ESG: REPORTING & DISCLOSURE IN A NEW ERA FOR COMPANIES

JSE'S SUSTAINABILITY AND CLIMATE DISCLOSURE GUIDANCES, 2022

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NON-FINANCIAL REPORTING AND ESG DISCLOSURE GUIDE

Few businesses in the world can be ignorant of the shift in business norms to a much more conscious world, where stakeholders are increasingly interested in the non-financial parameters that affect a business's operations. Internationally, various jurisdictions are adopting mandatory and voluntary requirements to disclose certain climate change and broader sustainability related information in company reports. Related to this trend, the Johannesburg Stock Exchange (JSE) recently launched its Sustainability and Climate Disclosure Guidance documents, of which all JSE-listed companies will need to be aware. We summarise below the key takeaways as well as some of the background to these reporting and disclosure requirements.

The Sustainability Disclosure Guidance (Sustainability Guidance) and Climate Disclosure Guidance (Climate Guidance), (collectively JSE Disclosure Guidances), were launched on 9 December 2021 to inform JSE-listed companies about best practice in ESG and climate disclosures.

Importantly, these two documents are not intended to replace the global initiatives. They are intended to assist companies to navigate the various and dynamic reporting standards, and provide context for South African businesses, legislative requirements and specific socio-economic and environmental challenges.

For more enquiries on the JSE's Sustainability and Climate Disclosure Guidances, 2022, please contact our contributors below.

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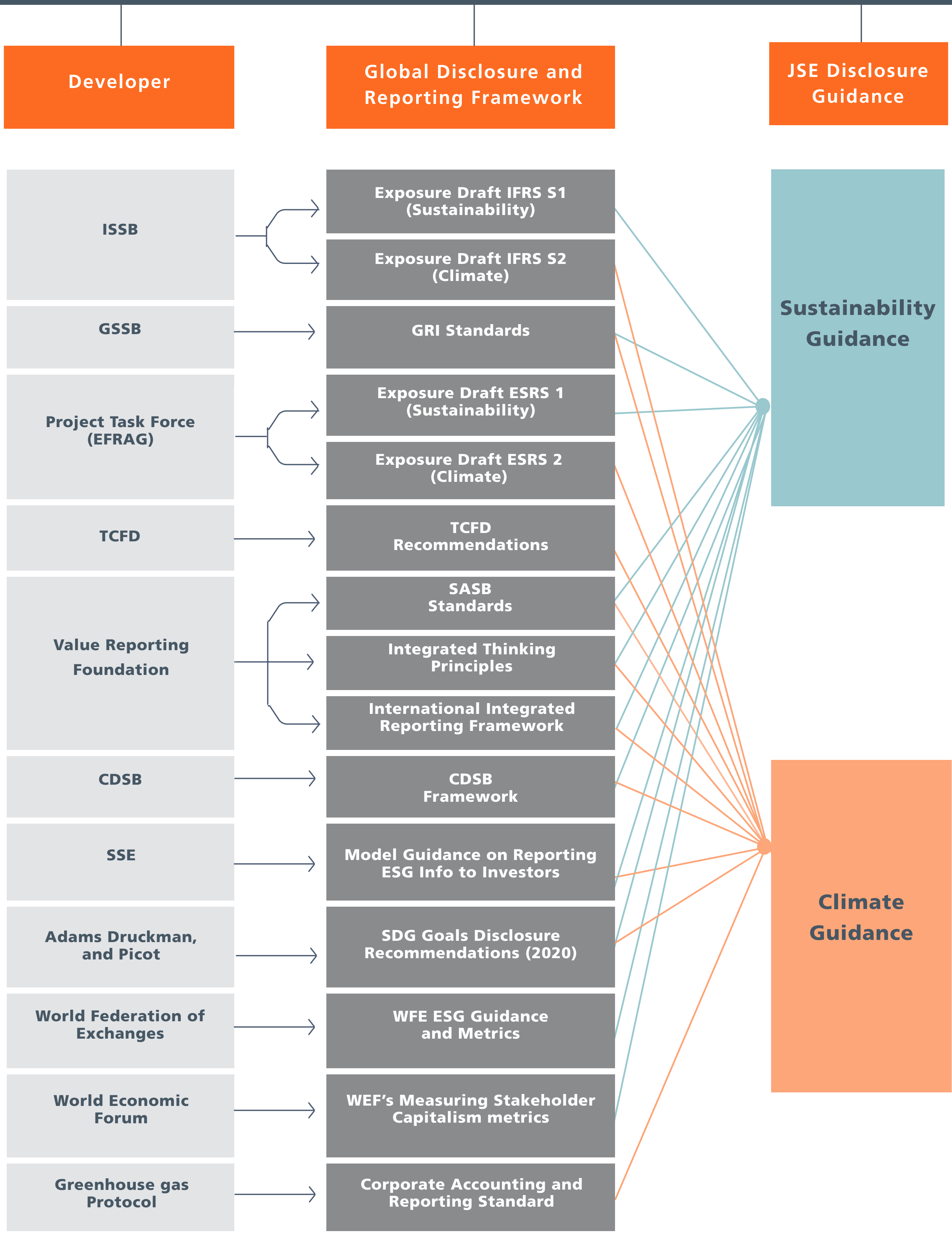
Our leading cross-disciplinary teams of experts advise clients on ESG and sustainability linked issues across all sectors. We help clients to navigate regulatory developments, and policy and tax drivers in pursuit of sustainable growth in the long term whilst obtaining tax benefits. We guide clients on the relevant industry standards and risks, and bring a laser focus on supporting our clients to know their business, know their supply chain, their social responsibilities, as well as the broader ecosystem. Find out more about our expertise and services here.

Global Initiatives the JSE Disclosure Guidances are based on:



KEY INSIGHTS AND CONSIDERATIONS

Currently, the JSE Disclosure Guidances are intended to be a guidance tool that JSE-listed companies may use on a voluntary basis. They do not constitute disclosure or reporting obligations for JSE-listed companies pursuant to the provisions of the JSE Listing Requirements.

However, elsewhere some stock exchanges and regulators are introducing mandatory disclosure and reporting obligations. For example, premium and standard listed companies in the UK are now required to disclose climate-related information in line with the TCFD recommendations, under the FCA's Listing Rules. In the United States, on 21 March 2022 the US Securities and Exchange Commission (SEC) published its proposed rules to require mandatory climate disclosures in periodic filings by public companies, which rules would require registrants under the Securities Act and Securities Exchange Act to provide certain climate-related information in their registration statements and annual reports based partially on the reporting framework developed by the TCFD and the accounting and reporting standards developed by the Greenhouse Gas (GHG) Protocol.

For this reason, it is best for JSE-listed businesses to grapple with these sustainability and climate disclosures when preparing their integrated reports, annual financial statements and sustainability or other specific reports, particularly because they are in line with global best practices on disclosure in relation to sustainability, ESG and climate change issues, and before they become mandatory disclosures. However, it is not just listed companies, but all companies, that must be aware of these developments, as international jurisdictions are beginning to enforce these for various company sizes and types. In the EU and the UK, for example, mandatory non-financial information (sustainability and climate change-related) disclosures are contemplated to be or have been made mandatory by law, and it is likely that this trend will also reach South Africa's legal frameworks.

BENCHMARKING:

Listed companies intending to disclose and report on material ESG information would benefit from benchmarking their existing disclosures in dedicated non-financial or topical reports against the requirements of the standards and guidances they intend to adopt or align with, such as the JSE Disclosure Guidances, to ensure that new reports will be prepared in line with and contain the disclosures recommended in the applied disclosure standards or guidances. Benchmarking entails not only a review and verification process to assess that disclosed information is coherent with actual business practices and relevant, credible, reliable and verifiable, but also that it is uniform and aligned with global best practice or guidance adopted in their jurisdiction, and measurable against the reported data of peers in their sectors and industries, in order to allow for data and reported information to be comparable in the hands of reviewing stakeholders.

GREENWASHING RISK:

Across the globe activist NGOs, corporate stakeholders and everyday people are increasingly litigating against companies and/or their directors on the basis of alleged selective, misrepresentative or misleading statements, commitments or data in ESG reporting and regulatory disclosure materials, which is recognised as one of the forms of greenwashing. The most recent ESG Litigation Roadmap published by the Association of Corporate Counsel includes an appendix dedicated to cases of "Corporate Disclosure ESG Litigation", and urges that companies "*treat public disclosures in relation to ESG matters as seriously as those deployed in respect of financial disclosures*" precisely because they are now such "*a fruitful source of litigation*." Therefore, listed companies reporting against the JSE Disclosure Guidances must be aware that misreporting ESG and sustainability information may open them to greenwashing claims. It is for this reason extremely important that internal and external systems, processes and controls be established in the process of preparing to disclose and report on ESG-related information to mitigate the risks of greenwashing and related litigation.

THE PRINCIPLE OF MATERIALITY IN SUSTAINABILITY DISCLOSURE OR REPORTING:

The principle of materiality ultimately guides the governing bodies of companies when deciding what sustainability issues or information to include in their reports. Material information is defined as any information that is reasonably capable of making a difference to the conclusions that reasonable stakeholders may draw when reviewing related information. As we know, all organisations impact the environment and society, and in turn society affects the business and its performance. Organisations report on these impacts differently, depending on their intended audience and the purpose of the report.

It Is therefore important for an organisation to be clear on the audience and the purpose of the report, because it will inform what is material for inclusion.

This is particularly because the different global standards take different approaches to materiality. For instance, the IFRS Sustainability Disclosure Standards and the TCFD recommendations focus strictly on disclosure to inform an assessment of 'enterprise value' (or 'financial materiality'). They are dealt with in annual financial statements and, globally, in integrated reports as defined in the <IR> Framework of the IIRC. In contrast, the GRI Standards look at disclosure through a broader lens - the impact that the organisation has on people, the environment, and the economy (or 'impact materiality'). The draft ESRS address both impact and financial materiality (known as 'double materiality').

There are typically two pillars of sustainability-related disclosure. Investor-focused reports, informed by the IFRS Sustainability Disclosure Standards, use 'financial materiality' to determine what must be included in a report. In multi-stakeholder reports, such as the sustainability reports informed by the GRI Standards, 'impact materiality' determines the content, because the reports are aimed at a broader range of stakeholders including regulators, civil society organisations, and some investors.

The JSE's Sustainability Guidance is intended to provide guidance for both pillars, as it covers sustainability information targeted at investors as well as sustainability information for a much broader group of stakeholders. The JSE Guidances therefore adopt the 'double materiality' approach, which is aligned with the suggested practice recommended in the King IV Guidance Paper on Responsibilities of Governing Bodies in Responding to Climate Change.

The choice rests with the organisation on how to effectively communicate the sustainability information to its different stakeholders.

Recommended Practice 10 (Principle 5) of the King IV Report on Corporate Governance for South Africa, 2016 (the King IV Report) states that "the governing body should approve management's determination of the reporting framework (including reporting standards) to be used, taking into account legal requirements and the intended audience and purpose of each report". The Sustainability Disclosure does not prescribe which reporting format companies should use to disclose sustainability information as this must be determined by the board and the management of the company. The various reporting formats available to JSE-listed companies are an annual integrated report (reporting on enterprise value), annual sustainability reports (reporting on sustainability impact), combined reports which combine financial reports with a review of sustainability, and annual financial statements.

JSE'S SUSTAINABILITY DISCLOSURE GUIDANCE:

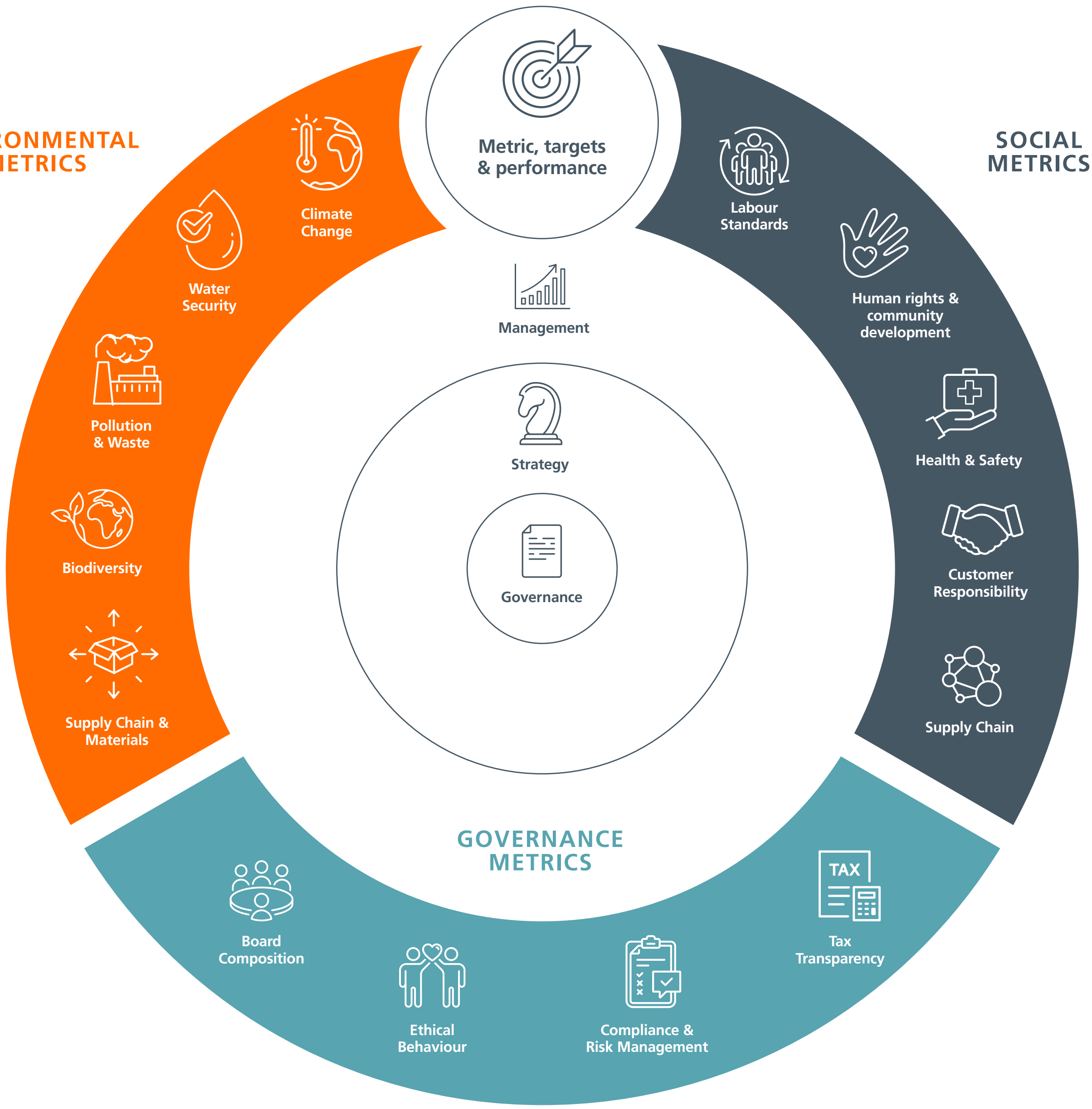
The Sustainability Guidance considers the various ESG metrics that are currently available. It focuses on globally-understood metrics that are 'material' to the value creation of a firm in a sustainable way.

It is not prescriptive and leaves responsibility for the decision-making with the reporting organisation, particularly in identifying its material sustainability issues, using the materiality principle as discussed above. In addition, the guidance recognises that the concepts of sustainability and ESG are intertwined. It identifies elements that may be reasonably standardised to avoid duplicating reporting requirements. The Sustainability Guidance is intended to assist JSE-listed companies to prepare 'standardised' Sustainability or ESG reports, and to incorporate sustainability-related impacts, risks and opportunities when preparing financial statements and annual reports that are underpinned by the 'materiality' principle.

The Sustainability Guidance assists reporting entities, investors, and other stakeholders by identifying decision-useful metrics that are globally aligned.

The Sustainability Narrative Disclosures and the Standardised Sustainability Disclosures in the Sustainability Guidance are intended to help with the process of compiling content for the various annual reports.

NARRATIVE DISCLOSURES:



NARRATIVE DISCLOSURES:

The Narrative Disclosures were revised from the IFRS Sustainability Disclosure Standards to align with its 'double materiality' approach, so that both financial and non-financial sustainability issues are discussed. They have been structured in alignment with IFRS Exposure Drafts on Sustainability-related Financial Information (IFRS S1) and the Climate-related Disclosures (IFRS S2), the TCFD recommendations, the SASB Standards, the Climate Disclosure Standards Board (CDSB) Framework, and the WEF Measuring Stakeholder Capitalism metrics. Provision has also been made for the SDG Disclosure Recommendations, the GRI Standards and the draft ESRS.

The Sustainability Narrative Disclosures provide guidance to boards of companies on how they should disclose and describe the way sustainability issues are being considered in governance, strategy and management and in metrics, targets and performance.

In terms of the Sustainability Narrative Disclosures, it is broadly recommended that an organisation should disclose:

- Governance, where it is recommended that the board describe its oversight over sustainability-related impacts, risks and opportunities and its processes for integrating sustainability issues into overall governance processes;
- Strategy, where it is recommended that the board describe how an assessment of sustainability-related impacts, risks and opportunities has influenced the organisation's strategy and what impact it has on the organisation's overall performance, both positive and negative;
- Management approach, where it is recommended that the board describe how sustainability-related impacts, risks and opportunities have been integrated into the organisation's management processes; and
- Metrics, targets, and performance, where it is recommended that the board describe the performance metrics and targets used by the organisation to measure, monitor, and manage its sustainability impact, risks and opportunities and its performance against these metrics and targets.

In addition, under each of these headings, the Sustainability Guidance provides additional guidance on the scope of what must be disclosed by the board and management in relation to the governance, strategy, management approach and metrics, targets and performance when assessing the sustainability-related impacts, risks, and opportunities of the organisation. They ensure that an in-depth analysis and enquiry is undertaken by the board and management when integrating the sustainability-related issues into the organisation. Please refer to the Sustainability Guidance Recommended Disclosures and Metrics document when undertaking this assessment to see the additional guidance.

STANDARDISED SUSTAINABILITY DISCLOSURES:

The Sustainability Guidance seeks to balance the desirability of a simple tick-box checklist with the materiality principle. Some of the Standardised Disclosures are standard in that they are in line with South African law, while others are not legally required but would provide stakeholders with decision-useful information. As each organisation has its own materiality landscape, it is important for it to identify from the list which matters are material for both the Core and Leadership Disclosures and assess the value of standardised disclosure against what is material to that organisation and its stakeholders. It is worth noting that the Core and Leadership metrics include revisions to the approach used in the ESG Disclosure Guidance of other peer exchanges to allow for the 'double materiality' approach, to include some environmental thresholds and global and national expectations on social performance, and to provide for environmental, social and governance challenges that are specific to South Africa.

The Sustainability Guidance recommends that all organisations provide a response to each of the Core metrics, or describe either why the metric is not seen to be material or, if it is material and not currently disclosed, what steps are being taken to start disclosing it.

The Core metrics are seen as a set of standardised indicators that apply to all organisations. They will be useful to decision-makers and those that use the reports to make sense of the environment of that organisation.

It is recommended that organisations periodically undertake a materiality process to determine their specific material metrics. The materiality process must consider the purpose and the audience of each report, the organisation's business model, the most significant risks and opportunities in its environment, and the nature of the company's purpose and strategy. The Sustainability Guidance helps to inform the materiality process of an organisation but is not intended to substitute this process.

THE MATERIALITY PROCESS:

1. AGREE THE PURPOSE AND AUDIENCE FOR EACH REPORT

For each report in the organisation's suite of annual reports, identify the specific stakeholder group/s being targeted for the report ('audience') and what stakeholder interest/s the report seeks to address ('purpose'). This will inform the materiality lens being applied (see section 2.2).

2. UNDERTAKE THE MATERIALITY ANALYSIS

For the reporting suite as a whole, determine the material sustainability/ESG matters, by reviewing and analysing the following issues:

- The organisation's business model
- Its dependencies and impacts on specific resources and relationships (capitals)
- Significant risks and opportunities in its operating environment
- The expectations of key stakeholders
- The organisation's purpose and strategy

3. IDENTIFY THE RELEVANT DISCLOSURE METRICS

Organisations should seek to provide a response to each of the Narrative Disclosures and each of the Core Disclosures, except where these are seen as not material with a clear motivation as to why not. A response should be provided to Leadership Disclosures when appropriate. Broaden the scope of disclosure, consulting additional local or global frameworks, guidance or standards, as appropriate.

4. COMPILE THE REPORT/S

Informed by the outcome of the above steps, provide disclosure of the material sustainability information in the relevant report/s, explaining why any material disclosure has been omitted, and if appropriate what steps are being taken to disclose in future. Apply the reporting principles outlined in section 2.4.

THE STANDARDISED SUSTAINABILITY DISCLOSURES PROVIDE ESG DISCLOSURE GUIDANCE ON:

- Governance Disclosure Metrics, which recommend disclosures on board composition, ethical behaviour, compliance and risk, and tax transparency;
- Social Disclosure Metrics, which recommend disclosures on labour standards, human rights/community development, health and safety, customer responsibility and supply chain; and
- Environmental Disclosure Metrics, which recommend disclosures on climate change and energy, water use, pollution and waste, biodiversity and land-use, and supply chain and materials.

Please refer to the Sustainability Guidance Recommended Disclosures and Metrics document which gives guidance for recommended measurement units to be used for each metric, where applicable, the existing standards or frameworks that deal with that metric under a particular topic and the rationale for reporting on a particular metric.

JSE'S CLIMATE DISCLOSURE GUIDANCE:

The Climate Guidance has a more specific focus, as it aims to clarify current global best practice in climate-related disclosure. It draws on the SSE Model Guidance which was released in June 2021 to aid stock exchanges to guide issuers or JSE-listed companies on climate-related disclosures. The Climate Guidance is also aligned with the Exposure Draft of the IFRS S2 Climate-related Disclosures (Climate Exposure Drafts) which was released by the International Sustainability Standards Boards in March 2022. The Climate Exposure Drafts build on the TCFD recommendations, and it is expected that, even though organisations may already be using the TCFD recommendations, that the ISSB's proposals will supersede the TCFD recommendations. The Climate Guidance requires all companies, regardless of sector, to start by considering and disclosing information on how climate change and the economic transition to net zero will affect their businesses and how their businesses will influence the wider environment and society. When doing so, companies are encouraged to adopt the stakeholder-inclusive approach, where the board "balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time" in accordance with the King IV Report on Corporate Governance for South Africa, 2016, when reporting on climate-related issues.

The Climate Guidance supplements the TCFD recommendations, providing some local context and integrating regulatory developments that are applicable to JSE-listed companies. The primary objective of the Guidance is to help JSE-listed companies to make climate disclosures in line with the ISSB Climate Exposure Draft, the TCFD recommendations and in conjunction with the King IV Guidance Paper on Responsibilities of Governing Bodies in Responding to Climate Change of 2021 (King IV Guidance Paper).

It is important to note that climate disclosures can also be reported under the Sustainability Guidance with other sustainability issues.

Investors increasingly expect that larger companies, especially those in industries that are highly exposed to risks of climate change, both physical and transitional, such as extractives, energy, agriculture, steel, cement, tourism and travel, will provide more detailed climate disclosures. An organisation can map a plan towards full climate disclosure using the Benchmarking climate transition readiness with Transition Pathway Initiative (TPI) (as illustrated in the box below). The TPI's four-level staircase is a useful tool to set a pathway towards constant progression and objectives for a company's climate disclosure journey. The Climate Guidance notes that a staged approach should only be considered when limited resources do not allow the organisation to integrate all the recommendations from the start. Organisations in climate-intensive industries must consider either immediate alignment or an accelerated progression.

ASSESSMENT OF MATERIAL CLIMATE-RELATED IMPACT, RISKS AND OPPORTUNITIES USING THE 'MATERIALITY' PROCESS:

As in the Sustainability Guidance, the Climate Guidance adopts 'double materiality' which considers financial and impact materiality. The Climate Guidance notes that a materiality assessment will assist the company to determine which issues should be included in the reports and which may be communicated or disclosed to stakeholders using other channels. Materiality is not rigid and changes over time.

TPI'S FOUR LEVELS OF TCFD ALIGNMENT:

LEVEL 1

ACKNOWLEDGEMENT

Company explicitly recognises climate change as a significant issue for the business

Company has a policy (or equivalent) commitment to action on climate change

LEVEL 2

BUILDING CAPACITY

Company has set energy efficiency or relative or absolute GHG emission reduction targets

Company has published info on its Scope 1 and 2 GHG emissions

LEVEL 3

INTEGRATED INTO OPERATIONAL DECISION MAKING

Company has nominated a board member or board committee with explicit responsibility for oversight of the climate change policy

Company has set quantitative targets for reducing Scope 1 and 2 GHG emissions (relative or absolute)

Company reports on its Scope 3 GHG emissions

Company has had its Scope 1 and 2 GHG emissions data verified

LEVEL 4

STRATEGIC ASSESSMENT

Company has reduced its Scope 1 and 2 GHG emissions over the past three years

Company provides information on the business costs associated with climate change

Company has set long-term quantitative targets (>5 years) for reducing its GHG emissions

Company has incorporated ESG issues into executive remuneration

Source: Transition Pathway Initiative's report "How can investors use the transition pathway initiative?" Version 1.0 – 11 January 2016, p4

The materiality process should be used to identify both the climate-related risks and opportunities that affect enterprise value and climate-related impacts that affect the wider environment and society, and assess which of those impacts, risks and opportunities are material. Climate-related risks and opportunities should also be considered in the strategic planning of the organisation.

Organisations that do not identify climate-related impacts, risks or opportunities are encouraged to report on how they came to that conclusion.

THE CLIMATE GUIDANCE DEFINES AND EXPLAINS THE CONCEPTS OF CLIMATE-RELATED RISKS, OPPORTUNITIES AND IMPACTS AS FOLLOWS:

Climate-related risks:

Two types of climate-related risks impact the enterprise value that those preparing reports must consider. Risks related to the transition to a lower-carbon economy are those risks a company may face in relation to policy and legal changes, new or obsolete technologies, changing market behaviours and reputational risks. Risks related to the physical impacts of climate change include risks relating to extreme weather events, and resource constraints due to shifts in climate patterns.

Climate-related opportunities:

Climate-related opportunities may arise from the implementation of new resource efficiency and cost saving programmes, the adoption of low-emission energy sources, the development of new products and services, access to new markets, and building resilience along the supply chain. It is important that companies consider the potential social costs relating to climate opportunities. One of the challenges organisations face when reporting on opportunities is the issue of which product and service categories to identify. Organisations can report on opportunities using green and sustainable "taxonomies" to identify products and services. This is because the green finance taxonomy provides a catalogue of assets, projects and sectors that can be defined as "green" in accordance with international best practice and national priorities. The EU has been a pioneer through its EU Taxonomy. South Africa's first national Green Finance Taxonomy was launched on 1 April 2022 by the Taxonomy Working Group as part of South Africa's Sustainable Finance Initiative.

JSE-listed companies can use this taxonomy to identify economic activities that enable them to achieve climate change mitigation or adaptation.

Climate impacts:

While climate-related risks and opportunities can have a financial impact on the enterprise value of a company, a company can also have positive and negative impacts on climate, which in turn affects the environment and society. The most significant impact that companies have on climate is from the release of gases linked to the greenhouse effect and climate change (also known as GHG emissions). GHG emissions arise from various sources, including those owned or controlled by the company, from the generation of electricity and because of the activities of the company. The Climate Disclosure recommends that companies must disclose related social and environmental impacts in line with the 'double materiality' principle, which includes recommended metrics on the just transition. This is because companies' plans to transition to a lower-carbon economy in response to national regulation and international commitments, such as those emanating from the Paris Agreement, can have a negative and positive effect.

THE RECOMMENDED CLIMATE DISCLOSURES:

The Climate Guidance states that organisations that have recognised the need for action on climate should integrate climate-related impacts, risks and opportunities into their governance, strategy, and management processes. To achieve this integration, the board and senior management are responsible for recognising the climate-related impacts, risks and opportunities that are relevant to their organisation, industry, supply chain and geographical location.

The Climate Disclosures provided in the Climate Guidance were aligned with the IFRS Climate Exposure Draft and the TCFD recommendations. The only difference is that the JSE's Climate Disclosures were revised to align with the 'double materiality' approach, which entails the review of management issues beyond risk management, and explicitly provides for the assessment of the organisation's impacts on people, the environment and the economy in addition to assessing the risks and opportunities that impact enterprise value.

IN TERMS OF THE CLIMATE DISCLOSURES, IT IS RECOMMENDED THAT AN ORGANISATION SHOULD DISCLOSE:

- Governance, where it is recommended that the board describe its oversight over climate-related impacts, risks and opportunities and its processes for integrating sustainability issues into overall governance processes;
- Strategy, where it is recommended that the board describe how an assessment of climate-related impacts, risks and opportunities has influenced the organisation's strategy and what impact it has on the organisation's overall performance, both positive and negative;
- Management, where it is recommended that the board describe how climate-related impacts, risks and opportunities have been integrated into the organisation's management processes; and
- Metrics, targets and performance, where it is recommended that the board describe the performance metrics and targets used by the organisation to measure, monitor and manage its sustainability impact, risks and opportunities and its performance against these metrics and targets.

In addition, under each of these headings the Climate Guidance provides additional guidance on the scope of what must be disclosed by the board and management in relation to the governance, strategy, management approach and metrics, targets and performance when assessing the climate-related impacts, risks and opportunities of the organisation. They ensure that an in-depth analysis and enquiry is undertaken by the board and management when integrating the climate-related issues into the organisation. Please refer to the Climate Disclosures section in the Climate Guidance on page 24 when undertaking this assessment to see the additional guidance.

GUIDANCE ON CONDUCTING A SCENARIO ANALYSIS:

The Climate Guidance unpacks the mechanics of a scenario analysis and its purpose, which is to help companies with identifying and effectively assessing the potential implications of a range of plausible future conditions due to the uncertainty of climate-related changes.

The scenarios are hypothetical constructs that consider how the future might look if certain trends continue or certain conditions are met. The scenario analysis can be qualitative, where it relies on descriptive, written narratives, or quantitative, where it relies on numerical data and models or a combination of both. It emphasises that scenarios are not for forecasts, predictions, and sensitivity analysis but for evaluating the resilience of the organisation to different possible future scenarios. For instance, while governments have agreed upon the target of limiting global average temperature rise to well below 2 degrees Celsius, and preferably to 1.5 degrees Celsius, above pre-industrial levels, it is recommended that companies should consider the impact on their business in the scenario that the target is not met. Organisations can use the TCFD's Guidance on Scenario Analysis for Non-Financial Companies, developed in 2020 (TCFD guidance) in the TCFD's Knowledge Hub for guidance on conducting a scenario analysis. The TCFD's guidance provides a step-by-step guide on how to conduct a scenario analysis and provides a detailed analysis on available scenarios and models. When conducting a scenario analysis for the first time, companies can use the various resources available to develop in-house scenarios or use publicly available scenarios. Companies are advised to use science-based scenarios that are aligned with the Nationally Determined Contributions (NDCs) of South Africa in terms of the Paris Agreement. As the process of starting a scenario analysis can be overwhelming for companies doing one for the first time, the TCFD recommends that companies choose a simple scenario rather than none. To simplify the process of starting a scenario analysis, companies can ask what the implications for their business would be if countries were successful in achieving the goals of the Paris Agreement and there was an orderly transition to a lower-carbon economy; or if there was an abrupt and disorderly transition as countries belatedly caught up on their climate goals; or if there were a failure to transition.

SETTING SCIENCE-BASED TARGETS:

The Climate Guidance recommends that JSE-listed companies set both attainable and impact-driven targets, based on widely understood and accepted definitions and linked to climate science to achieve climate-resilient markets and net-zero emissions.

Companies can set emissions targets that are aligned with the trajectory towards net zero emissions before 2050, which, according to scientific evidence, is required to keep global average temperature increases below 1.5 C. To ensure that the targets companies set are aligned with climate science, they can use resources such as the Science-Based Targets initiative (SBTi), which is a collaboration between the CDP, the United Nations Global Impact (UNGC), World Resources Institute and the World Wide Fund for Nature (WWF). SBTi provides companies with the tools they need to set targets in line with climate science by conducting an in-depth analysis as well as consulting scientists and sustainability professionals.

In addition, the Climate Guidance refers to the TCFD, where it recommends that organisations should describe their climate-related targets, such as those related to GHG emissions, water usage and energy usage, in line with anticipated regulatory changes, or market constraints. To this end, organisations are required to align their climate-related targets with other goals, such as efficiency or financial goals, financial loss tolerance, avoidance of GHG emissions through the entire product life cycle, or net revenue goals for products and services designed for a lower-carbon economy. It also recommends that, where applicable, the internal carbon price that is used to measure impact and set targets should be disclosed. Companies can refer to the two types of carbon prices referred to in the IFRS Climate Exposure Draft, namely a shadow price, or an internal tax or fee. The Climate Guidance notes that while some JSE-listed companies use the carbon tax to determine an internal carbon price, the current tax rate is significantly below the level estimated as necessary to achieve the goals of the Paris Agreement.

Finally, international guidance frameworks, such as the ISSB and the TCFD, and global data vendors, recommend providing the following information when describing targets:

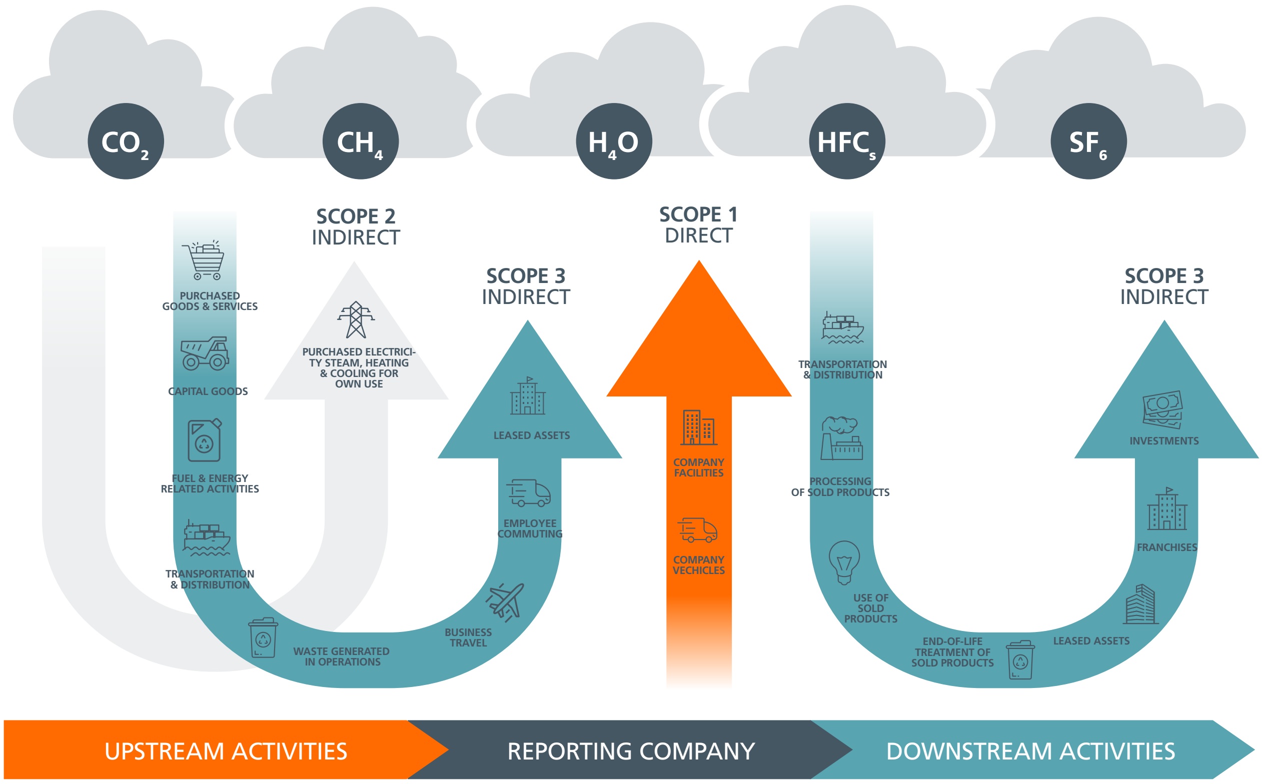
- definition of target and, if emissions reduction is set, which scopes (1, 2 and 3) are covered;
- whether there are absolute and intensity-based targets;
- timeframes over which the target applies;
- base year from which progress is measured;
- whether offsets have been or will be used to achieve the target, with associated details;
- details of how and why the specific target/s were determined;
- key performance indicators (KPIs) used to assess progress against the target.

Linking these targets to remuneration is something organisations must consider. The King IV Guidance Paper also proposes that remuneration should be linked to the performance of sustainability and ESG targets, including those relating to climate change.

GHG EMISSIONS AND CARBON REPORTING:

The Climate Guidance notes that carbon reporting has become an integral part of companies' reporting and is used to set targets, identify opportunities, and show progress. The purpose of carbon reporting or 'carbon footprinting' is to standardise into one metric the combined climate impact in CO_2-equivalent units to measure the release of all gases linked to the greenhouse gas effect and climate change. Carbon footprinting measures how much of these gases an organisation is responsible for by classifying emissions as Scope 1 (direct GHG emissions), Scope 2 (electricity indirect emissions) and Scope 3 (other indirect GHG emissions). The GHG Protocol Corporate Accounting and Reporting Standard (GHG Protocol) defined Scope 1 emissions as those occurring from sources that are owned or controlled by that company (these are emissions from combustion in owned or controlled boilers, furnaces and vehicles, and chemical production in owned or controlled processing equipment). Scope 2 emissions arise from the generation of purchased electricity, steam, heat, and cooling consumed by the company (these occur at the

OVERVIEW OF GHG PROTOCOL SCOPES AND EMISSIONS ACROSS THE VALUE CHAIN



Source: Greenhouse Gas Protocol, Corporate Value Chain (Scope 3) Accounting and Reporting Standard, 2001

facility where electricity is generated). Scope 3 emissions are a consequence of the activities of the company but occur in the upstream and downstream sources not owned or controlled by the company (activities such as extraction and production of purchased material, transport of purchased fuels, business travel and commuting by employees, the use of sold products and services, and even investments).

The Climate Disclosure provides that a company should disclose its approach when determining which GHG emissions to include in its reports. Many frameworks, such as the SASB Implementation Supplement, give guidance on the reporting and measuring of GHG emissions and related topics in the SASB Standards. Reporting entities can use it as guidance if they wish to report on scope 1, 2 and 3 emissions.

The GHG Protocol has been adopted by many companies to measure GHG emissions and has been referenced in many standards and frameworks such as the TCFD, the GRI, the Carbon Disclosure Project (CDP), and even the SASB. The Partnership for Carbon Accounting Financials (PCAF) was established to assist financial institutions with assessing and disclosing the GHG emission of loans and investments. The Climate Guidance recommends that Scope 3 emissions be disclosed with an explanation of which activities have been considered. Scope 3 emissions are the largest portion of the carbon footprint of an organisation. If they are not disclosed, the Climate Guidance requires an explanation to be provided by the company.

LOCATION OF CLIMATE-RELATED DISCLOSURE – DISCLOSING IN ANNUAL FINANCIAL REPORTS VS DISCLOSING IN SUSTAINABILITY REPORTS:

The Climate Guidance refers to the TCFD's recommendation that climate-related financial disclosures must be included in the organisation's financial reports.

The Climate Guidance directs that the recommended disclosures in relation to governance and risk management must be included in the annual financial reports of the company. The King IV Guidance Paper suggests that the impacts of climate risks on governance, the business model, risk management and performance and prospects should be disclosed in the annual and integrated reports, not in the sustainability report. Climate-related information that may not be deemed as material may be disclosed in other company reports, such as the sustainability report or a separate TCFD report. This is where information about the climate impacts of the company on the community and environment may be included. It is recommended that the sustainability report should be issued annually, be subject to internal governance processes that are the same as or substantially like the financial report and issued at the same time as the annual integrated report.

ASSURANCE AND AUDITING OF FINANCIAL AND SUSTAINABILITY REPORTS:

The Climate Guidance refers to the King IV Guidance, where it stresses that assurance should form part of consistent and reliable reporting and that the presentation of climate change information should "ultimately meet the requirements of being auditable and capable of being subject to assurance being expressed thereon".

This is because external assurance can add a degree of trust, credibility and recognition to the financial and/or sustainability reports. The Climate Guidance adds that third-party assurance has the added benefit of strengthening the sustainability reporting systems and the credibility of such reports.

In conclusion, the JSE Disclosure Guidances have been designed to assist those companies with little or no experience in sustainability and ESG disclosure and reporting, as well as those which are experienced in reporting sustainability and ESG related information, in the preparation of reporting credible, reliable, relevant and comparable information to their investors and stakeholders. While the JSE Disclosure Guidances have been designed primarily to guide JSE-listed companies, the Guidances can also be used by non-listed, private companies, of all sizes and in all sectors, as a starting point for understanding and integrating ESG considerations into the governance function, and eventually disclosing and reporting on material non-financial information to interested and affected stakeholders.

BACKGROUND ON THE DEVELOPMENT OF THE GLOBAL SUSTAINABILITY AND CLIMATE DISCLOSURE FRAMEWORKS:

As background, the JSE Disclosure Guidances were built on several standards and frameworks mentioned above. Only a few of these standards will be discussed. The objective of the JSE Disclosure Guidances is to help JSE-listed companies navigate the evolving landscape of sustainability and climate disclosures, but more importantly to support the convergence of global reporting standards. As a result of how rapidly the sustainability and climate disclosure landscape is evolving and the move to convergence of standards, it was necessary for the JSE to produce a guidance that would identify the key sustainability and climate-related issues. It provides a "simple list" of areas for companies to disclose and helps companies to assess sustainability and climate-related risks and opportunities in their governance, strategy, management, and when setting targets, metrics and performance. Now JSE-listed companies can use the JSE Disclosure Guidances to create more uniform and standardised annual reports, sustainability reports, combined reports, and annual financial statements.

ABOUT THE GLOBAL REPORTING INITIATIVE'S SUSTAINABILITY REPORTING STANDARDS:

The Global Reporting Initiative (GRI), which has existed for 25 years, facilitates discussions about impacts. It sets reporting standards for the disclosure of business impacts on the environment and socio-economic cohesion. The GRI Sustainability Reporting Standards (GRI Standards) were developed by GRI's Global Sustainability Standards Board (GSSB). GRI Standards provide an international, standardised language that organisations can use to report on their business sustainability efforts. This covers information about corporate impacts, both negative and positive, on environmental, social and economic elements. GRI Standards are structured as a set of inter-related modules that can be referenced and used together. Essentially, the GRI Standards are a guide to help organisations to prepare a comprehensive and detailed sustainability report.

There are three core modules, known as the GRI 100 series. The GRI 100 series are Universal Standards that apply to every organisation preparing a sustainability report. They are:

- GRI Standards 101: Foundation;
- GRI Standards 102: General Disclosures; and
- GRI Standards 103: Management Approach.

In addition to the Universal Standards, an organisation can refer to the topic-specific GRI Standards to report on material topics in its sustainability report. A material topic is defined as one that reflects a reporting organisation's significant economic, environmental and social impacts, or substantively influences stakeholders' assessments and decisions.

The topic-specific Standards are disclosures relevant to each topic, organised into the following three series:

- GRI Standards 200 (Economic),
- GRI Standards 300 (Environmental) and
- GRI Standards 400 (Social).

The focus of the GRI Standards is on the material impacts that an organisation has on people, the environment and the economy. The GRI Standards are the only global standards focusing exclusively on 'impact materiality' of sustainability issues and on impact reporting for a multi-stakeholder audience. This makes them an essential factor in shaping reporting standards.

ABOUT THE RECOMMENDATIONS OF THE TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD):

The Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD), to help identify the information that investors, lenders, and insurance underwriters require to appropriately assess and price climate-related risks and opportunities. The Task Force structured its recommendations (TCFD recommendations) around four thematic areas that represent core elements of how organisations operate: governance, strategy, risk management, and metrics and targets. The four overarching recommendations are supported by key climate-related 'financial disclosures', referred to as recommended disclosures, that build out the framework with information that will help investors and others to understand how reporting organisations assess climate-related risks and opportunities.

Importantly, the Task Force has developed a guide to assist preparers of climate-related financial disclosures by providing context and suggestions for implementing them. The TCFD recommends that organisations provide these disclosures in the annual financial reports. For the financial and non-financial sectors, supplemental guidance was developed to highlight some of the sector-specific considerations and give a bigger picture of the potential climate-related financial impacts in those sectors. The TCFD recommendations are intended to ensure that there is consistency in an organisation's narrative on strategy, risk and financial processes, metrics and targets relating to climate-related issues and how these impact the organisation's financial results and enterprise value creation.

ABOUT THE IFRS FOUNDATION SUSTAINABILITY-RELATED FINANCIAL INFORMATION AND CLIMATE-RELATED DISCLOSURE STANDARDS (PREVIOUSLY THE SUSTAINABILITY ACCOUNTING STANDARDS BOARD (SASB) STANDARDS):

In March 2022, the IFRS Foundation released two exposure drafts, which have been circulated for public comment: IFRS-S1, the General Requirements for Disclosure of Sustainability-related Financial Information (IFRS Sustainability Disclosure Standard); and IFRS-S2, the Climate-related Disclosures (IFRS Climate Standard) developed by its International Sustainability Standards Board (ISSB). Businesses will need to watch out for developments in this regard. It is worth noting that the disclosure standard on sustainability-related financial information developed by the ISSB will be based on the 'financial materiality' of the sustainability issues for investors. It is intended only to assist in preparing annual financial statements and integrated reports, not for multiple stakeholder reports. The International Accounting Standards Board (IASB) is an independent, private-sector body that develops and approves International Financial Reporting Standards (IFRS). The IFRS Foundation now houses both the ISSB and the IASB and is best placed to be the "home" of the global comprehensive reporting system. The IASB, which operates under the oversight of the IFRS Foundation, was formed in 2001 to replace the International Accounting Standards Committee.

As background, in 2009, the International Integrated Reporting Council (IIRC) developed the <IR> Framework, also known as International Integrated Reporting. This is where the integration of financial and non-financial information began. The Sustainability Accounting Standards Board (SASB) was founded as a non-profit organisation in 2011 to help businesses and investors develop a common language for the financial impacts of sustainability on an organisation. The SASB developed the SASB Standards, which guide companies' disclosure of financially-material sustainability information to their investors. The Standards, which are available for 77 industries, identify the subset of environmental, social, and governance (ESG) issues most relevant to financial performance in each industry. The SASB Standards are industry-focused. In November 2020 the IIRC and the SASB announced their merger into the Value Reporting Foundation (VRF), which was officially formed in June 2021. The VRF offers a comprehensive collection of resources, including Integrated Thinking Principles, the Integrated Reporting Framework, and SASB Standards. These are designed to help businesses and investors develop a shared understanding of enterprise value. The VRF was subsequently 'sold' to the IFRS Foundation, where the SASB Standards are now managed under a new body known as the International Sustainability Standards Board (ISSB) which is overseen by the IFRS Foundation.

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