

**Stakeholder's Consultation on Adoption & Implementation of IFRS Sustainability Disclosure Standards [IFRS S1 and S2] in Pakistan
Held on September 07, 2023 at ICAP Karachi**



The Institute of chartered Accountants of Pakistan (ICAP) is cognizant of the international developments in sustainability reporting and is committed to perform a pivotal role in timely adoption and implementation of these standards in Pakistan. In order to create awareness and enhance capacity building of our members and various stakeholders the Institute has held many consultative sessions/seminars and webinars lately.

An interactive Question and Answer session on the adoption of IFRS Sustainability Disclosure Standards (IFRS S1 and S2) in Pakistan' was organized by ICAP on September 07, 2023 for industry participants. The session aimed to hold an interactive consultation session and discussion with companies on the adoption / implementation of IFRS Sustainability Disclosure Standards in Pakistan.

The session covered an overview of these standards and also showcased the proposed applicability criteria of these standards on companies and an introduction of draft illustrative sustainability report. The proposed applicability criteria is attached to this document as Annexure A.

Representatives from the following companies attended this consultative session:

- Bank Alfalah Limited,
- Meezan Bank Limited,
- Lucky Cement Limited,
- Tata Textile Mills Limited,
- Cherat Packaging Limited,
- Pak Arab Refinery Limited,
- Jubilee General Insurance Limited,
- Engro Corporation Limited,
- Pakistan State oil Limited,

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- Lotte Chemical Pakistan Limited,
- EFU General Insurance Limited,
- Gul Ahmed Textile Mills Limited,
- Crescent Steel & Allied Products Limited,
- Haleon Pakistan Limited,
- Unilever Pakistan Foods Limited,
- The Pakistan Business Council Limited,
- Overseas Investors Chamber of Commerce and Industry,
- Pakistan Institute of Corporate Governance,
- National Bank of Pakistan,
- International Industries Limited; and
- A.F. Ferguson & Co. Chartered Accountants.

In addition to representatives from various companies, ICAP Council members Mr. Zeeshan Ejaz and Mr. Muhammad Maqbool, as well as members of the CA Worldwide Sustainability Taskforce and ICAP Council Members Ms. Khursheed Kotwal and Mr. Asad Feroze, also attended the session.

Opening remarks by Mr. Farrukh Rehman, Council Member and Chairman Accounting Standards Board, ICAP

Mr. Farrukh, in his opening remarks, highlighted the significance of ISSB's issuance of global base line sustainability disclosure standards. He emphasized that IFRS S1 and S2 require companies to disclose information about all of their significant sustainability-related risks and opportunities and climate-related risks and opportunities, respectively. Besides this, he also elaborated concept of value chain in sustainability reporting.

Keynote Speech by Ms. Musarat Jabeen, Executive Director, Securities and Exchange Commission of Pakistan

Ms. Musarat Jabeen thanked ICAP role in promoting and improving capacity building of stakeholders on the sustainability reporting framework in Pakistan which would aid economic progress. She highlighted SECP's role in promoting a sustainability reporting framework to facilitate economic growth and working actively on the national ESG action plan with all stakeholders. She also informed that SECP had recently formalized a multilateral organization agreement for the establishment of an online dashboard known as 'ESG Sustain'.

Keynote Speech by Mr. Ravi Abeywardana, Director of IFRS Strategic Affairs and Capacity Building, IFRS Foundation

Mr. Ravi also participated in the event and provided an overview of the ISSB's various initiatives on sustainability reporting and disclosure standards and the future plans of the IFRS Foundation on the capacity building of all stakeholders. He explained key points around IFRS Sustainability Disclosure Standards.

Presentation of overview of IFRS Sustainability Disclosure Standards and proposed criteria for applicability of these standards in Pakistan

Mr. Muhammad Imran Khan, Director Technical Services Department of ICAP, provided an overview of the IFRS S1 and IFRS S2 standards, and highlighted their key disclosure requirements. Imran also presented the Proposed Criteria for applicability of IFRS Sustainability Disclosure Standards on companies along-with a Preliminary Illustrative Sustainability Report format for the participants' consideration and discussion.

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The presentation was followed by Questions and Answers (Q&A) session involving participants and distinguished panel. Mr. Arslan Khalid (ICAP Vice President), Ms. Musarat Jabeen (SECP), Mr. Farrukh Rehman, (Council Member and ASB Chairman), Mr. Fahim-ul-hassan (Member of ASB’s Working Group on Sustainability Reporting) and Mr. Muhammad Imran Khan (Director Technical Services) were on the panel to answer to the questions raised by the participants from various companies. During the Q&A session, the panel thoughtfully addressed the participants queries about implementation challenges of IFRS S1 and S2 in Pakistan. The questions and answers thereof, discussed during the consultative session, are attached as **Annexure B** to this document.

Closing remarks by Mr. Arslan Khalid, Vice President ICAP

In his closing remarks, Mr. Arslan Khalid, expressed the gratitude to participants and highlighted ICAP’s commitment to promoting, adopting and implementing IFRS Sustainability Disclosure Standards in Pakistan.

The presentation and event recording can be downloaded from ICAP website using link:

<https://www.icap.net.pk/consultative-sessions>

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Annexure A

Companies-in-scope

All companies, subject to fulfillment of criteria given below, shall publish sustainability reports in accordance with IFRS Sustainability Disclosure Standards.

Phase I - period beginning on or after January 1, 2024

- (i) Turnover greater than Rs. 25 billion in last two consecutive financial years as per their financial statements; or
- (ii) employees (permanent and contractual) greater than 1000 in number; or
- (iii) Total assets greater than Rs. 12.5 billion

Phase II - period beginning on or after January 1, 2025

- (i) Turnover greater than Rs. 12.5 billion; or
- (ii) employees (permanent and contractual) greater than 500 (in number); or
- (iii) Total assets greater than Rs. 6.25 billion

Phase III - period beginning on or after January 1, 2026

Only Listed Companies (other than those falling in Phase I and Phase II above).

Note:

1. Reporting in first year of application of IFRS S1 and S2 will comprise of only climate-related disclosures. The first reporting may be made within 9 months from the close of financial year.
2. Climate-related Disclosures- Scope 3 emissions shall be applicable from second year of reporting by respective companies.
3. Requirement of providing assurance in accordance with International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements, shall be applicable from second year of reporting by respective companies.

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Annexure B

Consultative Panel:

The consultative panel played an essential role in addressing questions and providing detailed responses there-against, thereby fostering a dynamic and interactive exchange of information and insights.

The consultative panel comprised of:

- Mr. Farrukh Rehman (Council Member of Institute of Chartered Accountants of Pakistan and Chairman of Accounting Standards Board)
- Ms. Musarat Jabeen (Executive Director at Securities Exchange Commission Pakistan)
- Mr. Arsalan Khalid (Vice President of Institute of Chartered Accountants of Pakistan)
- Mr. Fahim-ul-hassan (Member of ASB’s Working Group on Sustainability Reporting)
- Mr. Mohammad Imran Khan (Director of Technical Service Department, ICAP)

Question Answer Session:

Q&A session was conducted, during which representatives from various organizations actively participated. This interactive session provided a valuable opportunity for stakeholders from diverse backgrounds to engage in a dialogue, seek clarifications, and exchange insights on adoption / implementation of IFRS Sustainability Disclosure Standards in Pakistan.

Q/A Summary of Consultative Session with representatives of companies

Q-1

What are the implementation timelines for IFRS Sustainability Disclosure Standards?

Ans

Mr. Farrukh Rehman and Ms. Musarat Jabeen explained that we do not have very much long timeline to implement these standards. He said companies are already working on sustainability reporting and publishing sustainability reports and if not yet then they are intending to publish in future. He explained that we should adopt a phased approach and focus on very large entities first, DTS is working and defining these entities. So, in first phase, very large entities (as explained in Mr. Imran’s presentation – with turnover exceeding 25 billion) are required to comply these standards. In first year of adoption / application of these standards, companies should focus on presentation of report on “climate-related risks and opportunities” only without any comparatives and without scope 3 as standard allows not to present Scope 3 emissions in first year of application of IFRS Sustainability Disclosure Standards. He further clarified that standards (both IFRS S2 and SASB Standards) contain industry-specific guidance on what information needs to presented/disclosed for example if a textile company is reporting, IFRS S2 and SASB standards guide about the specific information/challenges for textile industry and user can better apply this as per its sector specific implementation challenges.

Q-2

Mr. Salman (from International Industries Limited) gave remarks that I agree that timeline is sufficient and guidance is available to implement these standards as we are not the first one who are willing to report on these standards, since these disclosures are more industry specific and not same like IFRS

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standards (like IFRS compliance is a mandatory requirement). He asked whether we are looking for a statutory position that every company religiously follow these standards instead of just being compliant with these standards.

Ans

Mr. Farrukh answered that these standards are equivalent to Accounting standards (IFRS), Statement of compliance is required to be given to disclose whether we have complied with these standards (subject to those standards as mandated/adopted by SECP), but when companies adopt standards voluntarily/before mandatory period, then TR-5 provides guidance on which framework to follow while reporting. Same can be followed in case of sustainability standards, this is one of the suggestions that we will put forward to SECP but subject to the comments and discussion of the stakeholders at this forum. Ms. Musarat further clarified that if this will become a statutory requirement then there must be penalty provisions as well like accounting standards issued by IASB or any other standards having a statutory/mandatory requirement, but first step is to create an environment for implementation of these standards. Also, these standards clearly state the benchmark for disclosing information. Mr. Maqbool added that if entity is doing sustainability reporting voluntarily then it should not refer the sustainability standards that they have complied with, reference to compliance of these only be added once fully complied, he gave an example of IAS-34 in this regard, like companies which are not mandated by law to prepare interim accounts but doing this voluntarily just to present/disclose some interim results then they can not say that they are fully complaint with IAS-34. Similarly, sustainability standards can be applied (even if not mandated) but reference to compliance of these standards should not be added in their reports. Chairman agreed with Mr. Maqbool Sb's stance and added that currently those companies who are preparing the sustainability reports voluntarily, are more focusing on advertisement rather complying with sustainability standards and also no particular sustainability framework has been mentioned in their reports which has been followed in preparation of sustainability reports. He said that sustainability report sometimes become a marketing document.

Q-3

Haris (from Unilever) questioned specifically related to disclosure requirements - are we expecting any guidance from the regulators/ICAP on implementation of these standards on matters such as (resilient testing) as certain calculation is involved, scenario analysis of different factors affecting the organization. He said that judgement is involved to determine as to which factors are impacting our business, what would be calculation methodology while forecasting the implications of climate related factors that are going to change over the period?. He said that there are some other complex disclosure requirements and he asked:

- (a) whether we are formulating methodologies in terms of calculation?
- (b) How are we going to implement these standards in Pakistan?
- (c) can we get any transitional relief in respect of current timeline?
- (d) what would exactly be the approach specifically for Pakistan?

Ans

Farrukh Sb agreed that scenario analysis is the complex topic/area but if we see around the world there are certain models/tools developed and there is very specific consulting activity done by those who have developed those models and those models are not very general and applied everywhere, it is

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location specific (physical location) and yes it requires great effort and you need some technical help as well. It is difficult and time taking but not impossible as already being done in other countries. He gave an example of one of the standard of TCFD that it contains guidance which can be made available as companies are reporting under this framework currently, so the precedent can be identified on how to disclose and what information needs to be disclosed and what methodologies can be adopted. He said that until now I am not aware of any industry specific challenges/problems in relation to implementation of these standards, once companies approach us to consult on those matters and we become aware of those business specific problems, we will analyze in consultation with other stakeholders and regulators whether certain transitional relief can be given to companies.

Mr. Arslan Khalid added that when we talk about implementation of these standards in Pakistan, some additional considerations should be taken care of. The first step and focus should be the governance side. He said that part and parcel of any implementation, stakeholders are not only the technical people who are playing role in implementing the standards like ICAP but governance is the first step, so companies that are intending to implement these standards in first wave need to determine and install appropriate governance structure for ESG. He said that Board should have emphasis on ESG, skilling their own people, investing into ECG. He said that CCG plus ECG regulations will provide a framework to any company to provide a governance focused initiative. He said that companies should train their resources to ECG. There should be areas of focus such as policy making, specific board committees for sustainability. He said that it has to be emphasized and focused by the board/governance level and it should receive that kind of focus and investment from board that it demands.

Q-4

Danial (from an insurance company) said that Insurance industry is totally different, our stakeholders are totally different, we have multiple clients including many companies operating under non-environment friendly business working environment like power plants, in these situations Scope 2 & 3 will very difficult/challenging for us, secondly for calculations of loss exposures, cash flows modeling, we need technical skills and people but we have skill gap in market, so the timeline implications for insurance sector should be extended as it is very short, secondly it is recommended to have collaboration by ICAP with IAP will be a good thing for insurance sector companies. Thirdly, it is said by Ms. Jabeen that ESG dashboard is under construction, how will this dashboard be relevant and beneficial to insurance sector and what can we achieve through it?

Ans

Ms. Jabeen explained that it will going to be an electronic repository a centralized one, in which every type of information will be available which regulators can use, companies can feed their data in terms of their risks, achievements but it has to be supported by the standards/framework based on which you have made those calculations, it should be a repository in which your roles, responsibilities, statutes, standards themselves, explanatory notes to the standard, all information should be fed at one point continuously. Regular updating this information can make it more helpful, although we won't be taking any responsibility of authenticity of that information but it will be a kind of self-encompassing software solution that we will have.

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Mr. Farrukh responded relating to industry specific questions, he said that we will co-ordinate with IPA (Independent Practice Associations having partnership with insurance companies) and regulators for insurance sector specifically. He said that broadly speaking for any disclosures, standard does not restrict. It is basically disclosure of the information on operations in which company is involved, if we see the climate-specific disclosure relating to insurance in IFRS S2 Standard, there are separate disclosure matrices/topics/background and explanation about insurance only, consisting of around 10 pages. Understanding will be enhanced by reading those. He said that it is not something we cannot do. If certain information is required to be disclosed under IFRS S2 and SASB Standards for any industry, you need to disclose that accordingly. For deciding the size of companies on which these standards shall become applicable, we will decide based on comments received and deliberate accordingly and with consensus we will make recommendation to SECP for adoption timelines.

Ms. Jabeen added with respect to the impact of companies, even if these are mid-tier companies, such companies may have larger impact even if such companies do not fall in 25 billion turnover requirements. She said that we may need to review applicability criteria. Mr. Arslan added when UK adopted sustainability standards, they identified certain very high impact industries (environment wise) and made sustainability standards applicable on them. In UK, if an entity falls under those industries then such entity was required to disclose certain climate related disclosures unless such company discloses that there is no climate-related impact in case of such company. He said that from an industry perspective, an approach to think about those industries which have high impact on environment, threshold of turnover may be lower for those industries as compared to general threshold for applicability of IFRS Sustainability Disclosure Standards.