INDIAN CHAMBER OF COMMERCE

THEME 2022-2023 INDIA 2047

FutureStation Going Beyond

IFRS SUSTAINABILITY DISCLOSURE STANDARDS

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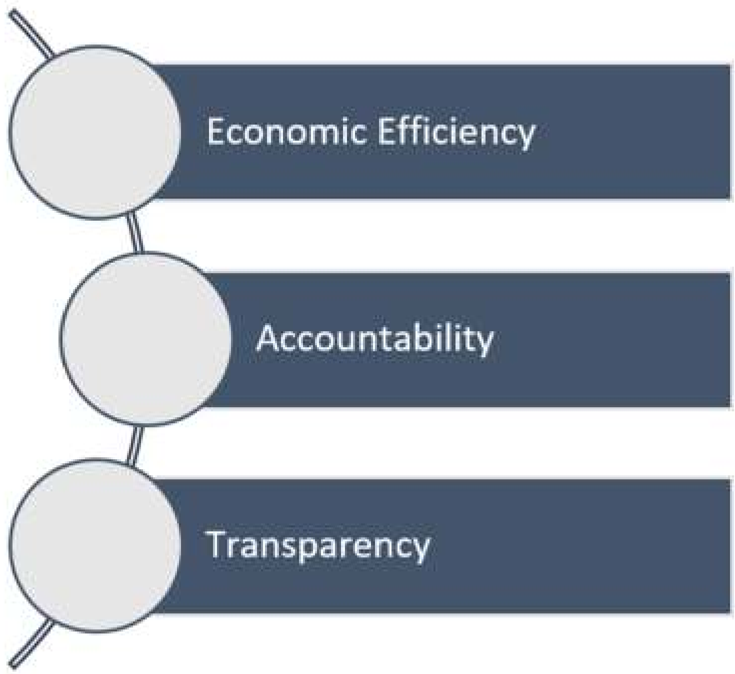
1. History of the IFRS and the ISSB

1.1 About IFRS Foundation

The International Financial Reporting Standards (IFRS) Foundation is a not-for-profit, public interest organisation established to develop high-quality, understandable, enforceable, and globally accepted accounting and sustainability disclosure standards—IFRS Standards—and to promote and facilitate adoption of the standards.

The mission of the IFRS is to develop IFRS Standards that bring transparency, accountability, and efficiency to financial markets around the world. IFRS' work serves the public interest by fostering trust, growth, and long-term financial stability in the global economy.



- IFRS Standards **bring transparency** by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.
- IFRS Standards **strengthen accountability** by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. The Standards provide information needed to hold management to account. As a source of globally comparable information, IFRS Standards are also of vital importance to regulators around the world.
- IFRS Standards **contribute to economic efficiency** by helping investors to identify opportunities and risks across the world, thus improving capital allocation. Use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs for businesses.

1.2 The IFRS Foundation's three-tier structure

The IFRS Foundation has a three-tier governance structure, based on two independent standard-setting boards of experts (International Accounting Standards Board and International Sustainability Standards Board), governed, and overseen by Trustees from around the world (IFRS Foundation Trustees) who in turn are accountable to a monitoring board of public authorities (IFRS Foundation Monitoring Board). The IFRS Advisory Council provides advice and counsel to the Trustees and the boards, whilst the boards also consult extensively with a range of other standing advisory bodies and consultative groups.

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1.3 The IFRS structure and ISSB

The Standards are developed by our two standard-setting boards, the International Accounting Standards Board (IASB) and the newly created International Sustainability Standards Board (ISSB). The IASB sets IFRS Accounting Standards and the ISSB sets IFRS Sustainability Disclosure Standards.

IFRS Accounting Standards set out how a company prepares its financial statements. IFRS Sustainability Disclosure Standards set out how a company discloses information about sustainability-related factors that may help or hinder a company in creating value. The two boards work closely to ensure their Standards complement each other to provide investors with transparent and reliable information about a company's financial position and performance, as well as information about sustainability factors that could create or erode its enterprise value in the short, medium and long term.

IFRS Accounting Standards are currently required in **more than 140 jurisdictions** and permitted in many more. While reporting as per these standards is not mandatory in India currently, companies who are a part of global value chain, has global investments and has global ambitions may find it beneficial to follow these standards for ESG reporting

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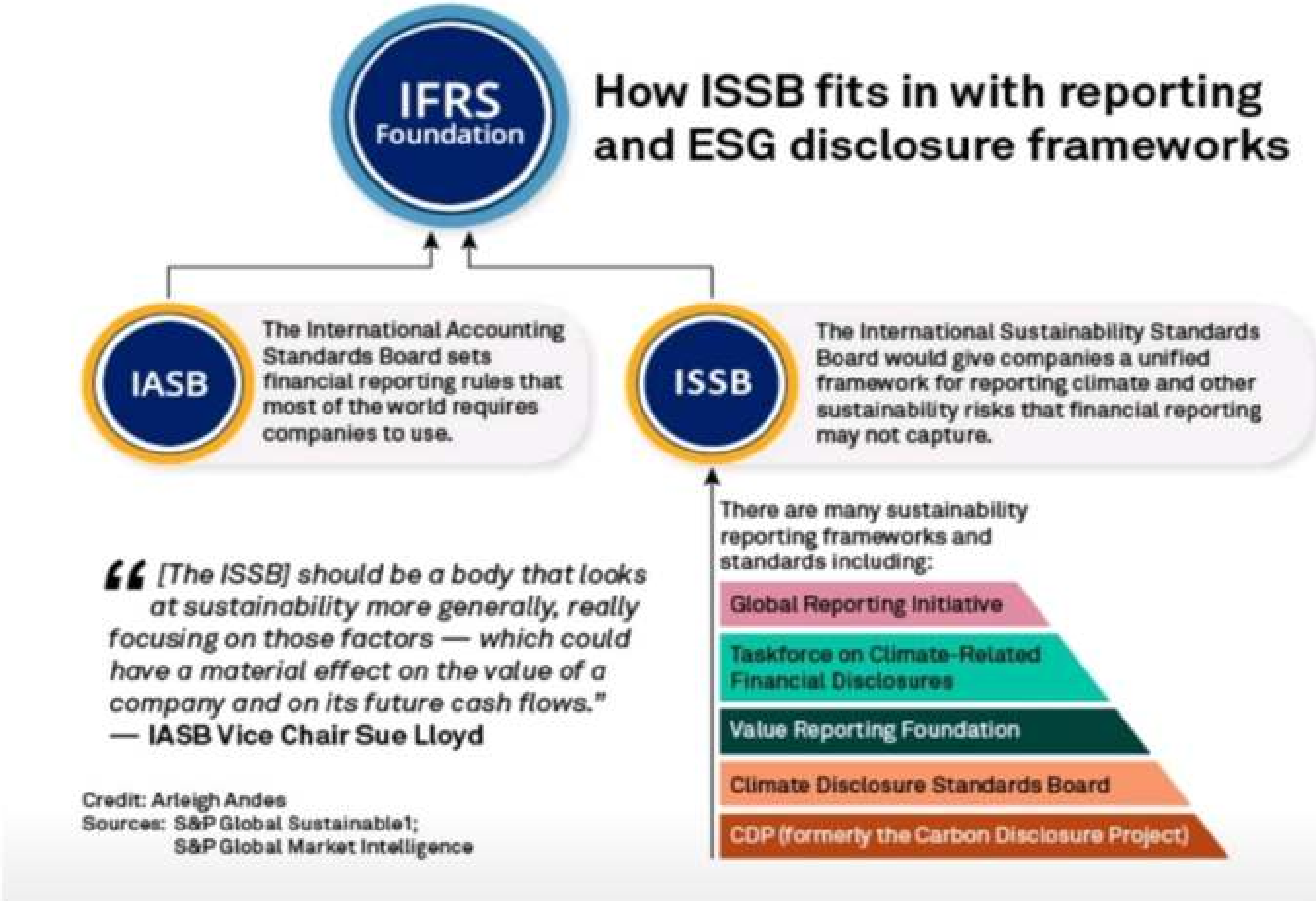

1.4 The International Sustainability Standards Board (ISSB)

The Trustees of the IFRS Foundation announced the formation of the International Sustainability Standards Board (ISSB) on 3 November 2021 at COP26 in Glasgow, following strong market demand for its establishment. The ISSB is developing—in the public interest—standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets.

Sustainability factors are becoming a mainstream part of investment decision-making. There are increasing calls for companies to provide high-quality, globally comparable information on sustainability-related risks and opportunities, as indicated by feedback from many consultations with market participants. There is also a strong desire to address a fragmented landscape of voluntary, sustainability-related standards and requirements that add cost, complexity and risk to both companies and investors.

The ISSB has international support with its work to develop sustainability disclosure standards backed by the G7, the G20, the International Organization of Securities Commissions (IOSCO), the Financial Stability Board, African Finance Ministers and Finance Ministers and Central Bank Governors from more than 40 jurisdictions.

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The ISSB set out four key objectives:

1. to develop standards for a global baseline of sustainability disclosures;
2. to meet the information needs of investors;
3. to enable companies to provide comprehensive sustainability information to global capital markets; and
4. to facilitate interoperability with disclosures that are jurisdiction-specific and/or aimed at broader stakeholder groups.

The ISSB builds on the work of market-led investor-focused reporting initiatives, including the Climate Disclosure Standards Board (CDSB), the Task Force for Climate-related Financial Disclosures (TCFD), the Value Reporting Foundation's Integrated Reporting Framework and industry-based SASB Standards, as well as the World Economic Forum's Stakeholder Capitalism Metrics.

The ISSB is committed to delivering standards that are cost-effective, decision-useful and market informed.

* The standards are developed with efficiency in mind, helping companies to report what is needed globally to investors across markets globally.
* The standards are designed to provide the right information, in the right way, to support investor decision-making and facilitate international comparability to attract capital.
* A company can avoid double-reporting by applying the ISSB's standards. When jurisdictional requirements build on the global baseline, companies are able to meet jurisdictional requirements while benefiting from the efficiency and comparability of the global baseline.

2. A glimpse on the IFRS Sustainability Disclosure Standards

2.1 About the IFRS Sustainability Disclosure Standards

On 26th June 2023, the International Sustainability Standards Board (ISSB) published its first two sustainability reporting standards. One sets out general sustainability-related disclosure requirements (IFRS S1) and the other specifies climate-related disclosure requirements (IFRS S2). These standards build on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and include industry-based disclosure requirements derived from SASB Standards. Following the publication of the inaugural ISSB Standards—IFRS S1 and IFRS S2—the Financial Stability Board has asked the IFRS Foundation to take over the monitoring of the progress on companies' climate-related disclosures from the TCFD from 2024.

The General Requirements for disclosure of sustainability-related financial information (IFRS S1) requires companies:

* to provide material information on all significant sustainability-related risks and opportunities necessary to assess enterprise value; and
* to use SASB Standards to identify sustainability-related risks and opportunities and to develop appropriate disclosures until these Standards are replaced by IFRS Sustainability Disclosure Standards.

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To identify sustainability-related risks and opportunities for climate-related disclosures (IFRS S2), companies can also consider:

- the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures);
- the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general-purpose financial reporting; and
- the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

The following figure depicts how the IFRS Disclosure Standards fit into the existing reporting landscapes.

2.2 What is the difference in this reporting standard?

The involvement of the IFRS in the global reporting landscape is an important change and regulatory authority to force compliance on the financial sector. A transition towards mandatory sustainability reporting is essential to give a holistic picture of business to stakeholders and drive effective capital markets. Similar to when IFRS Accounting Standards were introduced to drive consistency and comparability in financial reporting, IFRS (ISSB) Sustainability Disclosure Standards will do the same -

provide relevant, comparable, timely, and verifiable sustainability disclosures. The alignment with existing global frameworks such as the Taskforce on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB) allows easier transition for organizations globally.

However, achieving such a landscape would require impeccable execution and collaboration between the public and private sectors. The governance needs to produce forward-looking information and a significant volume of standardized data. The systems, processes and controls to allow for timely reporting need to be in place.

The legal and regulatory landscape would also have a substantial role to play in this transition. The urgent need for the ISSB to deliver its initial Standards has been repeatedly highlighted, including in feedback to the September 2020 consultation on sustainability reporting held by the Trustees and to the April 2021 Exposure Draft of proposed amendments to the IFRS Foundation Constitution. The International Organization of Securities Commissions has also emphasized the urgent need for disclosure standards on climate change. Such urgency can pose significant challenges to standard-setting, which aims to achieve effective outcomes by balancing timely responsiveness to market needs with the rigor of formal due process.

Local jurisdictions will decide how to build on the global baseline to address the wider audience through public reporting. This is already underway in some locations, including in the E.U. The idea of a global baseline is supported by G20 leaders, the International Organization of Securities Commissions (IOSCO) and others. The ISSB is working closely with other international organisations and jurisdictions to support the incorporation of the global baseline into jurisdictional requirements and ensuring it is compatible with requirements aimed at broader stakeholder groups. Stakeholders are encouraged to respond to consultations by jurisdictions on sustainability reporting. The next few years leading to the end of 2024 are critical for the global sustainability reporting landscape.

2.3 What do the Disclosure Standards mean for an organization?

The proposals are potentially relevant for all companies regardless of the framework applied in preparing the financial statements (i.e. not solely IFRS Accounting Standards). Individual jurisdictions will decide whether they adopt the Standards when they become effective. As mentioned earlier, the information regarding compliance with the Disclosure Standards need to be reported at the same time as financial statements.

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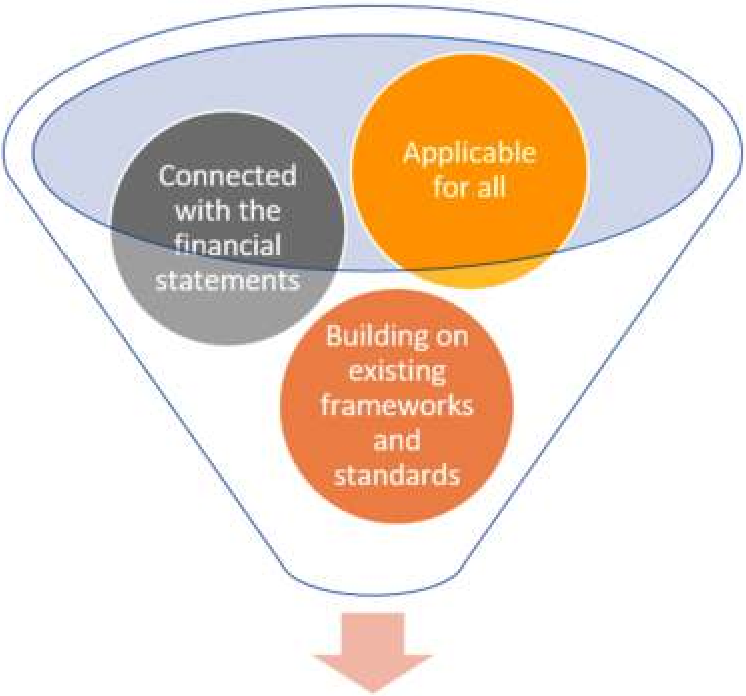

Compliance with the Standard

Companies need to prepare themselves over a considerable period of time depending on where they stand in terms of internal capabilities and how vulnerable their sectors are to climate risks. They need to:

- Identify the differences between the proposals and the existing reporting content and create an action plan to fill the gaps.
- Consider whether a change in reporting structure is required such as integrating sustainability reporting into general purpose financial reporting.
- Understand the processes and resources required to provide detailed information reliability and on time.

Companies need to have support from the Board, management and those involved in reporting about the company's exposure to sustainability-related risks and opportunities. Only then can the strategy and execution for addressing the sustainability-related risks and opportunities be implemented effectively. A need for more scrutiny over sustainability disclosures is also important. This can be achieved through a board-led governance structure that considers both financial and sustainability reporting when making commitments and decisions on business administration.

The purpose of the standards is to foster transparent reporting to address a large stakeholder audience requires companies to engage with current process owners. An understanding of how information is being defined, captures and reported is crucial for an effective strategy. Some of the aspects companies need to focus on include:

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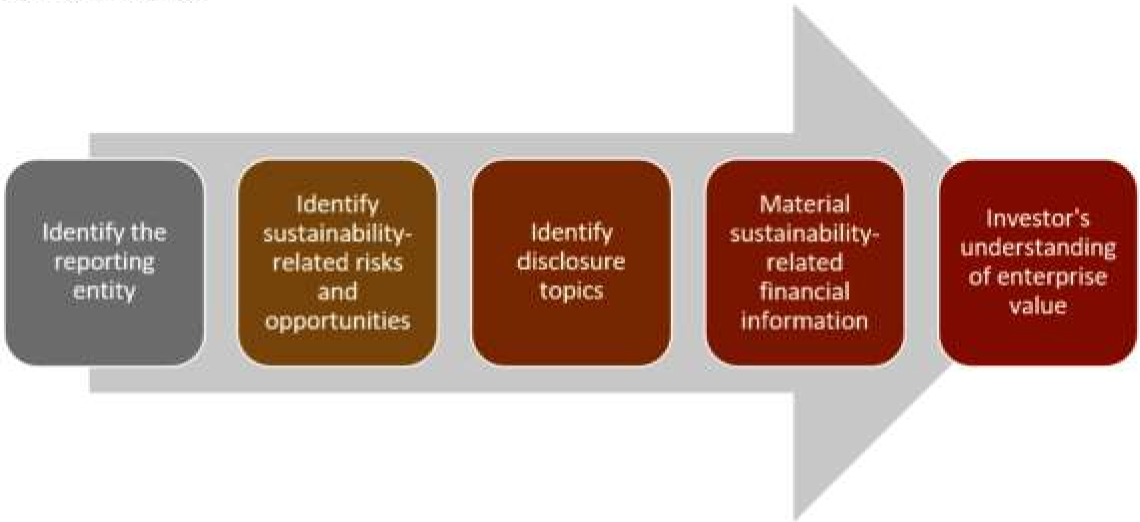
A stakeholder engagement process is used to identify significant sustainability-related risks and opportunities and the information necessary for investors to understand those risks and opportunities. A coherent reporting structure is to avoid duplication between different types of reporting. The company needs to make available significant volumes of data across all relevant disclosure topics including those about relationships outside the reporting entity.

2.3 Scope and objectives

A reporting entity would disclose material information about all significant sustainability-related risks and opportunities. The general requirements set out say that a reporting entity would:

- Consider relevant industry-specific disclosure topics
- Identify all significant sustainability-related risks and opportunities
- Disclose material information

The resulting sustainability-related financial information would provide insight into the significant risks and opportunities that affects the prospects of the reporting entity i.e., investor's assessment of the company's enterprise value.



An entity shall prepare and disclose sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. An entity may apply IFRS Sustainability Disclosure Standards when the entity's related financial statements are prepared in accordance with IFRS Accounting Standards or other GAAP. Sustainability-related risks and opportunities that cannot reasonably be expected to affect assessments of an entity's enterprise value by primary users of general-purpose financial reporting are outside the scope of the Disclosure Standards. The Standard uses terminology suitable for profit-oriented entities, including public-sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply the Standard, they may need to amend the descriptions used for some disclosure items when applying IFRS Sustainability Disclosure Standards.

2.5 Effective Date

IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after 1 January 2024, with early adoption permitted. However, entities are permitted to report the requirements in IFRS S1 only to the extent that they relate to the disclosure of climate-related information in the first year of adoption. The application of IFRS S2 is unaffected.

An entity would be required to provide information under IFRS S1 about its other sustainability-related risks and opportunities in the second year that it applies IFRS Sustainability Disclosure Standards. This will allow entities time to build capacity necessary to report consistent, complete, comparable, and verifiable sustainability-related financial disclosures.

2.6 Transition Provisions

The ISSB has provided multiple transitional reliefs to assist entities in applying IFRS Sustainability Disclosure Standards:

- Timing of reporting – an entity is permitted to publish its first sustainability-related reporting within nine months of the end of the annual reporting period. In the second year after adopting IFRS Sustainability Disclosure Standards, an entity would follow the requirements in '1.3.7 Timing of reporting'. [IFRS S1 App E para E4].
- Comparative information – an entity is not required to report comparative information in the first annual reporting period in which it applies IFRS Sustainability Disclosure Standards. [IFRS S1 App E para E3]. [IFRS S2 App C para C3].
- GHG emissions measurement – where an entity has been using a GHG emissions measurement method that is different from the GHG Protocol Corporate Standard, the entity is permitted to continue to use that other measurement method in the first year of application. [IFRS S2 App C para C4(a)].
- Scope 3 GHG emissions – an entity is not required to disclose Scope 3 GHG emissions in the first year of applying IFRS Sustainability Disclosure Standards. [IFRS S2 App C para C4(b)].

3. A look at the Disclosure Requirements of IFRS S1 and S2

3.1 IFRS S1: General Disclosure Requirements

The General Disclosure Requirements issued by ISSB in June 2023 sets out the core content for a complete set of sustainability-related financial disclosures, establishing a comprehensive baseline of sustainability-related financial information. Information that could be relevant to the assessment of enterprise value is broader than information reported in the financial statements. It includes information about a company's impacts and dependencies on people, the planet, and the economy when relevant to the assessment of the company's enterprise value.

A. GOVERNANCE

Good governance in Sustainability expects an acceptable level of Accountability and Transparency in reporting to stakeholders.
The objective of sustainability-related financial disclosures on governance is to enable users of general-purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee sustainability-related risks and opportunities. An Entity shall disclose:

i. Information on how the Board of Director [BoD]'s responsibilities are reflected in the entity's policies and mandates, how often the BoD and its committees consider sustainability-related risks and opportunities,
ii. Information on how the body and its committees oversee the setting of targets related to sustainability-related risks and opportunities and monitor progress towards them.
iii. Management's role in assessing and managing sustainability-related risks and opportunities and how they are integrated with other internal functions.

B. STRATEGY

The objective of sustainability-related financial disclosures on strategy is to enable users of general-purpose financial reports to understand an entity's strategy for managing sustainability-related risks and opportunities. An entity shall disclose:

I. A description of sustainability-related risks and opportunities, and the time horizon over which they could affect the entity.
ii. The current and anticipated effects of these risks and opportunities on their value chain.
iii. How it responds to significant sustainability-related risks and opportunities; Quantitative and qualitative information about the progress of plans disclosed in prior reporting periods.
iv. How significant sustainability-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows, and material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year
v. An entity shall disclose information that enables users of general-purpose financial reporting to understand its capacity to adjust to the uncertainties arising from significant sustainability-related risks.
vi. An entity shall disclose a qualitative and, when applicable, a quantitative analysis in single amounts or a range, of the resilience of its strategy and cash flows in relation to its significant sustainability-related risks.

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C. RISK MANAGEMENT

The objective of sustainability-related financial disclosures on risk management is to enable users of general-purpose financial reports:

(a) to understand an entity's processes to identify, assess, prioritize and monitor sustainability-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process; and

(b) to assess the entity's overall risk profile and its overall risk management process.

The disclosure should include:

i. Information about the processes used to identify sustainability-related risks and opportunities, how the entity assesses and prioritizes these risks, and how it manages them.
ii. Information about how sustainability-related risk and opportunity management processes are integrated into the entity's overall risk and management processes.

D. METRICS AND TARGETS

The objective of sustainability-related financial disclosures on metrics and targets is to enable users of general-purpose financial reports to understand an entity's performance in relation to its sustainability-related risks and opportunities, including progress towards any targets the entity has set, and any targets it is required to meet by law or regulation.

The metrics shall be aligned with an entity's business model and the Metrics shall include those defined in any other applicable IFRS Sustainability Disclosure Standard, metrics identified from other sources, and metrics developed by the entity itself. The entity shall disclose:

I. How the metric is defined, including whether it is an absolute measure or expressed in relation to another metric (such as revenue or floor space), whether measurement of the metric is validated by an external body and, if so, which body; and explanations of the methods used to calculate the targets and the inputs to the calculation and the limitations of those methods
ii. The targets it has set to assess progress towards achieving its strategic goals, specifying the metric used, the period over which the target applies, the base period from which progress is measured, and any milestones or interim targets.
iii. The performance against its disclosed targets, and revisions to its targets.

3.2. IFRS S2: Climate-related Disclosures

IFRS S2 Climate-Related Disclosures proposes requirements for identifying, measuring, and disclosing climate-related risks and opportunities to provide users of financial information with information about an entity's exposure to such risks and opportunities.

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A. GOVERNANCE

The objective of climate-related financial disclosures on governance is to enable users of general-purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities. To achieve this objective, an entity is required to disclose:

I. Information about the governance body or bodies responsible for overseeing climate-related risks and opportunities, and about management's role in those processes.
ii. Information about the body or individual responsible for oversight, how their responsibilities set out in policies, oversight of monitoring of targets and management's role in assessing and managing climate-related risks.
iii. Integrated governance disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity.

B. STRATEGY

The objective of climate-related financial disclosures on strategy is to enable users of general-purpose financial reports to understand an entity's strategy for managing climate-related risks and opportunities. An entity must disclose:

I. Whether the risks identified are physical or transition risks and the current and anticipated effects of significant climate-related risks and opportunities on its value chain and where they are concentrated
ii. Acute physical risks could include the increased severity of extreme weather events such as cyclones and floods, putting a company's assets at risk or disrupting its supply chain.
iii. Risks associated with a company's transition to a lower-carbon economy. Transition risk includes policy or legal, market, technology, and reputation.
iv. Information on how the entity is responding to climate-related risks and opportunities, such as changes to its business model, direct and indirect adaptation, and mitigation efforts.
v. The Entity must also disclose information on its climate-related targets and the use of carbon offsets to achieve those targets.
vi. The Entity must provide quantitative and qualitative information on the progress of its climate-related plans disclosed in prior reporting periods.
vii. An explanation of how significant climate-related risks and opportunities have affected its most recently reported financial position, financial performance, and cash flows. A company would also be required to explain how it expects its financial position to change over time given its strategy to address significant climate-related risks and opportunities.
viii. Information that helps users to understand its strategy's resilience to climate-related changes, risks, and opportunities and how the analysis was conducted, including the scenarios used, time horizons, inputs, and assumption.

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C. RISK MANAGEMENT

The objective of climate-related financial disclosures on risk management to help users understand how an entity identifies, assesses, and manages climate-related risks and opportunities. To achieve this, entities must:

I. Disclose their processes for identifying and assessing climate-related risks and opportunities,
ii. Prioritizing these risks relative to other types of risks,
iii. Monitoring and managing these risks and opportunities, and
iv. Integrating these processes into their overall risk and management processes.

D. METRICS AND TARGETS

The objective of climate-related financial disclosures on metrics and targets is to enable users of general-purpose financial reports to understand an entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation. To achieve this, the entity must:

I. Disclose cross-industry metric categories, industry-based metrics, metrics used to measure progress towards targets, and the targets themselves. [The cross-industry metric categories include greenhouse gas emissions, transition risks, physical risks, climate-related opportunities, capital deployment, internal carbon prices, and remuneration].
ii. Greenhouse Gas emissions, which include Scope 1, 2, and 3 emissions, and the approach used to include emissions for relevant entities.
iii. Its climate-related targets, including the metrics used to measure progress towards them.

INDIAN CHAMBER OF COMMERCE

About
Indian Chamber of Commerce

Founded in 1925, Indian Chamber of Commerce (ICC) is the leading and only National Chamber of Commerce operating from Kolkata, and one of the most pro-active and forward-looking Chambers in the country today. Its membership spans some of the most prominent and major industrial groups in India.

ICC had made its humble contribution in the pre-independence era during 1925 – 1947 towards promotion of Indian businesses and Swadeshi movement. Post Independence, ICC had the honour of engaging closely on Economic development and Reforms with Govt. of India. ICC had the privilege of hosting Session with Indian Prime Ministers like Shri Lal Bahadur Shashtri, Smt. Indira Gandhi, Shri Chandra Shekhar Azad, Shri Atal Bihari Vajpayee and several other leaders.

Recently, ICC was fortunate to host a Session with Shri Narendra Modi, Hon'ble Prime Minister of India on 11th June 2020.

Set up by a group of pioneering industrialists led by Mr G D Birla, the Indian Chamber of Commerce was closely associated with the Indian Freedom Movement, as the first organised voice of indigenous Indian Industry. Several of the distinguished industry leaders in India, such as Mr. B M Birla, Sir Ardeshir Dalal, Sir Badridas Goenka, Mr. S P Jain, Lala Karam Chand Thapar, Mr. Russi Mody, Mr. Ashok Jain, Mr. Sanjiv Goenka, have led the ICC as its President.

ICC is the only Chamber from India to win the first prize in World Chambers Competition in Quebec, Canada.

The Indian Chamber of Commerce headquartered in Kolkata, over the last few years has truly emerged as a national Chamber of repute, with full-fledged offices in New Delhi, Mumbai, Guwahati, Siliguri, Agartala, Ranchi, Bhubaneshwar, Hyderabad, Tamilnadu & Patna functioning efficiently, and building meaningful synergies among Industry and Government by addressing strategic issues of national significance.

FutureStation Advisors LLP ((www.futurestn.com) is an ESG Advisory and Assurance firm, serving clients in Value Creation through ESG. The firm is a platform of highly experienced professionals across industry sectors and leading consulting firms. With presence in Delhi, Hyderabad, Kolkata and Mumbai, the firm is serving clients in India, Europe and the USA.

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Suryadipta Das is a young sustainability consulting professional with about four years of experience in advising corporate clients in India and the Middle East, working for Ernst & Young and RSM. He is currently doing MS in Energy and Sustainability at Northwestern University in the USA. During his free time, among other things of interest, he writes articles on sustainability.

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FutureStation

Going Beyond

Creating Value through ESG