PSOJ’s Seminar on the International Sustainability Standards Board ESG Reporting Standards

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Today’s Presenters

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What is ESG & Why is it Important

What is ESG

For many people, Sustainability brings to mind environmental issues like climate change, water stress, access to finance and in general resource scarcity. These form an important element of sustainability, but the term means much more.

Environmental				Social				Governance	
Climate Change	Natural Resources	Pollution & Waste	Environmental Opportunities	Human Capital	Product Liability	Stakeholder Opposition	Social Opportunities	Corporate Governance	Corporate Behavior
Carbon Emissions	Water Stress	Toxic Emissions & Waste	Opportunities in Clean Tech	Labor Management	Product Safety & Quality	Controversial Sourcing	Access to Communication	Board	Business Ethics
Product Carbon Footprint	Biodiversity & Land Use	Packaging Material & Waste	Opportunities in Green Building	Health & Safety	Chemical Safety	Community Relations	Access to Finance	Pay	Tax Transparency
Financing Environmental Impact	Raw Material Sourcing	Electronic Waste	Opportunities in Renewable Energy	Human Capital Development	Consumer Financial Protection		Access to Health Care	Ownership	
Climate Change Vulnerability				Supply Chain Labor Standards	Privacy & Data Security		Opportunities in Nutrition & Health	Accounting	
					Responsible Investment				
					Health & Demographic Risk				

PwC Perspective - Material topics relevant to the Caribbean

Source: MSCI ESG Ratings Key Issue Framework

Why is it Important

Key ESG market trends

Sustainability

- **ESG investing** has been around since the 1960s, when it was known as **socially responsible and / or sustainable investing**
- Sustainability has evolved to include **values aligned to the risks** (climate, human capital biodiversity, etc.) **and opportunities** that could impact a company's ability to create long-term value

Increasing Risk

- **Climate risk** is no longer a future concern, with 14 $1B+ climate-related events in 2018 in the US alone[1]
- **ESG research has become central to risk-based work over the last few years**; 83% of credit risk and portfolio managers say ESG factors are "integral" to their work[2]

New Opportunities

- New **product development and differentiation**, focused on sustainability, can increasingly reach **new markets and drive growth**
- Growing demand for sustainability enables firms to **enhance reputation and employee retention** through their ESG strategy

Regulation

- **ESG is top of mind** for regulators
- **Climate stress tests** will likely be required in the future.
- Climate-related risk guidance for Internal Capital Adequacy Assessment process

The above headwinds and tailwinds provide an opportunity and threat to business models

1) Climate.gov, 2018's Billion Dollar Disasters in Context, 2019; 2) S&P Global, ESG Investing is Becoming Critical for Credit Risk and Portfolio Management Professionals, 2020; Source: PwC Strategy& analysis

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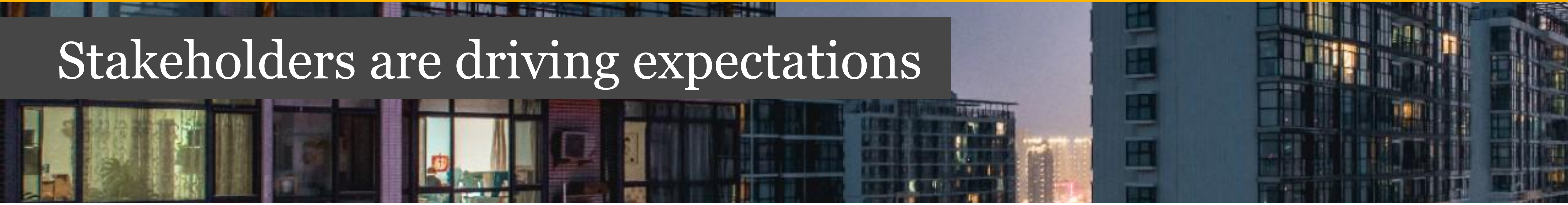
The ESG Journey

Stakeholders are driving expectations



Customers
Expectations on sustainability performance and reporting continues to grow

Internal Stakeholders
Employees and internal stakeholders expectations on sustainability will impact the ability to attract and retain talent, suppliers, and partners

Company

Regulatory & Governance
Requirements or fiduciary expectations to report on sustainability performance and emissions

Investors & Lenders
Expectations from parent company need to be taken into account to align with overall sustainability strategy

All organizations have risk and opportunity related to **Sustainability**

Companies need to take ESG risks into account to enable them to thrive in an uncertain future

ESG refers to a breadth of factors (and associated risks and opportunities) that a company should incorporate into their decision making

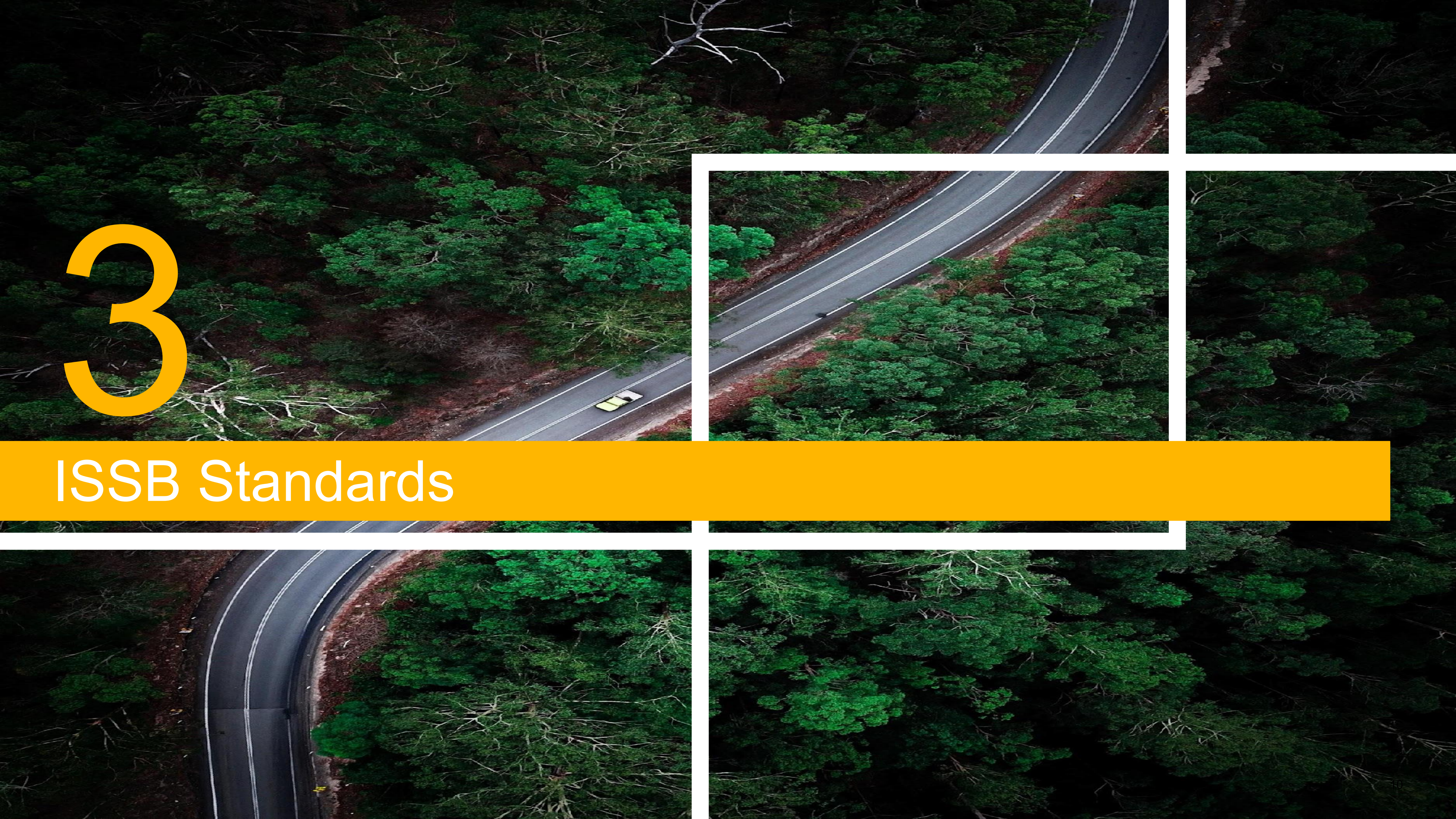
The World Economic Forum (WEF) places ESG risks as a top global issue, informing investors on their focus. Identifying priority ESG areas helps organizations understand key corporate-level risks and opportunities.

Identify Risks and opportunities

Top 10 risks

	2 years		10 years
1	Cost of living crisis	1	Failure to mitigate climate change
2	Natural disasters and extreme weather events	2	Failure of climate-change adaptation
3	Geoeconomic confrontation	3	Natural disasters and extreme weather events
4	Failure to mitigate climate change	4	Biodiversity loss and ecosystem collapse
5	Erosion of social cohesion and societal polarization	5	Large-scale involuntary migration
6	Large-scale environmental damage incidents	6	Natural resource crisis
7	Failure of climate-change adaptation	7	Erosion of social cohesion and societal polarization
8	Widespread cybercrime and cyber insecurity	8	Widespread cybercrime and cyber insecurity
9	Natural resource crisis	9	Geoeconomic confrontation
10	Large-scale involuntary migration	10	Large-scale environmental damage incidents

Risk categories:
Economic Environmental Geopolitical Societal Technological



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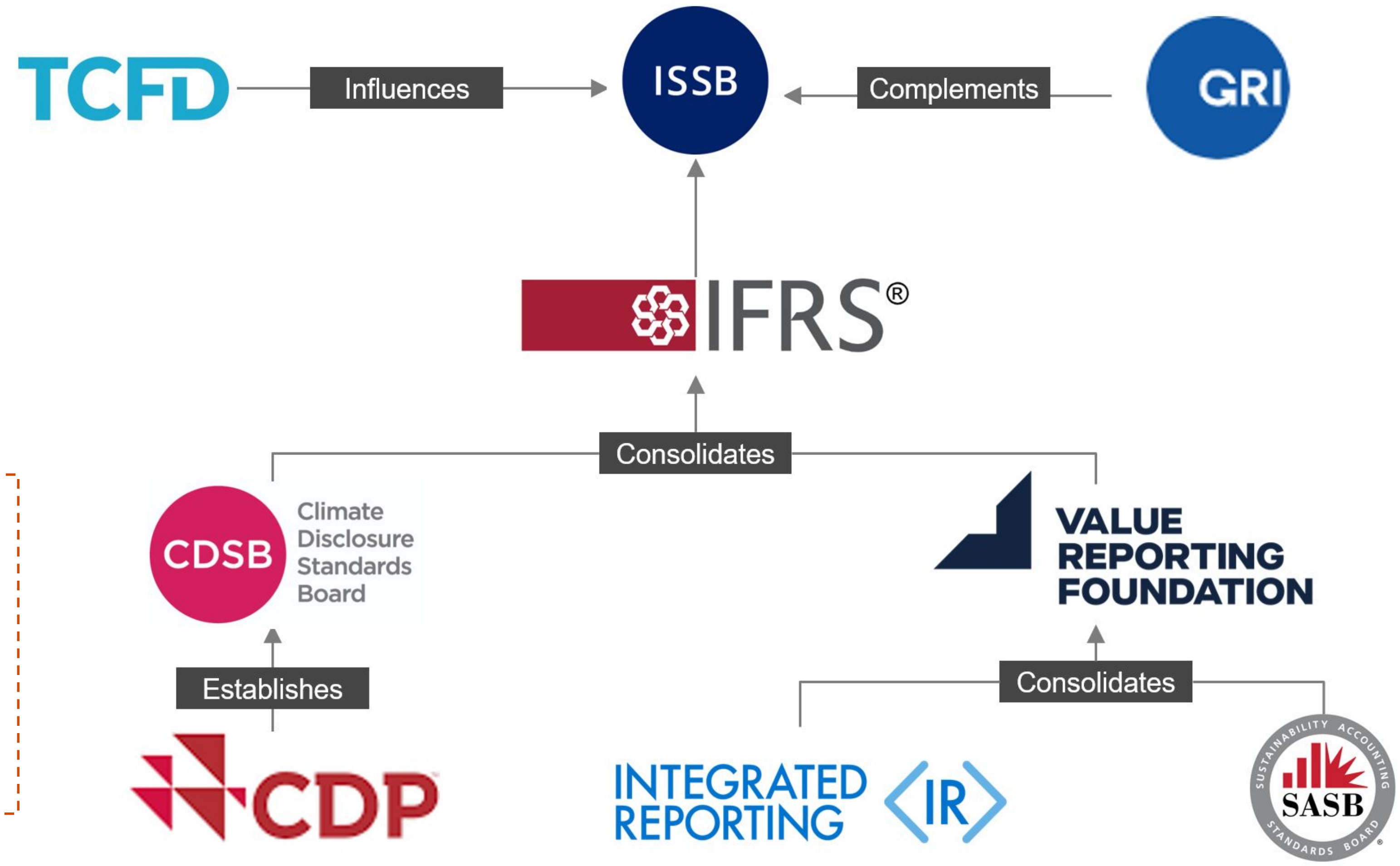
ISSB Standards

ISSB is committed to building on the work of existing investor-focused sustainability reporting initiatives

IFRS standards are based on the four pillars in TCFD's recommendations

Companies may consider GRI standards in the absence of guidance in S1 to the extent that GRI meets investor information needs



CDP will incorporate IFRS S2 climate-related data into its platform for the 2024 disclosure cycle – many companies disclose on the CDP platform and will collect data as required for IFRS S2 for the 2024 financial year

SASB Standards shall be used as implementation guidance together with ISSB standards

International Sustainability Standards Board (ISSB) inaugural standards

On **June 23, 2023**, the ISSB issued its inaugural standards:

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

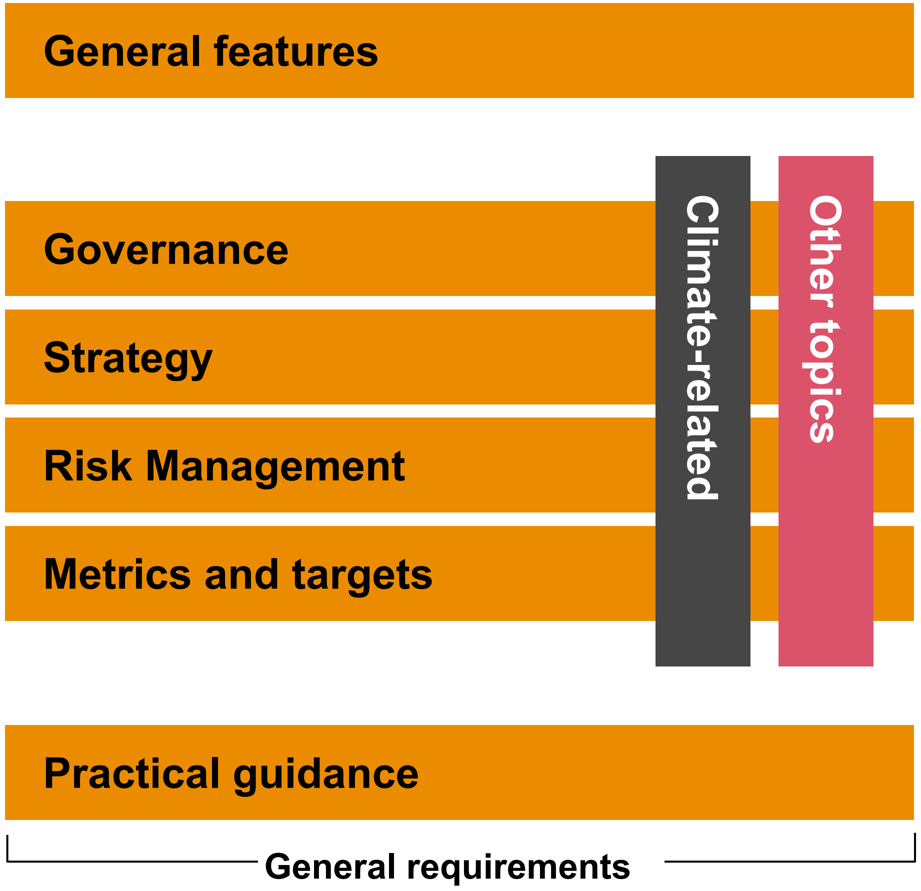
- General features of reporting, including on materiality.
- A content structure across the four areas of governance, strategy, risk management, and metrics and targets.
- Practical guidance, including on presentation of information.

IFRS S2 Climate-related Disclosures

- It builds on the four content areas with additional guidance, particularly in relation to:
- disclosure of risks, climate transition plans and scenario analysis; and
- general and industry-specific metrics.

Future proposals are expected to follow:

- Additional standards are expected in the future, providing industry-specific guidance and covering other topics—e.g. Biodiversity, human capital, human rights, etc.*



Core Contents of IFRS

Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise in specified circumstances, an entity shall provide disclosures about:

Governance

the governance body or bodies or individual(s) responsible for oversight of sustainability-related risks and opportunities.

the management's role in the governance processes, controls and procedures used to monitor, manage and oversee sustainability-related risks and opportunities.

Strategy

Sustainability-related risks and opportunities within business model and Value chain

Strategy and decision-making

Financial position, financial performance, and cash flows

Resilience

Risk Management

the processes the entity uses to identify, assess, prioritise and monitor sustainability-related opportunities

the processes and related policies the entity uses to identify, assess, prioritise and monitor sustainability-related risks

how the processes for identifying, assessing, prioritising and monitoring sustainability-related risks and opportunities are integrated into and inform the entity's overall risk management process

Metrics and Targets

metrics associated with particular business models, activities or other common features that characterise participation in an industry

targets it has set to monitor progress towards achieving its strategic goals, and any targets it is required to meet by law or regulation

IFRS S1 & S2: Overview of timeline and proposed reliefs

A global baseline of sustainability-related financial disclosures

- Key international bodies (i.e.Organization of Securities Commissions (IOSCO), Financial Stability Board etc.) and a range of cross-jurisdictional stakeholders have provided their support for the establishment of a global baseline for sustainability-related financial disclosures.
- ISSB is working closely with other international organisations/jurisdictions to support usage of its standards in jurisdictional requirements.

Efficiency through interoperability

- A key objective of ISSB is to reduce the complexity of reporting under differing sustainability disclosure frameworks and standards and improve efficiency of the reporting system.
- ISSB has formulated a Jurisdictional Working Group, who have been prioritising the interoperability between IFRS S1 and IFRS S2 and other reporting standards, such as ESRS, GRI and other major jurisdictional requirements.

GAAP agnostic

- Companies can apply IFRS S1 and IFRS S2 both if their financial statements are prepared in accordance with the IFRS Accounting Standards; or
- Other generally accepted accountability principles of practices (GAAP).

Designed for proportionality

- Many of the requirements under IFRS S1 and IFRS S2 can be applied 'proportionately' to a company's circumstances (e.g. capabilities, preparedness etc.).
- There are temporary or permanent reliefs from some requirements, depending on company circumstances.

Use of reasonable and supportable information

- IFRS S1 and IFRS S2 incorporate the concept of **'reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' (IFRS Project Summary)** - to address the challenges associated with requirements involving a high level of judgement or uncertainty.
- Such requirements include identifying sustainability-related risks and opportunities and climate scenario analysis.

ISSB IFRS S1 & S2 disclosure standards

The International Sustainability Standards Board’s (ISSB) has issued its **general** and **climate-related** standards in **June 2023** which will be effective for annual reporting periods beginning on or after **January 1, 2024** with the first disclosures being reported in 2025 where adopted by jurisdictional regulators.

IFRS S1 requires a company to…

Disclose *material* information in relation to its **sustainability-related risks and opportunities**, including information that enables investors to understand:

- the **governance** processes, controls and procedures a company uses to monitor, manage and oversee them;
- the **strategy** for managing sustainability-related risks and opportunities;
- the **risk management** processes to identify, assess, prioritise and monitor these risks; and,
- the performance **metrics** in relation to these, including progress towards any **targets**.

A company applying IFRS S1 is required to apply IFRS S2.

IFRS S2 requires a company to…

Disclose *material* information about its **climate-related risks and opportunities**, including information that enables investors to understand:

- the **governance** processes, controls and procedures a company uses to monitor, manage and oversee them, including governance bodies;
- the **strategy** for managing these, including effects on decision-making, financial effects, and climate resilience. ***Scenario analysis*** should inform disclosures;
- the processes used to identify, assess, prioritise, manage and monitor these; and,
- **performance** in relation to these, including disclosure of absolute gross GHG emissions generated across the value chain (Scopes 1, 2 ***and*** 3).

To identify sustainability-related risks and opportunities and identify applicable disclosure requirements, a company ***shall*** apply ISSB. It ***shall*** consider SASB; and it ***may*** refer to CDSB, industry practices and materials of investor-focused standard setters to identify sustainability-related risks and opportunities. This also applies to identify applicable disclosure requirements in the absence of ISSB, plus it ***may*** consider GRI and ESRS.

Key principles

- ✓ **Single (Financial) Materiality** focused on investor needs
- ✓ **Interoperability** with jurisdictional initiatives
- ✓ **Focus on proportionality** not expected to undertake undue costs
- ✓ **Connectivity with IASB** to leverage capacity and definitions

Proposed reliefs

- **Timing** (i.e. report at same time as related financial statements)
- **Scope** (i.e. only climate related risks and opportunities, not to disclose Scope 3 emissions in the first year)
- **Existing disclosures** (i.e. pronouncements from other standard-setting bodies, reporting under GHG protocol)

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ESG Reporting

ESG reporting is cross-functional and impacts the whole organization

Risk Management

- Integrating requirements into guidelines and risk management
- Ensuring compliance with applicable regulatory standards and frameworks

Strategy

- Identifying, prioritizing and integrating material ESG topics into the corporate strategy

Process

Systems, Tools and IT

Reporting

Financial Statements

- Adaptation of business processes
- Management of data requirements and data flows and setting up policies
- Further development of IT systems for ESG data monitoring and reporting
- Internal and external reporting on ESG strategy, risks and impacts
- Integration of ESG issues and data into decision making

Employees and Culture

Organization and Governance

Products and Services

- Anchoring ESG as an integral part of the corporate culture
- Creating new capabilities, roles and responsibilities
- Ensuring products and services are aligned with future demand

ESG

A typical sustainability reporting journey

Define ESG Reporting Strategy		ESG Reporting Transformation		Reporting What Matters	
Baselining	**Strategy**	**Transformation Roadmap**	**Operations & Implementation**	**Reporting**	**Assurance**
Baseline	Materiality Assessment	Transformation Activity Development	Governance, Org. & Culture	Reporting & Quantification	Assurance Verification
Benchmark	Strategic Opportunities and Integration	Capacity building	Business and Functional Integration	ESG reporting strategy	Risk and quality
Ambition	Ambition Setting	Climate Scenario Planning	Technology backbone	Embedding reporting systems (ERP, etc.)	ESG risks in financial statement audits

Suggested incremental Steps

Developing up-to-date sustainability strategies and pathways requires tracking, targets, and projects to create incremental value to get buy-in and create momentum

Strategy
Increase awareness & and baseline, Stakeholder ID & Materiality Assessment and Strategy alignment with material topics

Transformation & Implementation
Integrate performance metrics into operating model & reporting systems and Target setting & sustainability roadmap

Reporting
Enhance credibility of reporting with assurance and Comprehensive reporting & stakeholder feedback

Role of the finance function within Sustainability reporting and assurance

"Sustainability disclosures, and sustainability strategies more broadly, today sit on the desk of the Chief Sustainability Officer (CSO). It will have to move to the desk of the Chief Financial Officer (CFO) - both need to partner together."

- Emmanuel Faber, Chair, ISSB

The finance function can help support you in the following areas:

Policies & procedures
Documents describing reporting criteria, metric definitions, metric processes and procedural guidelines

Data management
Processes and tools related to data collection, quality, access and organization-focusing on completeness and accuracy

Measurement
Processes, inputs and assumptions used to calculate a metric, including estimation methodologies

Control design & review
Internal controls around the data collection, calculation, and reporting of the ESG metric, including management review and IT systems

Disclosure
External disclosures

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Role of those charged with governance

15 Questions for Board and Executive consideration

Appropriate focus on ESG at a Board and Executive level is needed to achieve good governance outcomes and meet the expectations of stakeholders

The ESG management cycle

1. Engage with stakeholders
2. Identify material ESG topics
3. Establish intent, aspirations and risk appetite
4. Define management approach
5. Allocate resources
6. Monitor performance and compliance
7. Report to stakeholders

Iterative process for developing an up-to-date ESG strategy

Purpose and strategy

- Has management considered and balanced the views and needs of all stakeholders as part of the identification of material ESG topics?
- Is the company's purpose and the role that it plays in society defined?
- Is the ESG strategy embedded into or aligned with the company's overall strategy?
- Is the board satisfied that the entity's remuneration policies are aligned with the entity's purpose, values, strategic objectives and risk appetite?
- Does the board have the necessary skills and knowledge to discharge its duties effectively for ESG related matters?

Oversight

- Has governance responsibility been assigned effectively at a Board level?
- Does the enterprise risk management process include assessment and mitigation plans for all material ESG-related risks that have been identified?
- Has management prioritised material ESG risks and opportunities?
- Is the board overseeing ESG commitments, goal setting and identifying the relevant metrics to measure, manage and communicate progress?
- Is the board satisfied the right commitments, policies, responsibilities, processes and initiatives are in place to achieve commitments and goals?

Transparent and reliable disclosure

- Does ESG messaging align & convey the commitment to creating long-term sustainable value?
- Is the company transparently communicating both qualitative and quantitative appropriate information (balanced reporting) to inform all stakeholders?
- Is the board satisfied the right systems, processes and controls are in place to ensure consistency, completeness and accuracy of reporting?
- Is the board satisfied that timely disclosures can be made?
- How are risks of potential 'greenwashing' or 'false and misleading' disclosures addressed?

Stakeholders

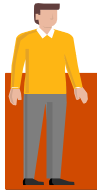
- Employees
- Customers (and their customers)
- Suppliers
- Investors
- Regulators
- Communities

ESG – Governance and oversight considerations

Board of Directors

Oversee:

- **Strategy:** Are ESG risks and opportunities integrated into the company's long-term strategy? How is the company measuring and monitoring its progress against milestones and goals set as part of the strategy?
- **Messaging:** Do ESG messaging and activities align with the company's purpose and stakeholder interests?
- **Risk assessment:** Have material ESG risks been identified and incorporated into the ERM? Has the Board allocated the oversight of these risks to the full board or individual committees?
- **Reporting:** What is the best communication platform to use for the company's ESG disclosures?



Audit Committee

- **Disclosures:** Are the ESG disclosures (both qualitative and quantitative) investor grade? Which ESG frameworks and/or standards is the company using?
- **Processes and controls:** Are there processes and controls in place to ensure ESG disclosures are accurate, comparable, and consistent?
- **Assurance:** Should independent assurance be obtained to ensure ESG disclosures are reliable?
- **Integration of financial & non-financial risk:** Ensure ESG risks are considered in financial reporting

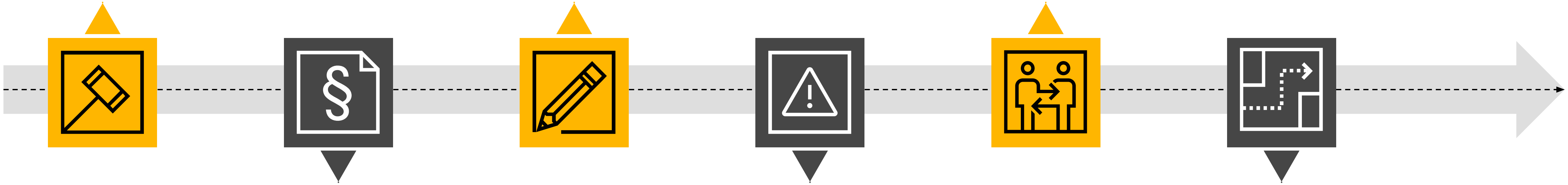
Human Resources and Compensation Committee

- **Accountability:** Are the ESG goals and milestones effectively integrated into executive compensation plans?
- **Talent and culture:** How is management organized to execute the ESG strategy? Are the right people and processes in place? Does the company have a culture which embraces ESG efforts?

Nominating and Corporate Governance Committee

- **Engagement:** Is the company's ESG story being effectively communicated to investors and other stakeholders?
- **Board composition:** Does the Board have the necessary expertise and skills to oversee ESG risks and opportunities?
- **Education:** Does the Board understand why ESG is important to investors and other stakeholders? Is the Board appropriately educated on ESG?

Actions you can take today



Identify Relevant Standards/Regulations

Inventory areas of standard/regulation overlap

Evaluate your current state

Perform a gap assessment - what do we have, what do we need?

Engage with peers and regulators

Build a roadmap to success

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Q&A

Thank you