Financial Disclosures ([TNFD](#))



Policy-making, Frameworks And Standards

Initiatives

Global

- Multi-lateral organisations

Regional

- Europe
- Africa
- Americas
- Oceania

Sector

- Mining, transport, shipping

- **Policy response**
 - Fast-moving
 - Currently most critical sustainability-related risks and related impacts,
 - Both financial and non-financial
- **Parties**
 - Market regulators, especially stock exchanges
 - Investment market
 - Prudential regulators
 - National and regional governments – emissions reduction targets quickly trended to net zero targets
 - Development of new markets for creation and trading of financial instruments (e.g., carbon credits and biodiversity credits)
- **European Union is the leading voice**
 - Extensive national and regional policy frameworks
 - Focus on environmental and social factors for sustaining healthy and robust investment markets and their economies/trading environments



South African Policy-making, Frameworks And Standards

Influences

Global

- UN Convention on Climate Change

Regional

- African Union
- African Securities Exchanges Association
- [SADC Protocols](#)

International Sectors

- E.g., forestry, mining, shipping

• Policy

- Presidential Climate Commission ([PCC](#)) and Just Transition Framework ([JTF](#))
- UN Climate Promise – [South Africa](#)
- South African Paris Agreement Nationally Determined Contribution ([NDC](#))
- National Climate Change Adaptation Strategy ([NCCAS](#))
- National Treasury – Just Energy Transition Investment Plan 2023 – 2027 ([JET](#))

• Regulation

- [Prudential Authority](#) guidance for banks and insurers
 - 4 Proposed Guidance Notes for climate-related disclosures (2023)
- [JSE](#) Sustainability Disclosure and Climate Disclosure Guidance (2022)

• Frameworks

- Adopted [IFRS financial reporting standards](#)
 - Impact of sustainability factors on financial position, cashflows and performance aligned, e.g., asset and liability valuations/reporting financial instruments
- [King IV](#): The King IV Report on Corporate Governance for South Africa 2016, The Institute of Directors in Southern Africa
- [Integrated Reporting Framework](#) ([Integrated Reporting Committee of South Africa](#))
- [SANS 37000:2023](#) Governance of organisations – Guidance (SA National Standard)

International Climate-related standard-setting

IFRS Foundation ISSB Standards June 2023

Applies to annual reporting periods beginning on or after 1 January 2024, with the first set of reports to be published in 2025.

In the first year of reporting using these standards, companies will be incentivised to prioritise reporting practices and structures for climate-related risk and opportunity information.

In the second year, companies will be required to provide full reporting on other sustainability-related risks and opportunities beyond climate.

- **About**
 - the IFRS Foundation ([IFRS](#)) established the International Sustainability Standards Board ([ISSB](#)) to operate alongside the International Accounting Standards Board ([IASB](#))
 - The ISSB standards aim to harmonize reporting standards globally and meet investors' demands for consistent and comparable sustainability disclosures
- **The standards**
 - The standards, IFRS S1 and IFRS S2, incorporate the TCFD recommendations
 - [IFRS S1](#) provides a set of generally disclosure requirements designed to enable companies to communicate to investors on the material sustainability-related risks and opportunities they face over the short, medium and long term.
 - [IFRS S2](#) sets out specific climate-related disclosures.
- **Application**
 - As temporary relief, Scope 3 GHG emissions are not required in the 1st year of reporting
 - Mandatory application of these standards is dependent on their adoption in national jurisdictions alongside the IASB's IFRS standards.
 - Intended to be applied within the scope of the Integrated Reporting Framework – initiative currently underway.

Climate-related standard-setting in key jurisdictions: European Union

European Sustainability Reporting Standards ([ESRS](#)) June 2023

Applies to annual reporting periods beginning on or after 1 January 2024, with the first set of reports to be published in 2025.

- In the **first year** of reporting using these standards, companies will be incentivised to prioritise reporting practices and structures for climate-related risk and opportunity information.
- In the **second year**, companies will be required to provide full reporting on other sustainability-related risks and opportunities beyond climate.

[Useful overview](#)

- **ESRS**
 - For all companies subject to the Corporate Sustainability Reporting Directive ([CSRD](#)).
 - For investors, civil society organisations, consumers and other stakeholders to evaluate the sustainability performance of companies, as part of the [European green deal](#).
- **ESRS 1 – General Requirements**
 - Principles to be applied when reporting according to ESRS and does not itself set specific disclosure requirements.
 - The ESRS standards are to be applied subject to a materiality assessment.
 - Introduces double materiality, inclusion of prospective information, information about the upstream and downstream value chain, and sustainability due diligence.
 - Aligned with the Corporate Sustainability Due Diligence Directive ([CS3D](#)) fosters sustainable and responsible corporate behaviour in global value chains.
- **Double Materiality**
 - As required by the [Accounting Directive](#), as amended by the CSRD, the ESRS take a “double materiality” perspective.
 - Companies are to report both on their impacts on people and the environment, and on how social and environmental issues create financial risks and opportunities for the company.



Climate-related standard-setting in key jurisdictions: European Union

ESRS staggered implementation

- Fiscal year **2024 for 2025 annual report**
Companies already subject to the [NFRD](#).
- Fiscal year **2025 for 2026 annual report**
Companies with annual average ≥ 250 employees, AND
 - Total assets of $\geq \text{€ } 20$ million OR
 - Net turnover of $\geq \text{€ } 40$ million
- Fiscal year **2026 for 2027 annual report**
Listed SMEs and small and non-complex credit institutions and captive insurance companies
- Fiscal year **2028 for 2029 annual report**
3rd-country companies with EU subsidiaries/branches if net sales in EU $> \text{€ } 150$ million over two years

- **ESRS 2 – General Disclosures**
 - Information to be disclosed irrespective of sustainability matter.
 - Must be reported by all companies, irrespective of the materiality assessment.
 - Sets out the basis on which reports must be prepared and defines how sustainability information must be collected and presented.
- **ESRS – Topical Standards**
 - 10 Standards to address a range of sustainability issues

Environmental

No	Subject
ESRS E1	Climate
ESRS E2	Pollution
ESRS E3	Water and marine resources
ESRS E4	Biodiversity and ecosystems
ESRS E5	Resource use and circular economy

Social

No	Subject
ESRS E6	Own workforce
ESRS E7	Workers in the value chain
ESRS E8	Affected communities
ESRS E9	Consumers and end users
ESRS E10	Business conduct



Climate-related standard-setting Aligning ISSB and ESRS

Applicability and enforceability

ISSB standards – only mandatory in context of their formal adoption as regulatory instruments for an adopting country's financial reporting regulatory infrastructure (i.e., acquire legal status)

ESRS standards – implementation under the mandatory Corporate Sustainability reporting Directive (CSRD), and in that context they are enforceable for large companies operating in EU starting from 2024, and per staggered implementation timetable thereafter.

- **Target audience**
 - ISSB – more investor-oriented; primarily address the information needs of creditors, lenders, and investors.
 - ESRS – intended to respond to information needs of a broader group of stakeholders such as investors, customers, suppliers, employees, local communities, and regulators.
- **Materiality approach and assessment**
 - ISSB – capital markets focus and adopt the more traditional financial materiality approach. IFRS S1 and S2 are dependent on the outcome of the materiality assessment.
 - ESRS – based on double materiality approach, which goes beyond financial materiality to wider sustainability-related impacts, beyond just financial impact.
- **Climate-related Disclosure**
 - ISSB – IFRS S2 requires reporting on climate-related sustainability information.
 - ESRS – ESRS E1 Climate Change contains all IFRS S2 requirements but extends to more detail on governance, strategy, impact risk and opportunities, metrics and targets.



Climate-related standard-setting in key jurisdictions: JSE Guidelines

- **Sustainability Narrative Disclosures**

- Governance: Board oversight of impacts, risks and opportunities, and process for overall integration.
- Strategy: Results of impacts, risks and opportunities on strategy and the company’s overall performance.
- Management: How impacts, risks and opportunities are identified, assessed, and integrated processes.
- Metrics, targets, and performance: How impacts, risks and opportunities are measured, monitored, and managed and the resultant performance.

- **Standardised Sustainability Disclosures**

Disclosure	Metrics
Governance	Board composition, remuneration, Ethical behaviour, Compliance & Risk Management, Tax Transparency
Social	Labour standards, Community development, Health and safety, Customer responsibility, Supply chain
Environmental	Climate change, Water security, Biodiversity and land use, Pollution and waste, Supply chain and materials

- **JSE Guidance**

- Voluntary to assist companies to navigate the international developments
- Considers South Africa’s specific sustainability/ESG challenges

- **JSE Sustainability Disclosure Guidance**

- To stimulate improved sustainability disclosure and performance.
- Double materiality approach: sustainability issues affect operational and financial results should be disclosed in an annual integrated report; significant impacts on the economy, society, and the environment should be in addition to the annual integrated report.

- **JSE Climate Disclosure Guidance**

- To support climate disclosure which is aligned with the ISSB and the [King IV Guidance Paper on Climate Change](#).
- Two categories of climate-related risks:
 1. Risks related to the transition to a lower-carbon economy; and
 2. Risks related to the physical impacts of climate change.

- **JSE Sustainability Disclosure Guideline Frameworks**

1. Sustainability Narrative Disclosures (principles from the JSE Climate Disclosure).
2. Standardised Sustainability Disclosures (Core and Leadership Metrics).



What's needed to support routine, high-quality sustainability reporting and information disclosure?

Highlights

Sound Governance arrangements for direction and oversight of the company's approach to preparing its information disclosures to demonstrate:

- Performance against its strategic objectives (incl. sustainability-related objectives), and
- Compliance with applicable mandatory reporting standards and frameworks (including those applicable to the company / its sector for sustainability-related information).

- **Governance and management functions** appropriately configured with executive-level accountability for sustainability reporting aligned to regulatory requirements (as applicable).
- **Digitalised Management information Systems**, configured with appropriate system and other internal controls to reliably generate/record/compile the various data underlying preparation of sustainability disclosures.
- **Integration** of the entity's sustainability reporting with its mainstream financial and regulatory reporting systems, for reliable and timely sustainability reporting outputs), i.e., "investor-grade" reporting.
- **Skilled human resources** capability to develop required systems and data libraries for regular data capture/compilation.
- **Auditable information** systems and processes to facilitate reasonable-level assurance for entity that participate in in capital markets/regulated markets (e.g., EU).

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Corporate Membership

Annual membership fee to unlock:

- Inclusion of your company's executive committee members, company secretary, head of sustainability or equivalent and legal counsel.
- CPD Certificates of Attendance.
- Annual report on Governance Learning and Development for inclusion in the company's annual integrated report or sustainability reporting according to the reporting guidelines / standards.
- Chapter Zero Southern Africa corporate membership badge and statement of alliance.



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