UNDERSTANDING SUSTAINABILITY/ESG CHALLENGES WITHIN THE CONTEXT OF IFRS S1 AND S2

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Navigating Sustainability/ESG Challenges in IFRS S1 & S2 Adoption

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WHAT SHALL BE COVERED IN THIS SESSION

- IFRS S1 & S2 INTRODUCTION
- SUSTAINABILITY CHALLENGES
- OVERCOMING SUSTAINABILITY/ESG CHALLENGES
- STRATEGIES TO OVERCOMING THE CHALLENGES
- A CASE STUDY - UNILEVER

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IFRS S1 & IFRS S2 INTRODUCTION

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IFRS S1 & IFRS S2 INTRODUCTION

1. IFRS S1 and IFRS S2 are placeholders for upcoming International Financial Reporting Standards (IFRS) related to sustainability reporting.

2. The International Sustainability Standards Board (ISSB) has released:

a) IFRS S1: General Requirements for Disclosure of Sustainability-related Information (issued January 2023)

b) IFRS S2: Climate-related Disclosures (issued January 2023)

January 1, 2024: IFRS S1 & S2 comes into effect for reporting periods starting on or after this date.

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IFRS S1 & IFRS S2 INTRODUCTION

What are the key aspects of IFRS S1:

1. Materiality: Standard requires the disclosure of sustainability-related information that is material to investors.
2. Industry-agnostic: This standard applies to all industries.
3. Disclosure requirements: Standard covers governance, strategy, risk management, and metrics.

What are the key aspects of IFRS S2:

1. Climate-related risks and opportunities.
2. Disclosure requirements: Standard covers physical and transition climate-related risks, carbon emissions, and climate-related metrics.

These standards will help companies provide consistent, comparable, and decision-useful sustainability information to investors and stakeholders.

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A look at the sustainability/ESG Challenges

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) FACTORS - CHALLENGES

We shall take a detailed look at the following sustainability/ESG challenges:

1. Climate change and carbon emissions
2. Human rights and labor practices
3. Supply chain management and responsible sourcing
4. Board diversity and executive compensation
5. Data quality and reliability

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) FACTORS - CHALLENGES

Climate Change and Carbon Emissions

Risks:

1. Physical risks (e.g., extreme weather events)
2. Transition risks (e.g., regulatory changes)
3. Liability risks (e.g., climate-related litigation)

Opportunities:

1. Renewable energy investments
2. Energy efficiency improvements
3. Carbon offsetting

Challenges:

1. Quantifying and disclosing carbon emissions
2. Setting science-based emission reduction targets
3. Integrating climate considerations into business strategy
4. Ensuring climate-related financial disclosures

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) FACTORS - CHALLENGES

Human Rights and Labor Practices

Risks:

1. Modern slavery
2. Child labor
3. Forced labor
4. Discrimination

Opportunities:

1. Improving working conditions
2. Enhancing diversity and inclusion
3. Supporting community development

Challenges:

1. Identifying and addressing human rights risks
2. Conducting due diligence on suppliers and partners
3. Ensuring fair labor practices throughout the supply chain
4. Reporting on human rights performance

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ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) FACTORS - CHALLENGES

Supply Chain Management and Responsible Sourcing

Risks:

1. Supply chain disruptions
2. Quality control issues
3. Reputation damage

Opportunities:

1. Improving supply chain efficiency
2. Enhancing supplier relationships
3. Promoting sustainable practices

Challenges:

1. Mapping and understanding complex supply chains
2. Conducting supplier audits and assessments
3. Ensuring responsible sourcing practices
4. Managing supply chain risks and disruptions

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) FACTORS - CHALLENGES

Board Diversity and Executive Compensation

Risks:

1. Lack of diverse perspectives
2. Ineffective decision-making
3. Reputation damage

Opportunities:

1. Enhancing board diversity
2. Improving governance
3. Aligning executive compensation with ESG goals

Challenges:

1. Identifying and appointing diverse board members
2. Ensuring inclusive board culture
3. Designing executive compensation plans
4. Disclosing diversity and compensation information

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) FACTORS - CHALLENGES

Data Quality and Reliability

Risks:

1. Inaccurate or incomplete data
2. Inconsistent reporting
3. Lack of transparency

Opportunities:

Enhancing data management systems

1. Improving reporting processes
2. Increasing transparency

Challenges:

1. Ensuring data accuracy and completeness
2. Establishing consistent reporting metrics
3. Ensuring data security and integrity
4. Disclosing data limitations and assumptions

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HOW OTHER COMPANIES HAVE MANAGED TO OVERCOME THE SUSTAINABILITY/ESG CHALLENGES

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) FACTORS – ADDRESSING THE CHALLENGES

1. Conduct thorough risk assessments
2. Develop and implement ESG policies and procedures
3. Engage with stakeholders and suppliers
4. Invest in data management and reporting systems
5. Provide training and education for employees and board members
6. Disclose ESG performance and progress

ADDRESSING SUSTAINABILITY/ESG CHALLENGES

Climate Change and Carbon Emissions

Unilever:

1. Set science-based emission reduction targets.
2. Invested in renewable energy.
3. Introduced sustainable packaging.

IKEA:

1. Committed to 100% renewable energy.
2. Implemented energy-efficient practices.
3. Offset emissions through reforestation.

ADDRESSING SUSTAINABILITY/ESG CHALLENGES

Human Rights and Labor Practices

Patagonia:

1. Implemented fair labor practices.
2. Conducted supplier audits.
3. Promoted transparency.

Nike:

1. Improved working conditions.
2. Enhanced supply chain transparency.
3. Invested in worker training.

ADDRESSING SUSTAINABILITY/ESG CHALLENGES

Supply Chain Management and Responsible Sourcing

Walmart:

1. Implemented supplier diversity programs.
2. Conducted audits.
3. Promoted sustainable practices.

Apple:

1. Improved supply chain transparency.
2. Addressed labor rights.
3. Implemented responsible sourcing.

ADDRESSING SUSTAINABILITY/ESG CHALLENGES

Board Diversity and Executive Compensation

Microsoft:

1. Increased board diversity.
2. Tied executive compensation to diversity goals.
3. Disclosed diversity metrics.

IBM:

1. Enhanced board diversity.
2. Linked executive compensation to performance metrics.
3. Disclosed diversity and inclusion data.

ADDRESSING SUSTAINABILITY/ESG CHALLENGES

Data Quality and Reliability

SAP:

1. Implemented integrated reporting.
2. Disclosed ESG metrics.
3. Ensured data accuracy.

Philips:

1. Developed a comprehensive data management system.
2. Disclosed ESG performance.
3. Ensured data integrity.

SOME KEY STRATEGIES USED TO ADDRESS SUSTAINBILITY/ESG CHALLENGES

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ADDRESSING KEY CHALLENGES- STRATEGIES

Common Strategies used to address some of the key challenges

1. Stakeholder engagement.
2. ESG policy development.
3. Training and education.
4. Data management and reporting.
5. Supply chain assessments.
6. Diversity and inclusion initiatives.

UNILEVER CASE STUDY

UNILEVER CASE STUDY

Unilever's Sustainable Living Plan

Background

Unilever, a multinational consumer goods company, faced increasing pressure from stakeholders to address sustainability concerns. In response, they launched the Sustainable Living Plan (SLP) in 2010.

Objectives

1. Halve environmental footprint by 2020.
2. Improve health and well-being for millions.
3. Enhance livelihoods for thousands.

UNILEVER CASE STUDY CONT'D

Strategies

1. Sustainable Sourcing:

a) 100% sustainable palm oil.

b) 100% sustainable tea.

c) Sustainable agriculture practices.

2. Environmental Sustainability:

a) Reduce greenhouse gas emissions.

b) Water conservation. -

c) Waste reduction.

3. Social Impact:

a) Improve health and hygiene.

b) Enhance livelihoods.

c) Promote diversity and inclusion.

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UNILEVER CASE STUDY CONT'D

Specific Initiatives they embarked on:

1. Sustainable Agriculture Program.
2. Water Stewardship Program.
3. Waste Reduction Program.
4. Human Rights and Labor Practices.
5. Diversity and Inclusion Initiatives.

What were the results of these initiatives

Results

1. 48% reduction in greenhouse gas emissions.
2. 37% reduction in water usage.
3. 97% of agricultural raw materials sustainably sourced.
4. 50% increase in diversity in leadership positions.
5. 100 million people improved health and hygiene.

UNILEVER CASE STUDY CONT'D

What lessons were learned

1. Stakeholder engagement.
2. Setting ambitious targets.
3. Collaborative supply chain management.
4. Integrated reporting.
5. Continuous monitoring and evaluation.

What challenges did they face

1. Supply chain complexity.
2. Climate change impacts.
3. Human rights concerns.
4. Balancing economic and social goals.

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UNILEVER CASE STUDY CONT’D

So what are the best practices learned from this case study

1. Embed sustainability into business strategy.
2. Engage stakeholders.
3. Set measurable targets.
4. Invest in data management.
5. Foster a culture of sustainability.

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THANK YOU!

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