

THE GREEN TRANSITION FROM AN ECONOMIC PERSPECTIVE

CIRCULAR ECONOMY AND SUSTAINABILITY REPORTING:
FROM VOLUNTARY SUSTAINABILITY REPORTING TO MANDATORY

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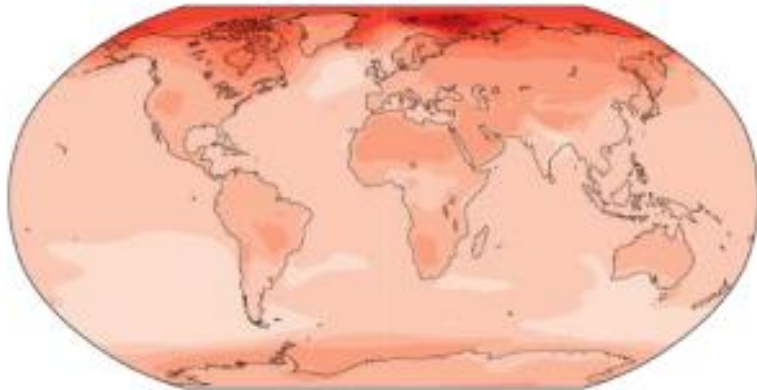


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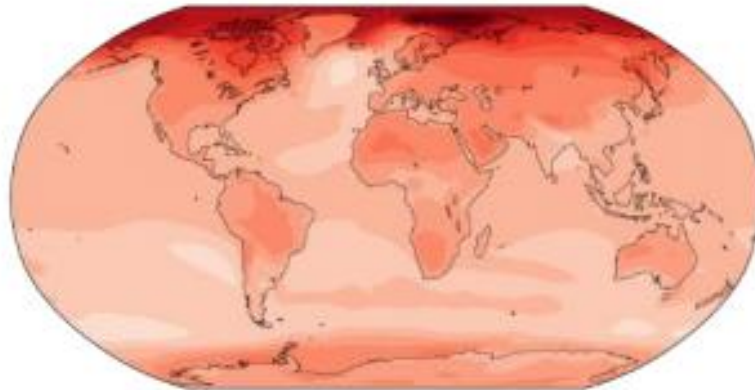
THE CLIMATE CHANGE EMERGENCY

Simulated changes...

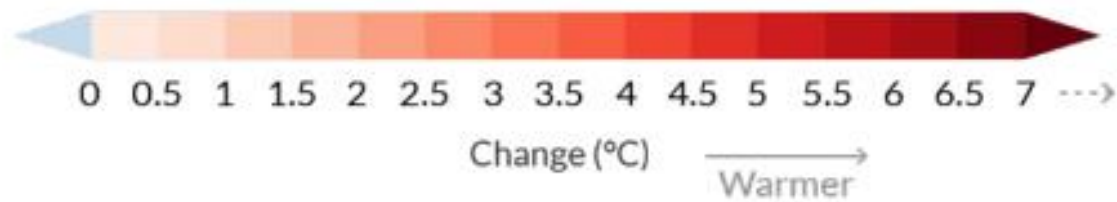
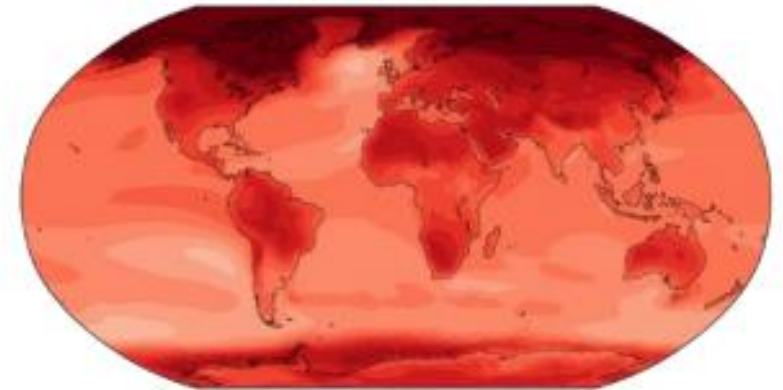
...at 1.5°C



...at 2°C















...at 4°C



CLIMATE CHANGE RISKS

- Physical and transition risks will materialise in the future.
- These risks will affect households, businesses and governments, across all industries and geographies.
- The magnitude and nature of these risks will be determined by actions taken today.

Warming by 2100		<2 °C		3 °C	5 °C
		1.5 °C	2 °C		
Physical impacts					
	Sea-Level Rise (cm)	0.3-0.6 m	0.4-0.8 m	0.4-0.9 m	0.5-1.7 m
	Coastal assets to defend (\$tn)	\$10.2tn	\$11.7tn	\$14.6tn	\$27.5tn
	Chance of ice-free Arctic summer	1 in 30	1 in 6	4 in 6 (63%)	6 in 6 (100%)
	Tropical cyclones: Fewer (#cat 1-5)	-1%	-6%	-16%	Unknown
	Stronger (# cat 4-5)	+24%*	+16%	+28%	+55%
	Wetter (total rain)	+6%	+12%	+18%	+35%
	Frequency of extreme rainfall	+17%	+36%	+70%	+150%
	Increase in wildfire extent	x1.4	x1.6	x2.0	x2.6
	People facing extreme heatwaves	x22	x27	x80	x300
	Land area hospitable to malaria	+12%	+18%	+29%	+46%
Economic impacts					
	Global GDP impact (2018: \$80tn)	-10%	-13%	-23%	-45%
	Stranded assets	Transition: fossil fuel assets (supply, power, transport, industry)		Mixed: some fossil fuel assets mothballed, some physical stranding	Physical: uninhabitable zones, agriculture, water-intensive industry, lost tourism etc
	Food supply	Changing diets, some yield loss in tropics		24% yield loss	60% yield loss, 60% demand increase
	Insurance opportunities	New low-carbon assets and infrastructure investment (e.g. CCS)		Increasing demand to manage growing risks	Minimal: recession, tensions, high and unpredictable risks
<small>The data used in this infographic is sourced from IPCC data and other sources as listed in the Bibliography (incl Raftery et al, Schlosser et al, Jevrejeva et al, Kruston et al, Turco et al, Huang et al, Pretis et al, and Burke, Hsiang & Miguel)</small>					

CHANGING THE AGENDA



United Nations
SUSTAINABLE DEVELOPMENT GOALS

Our World Today?

Poverty	Hunger	Poor health	Poor education	Gender inequality	Lack of water & sanitation
Expensive dirty energy	Exploit labour	Under investing	Increasing inequality	Unsustainable Cities & communities	Irresponsible production & consumption
Climate chaos	Damage life below water	Damage life on land	Conflict Injustice & war	Lack of Cooperative institutions	

United Nations
SUSTAINABLE DEVELOPMENT GOALS

Our World in 2030?

1 NO POVERTY 	2 ZERO HUNGER 	3 GOOD HEALTH AND WELL-BEING 	4 QUALITY EDUCATION 	5 GENDER EQUALITY 	6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY 	8 DECENT WORK AND ECONOMIC GROWTH 	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 	10 REDUCED INEQUALITIES 	11 SUSTAINABLE CITIES AND COMMUNITIES 	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION 	14 LIFE BELOW WATER 	15 LIFE ON LAND 	16 PEACE, JUSTICE AND STRONG INSTITUTIONS 	17 PARTNERSHIPS FOR THE GOALS 	

The circular economy model:
less raw material, less waste, fewer emissions



Source: European Parliament Research Service



CIRCULAR ECONOMY (CE)

"A CIRCULAR ECONOMY IS AN ECONOMIC MODEL AIMED AT ELIMINATING WASTE AND PROMOTING THE CONTINUAL USE OF RESOURCES. IT FOCUSES ON DESIGNING PRODUCTS, SYSTEMS, AND SERVICES TO MAXIMIZE RESOURCE EFFICIENCY AND MINIMIZE ENVIRONMENTAL IMPACT."

Linear vs. Circular Economy

Linear Economy: Take → Make → Dispose

Circular Economy: Make → Use → Recycle → Remake



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LIMITATIONS OF FINANCIAL REPORTING

- **Do not provide sufficient insight** into risks other than financial risks.
- **Have problems managing intangible assets** (intellectual knowledge, quality of human resources, changes in reputation, organizational culture, outdated products, changes in legislation).
- **Do not capture externalities** for which the company may or may not be held responsible.



The following are the financial statements of the parent company Alpha plc, a subsidiary company Beta and an associate company Gamma.

Statements of financial position as at 31 December 20X9

	Alpha £	Beta £	Gamma £
ASSETS			
Non-current assets			
Land at cost	540,000	256,500	202,500
Investment in Beta	216,000		
Investment in Gamma	156,600		
Current assets			
Inventories	162,000	54,000	135,000
Trade receivables	108,000	72,900	91,800
Dividend receivable from Beta	10,800		
Dividend receivable from Gamma	1,620		
Current account – Beta	10,800		
Current account – Gamma	13,500		
Cash	237,600	62,100	67,500
Total current assets	544,320	189,000	294,300
Total assets	1,456,920	445,500	496,800
EQUITY AND LIABILITIES			
£1 shares	540,000	67,500	27,000
Retained earnings	769,500	329,400	391,500
	1,309,500	396,900	418,500
Current liabilities			
Trade payables	93,420	24,300	59,400
Dividends payable	54,000	13,500	5,400
Current account – Alpha	—	10,800	13,500
Total equity and liabilities	1,456,920	445,500	496,800



SUSTAINABILITY REPORTING

"SUSTAINABILITY REPORTING IS THE PROCESS OF DISCLOSING A COMPANY'S ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) IMPACTS TO STAKEHOLDERS. IT PROVIDES TRANSPARENCY ABOUT THE ORGANIZATION'S CONTRIBUTION TO SUSTAINABLE DEVELOPMENT."

Key Elements of Sustainability Reporting

1.Environmental

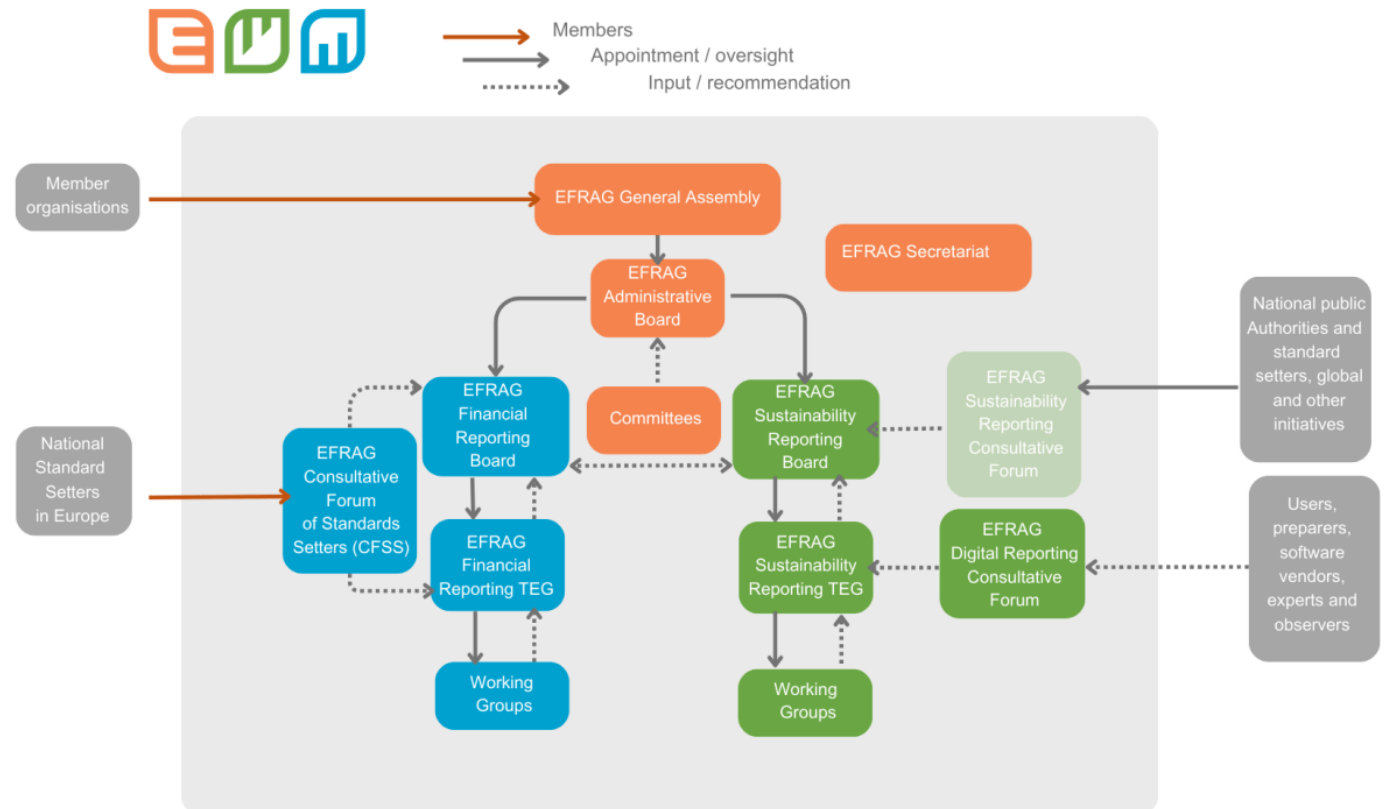
- Climate change, resource use, waste, and pollution.

2.Social

- Labor practices, diversity, community engagement, and human rights.

3.Governance

- Ethics, compliance, transparency, and board composition.

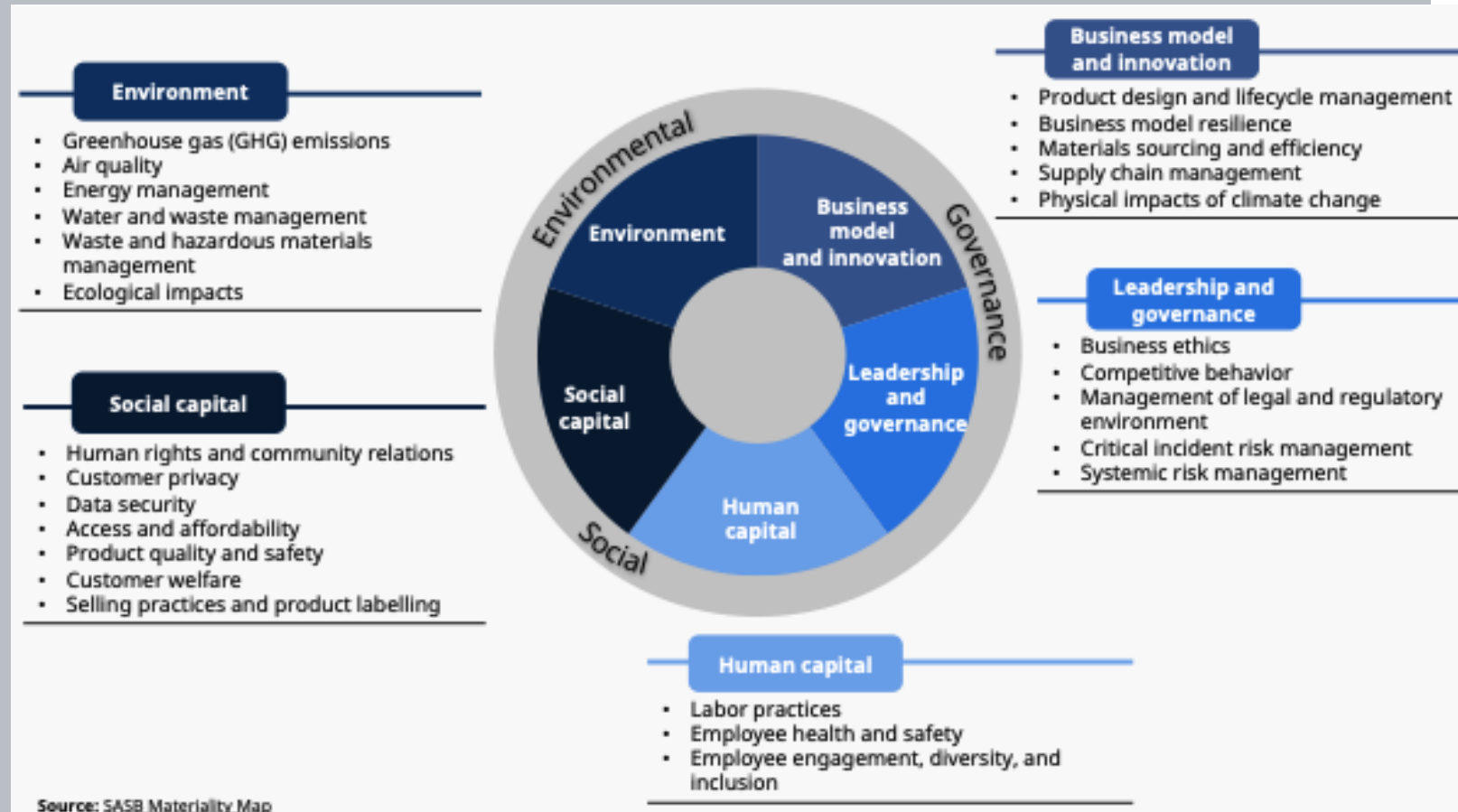


What is ESG reporting?

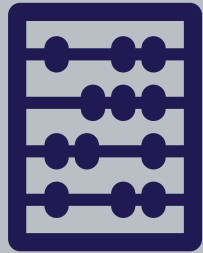
WHEN WE THINK OF ESG, MANY PEOPLE THINK ABOUT CLIMATE, BUT IT IS MORE THAN THAT.

THIS DIAGRAM ILLUSTRATES THE BREADTH OF TOPICS THAT ESG COVERS. THESE TOPICS INTERACT WITH ALL ASPECTS OF A BUSINESS AND HOW IT OPERATES.

A BUSINESS WOULD ONLY REPORT ON THE ESG TOPICS AND KPIS THAT ARE MATERIAL TO THE BUSINESS AND WITH CONSIDERATION GIVEN TO WHAT IS TYPICALLY CONSIDERED MATERIAL IN ITS INDUSTRY.



THE FIELD OF SUSTAINABILITY REPORTING IS RAPIDLY EVOLVING AND PRESENTS SEVERAL CHALLENGES



LACK OF STANDARDIZATION

With multiple frameworks and guidelines for sustainability reporting, companies may find it challenging to choose the most suitable one for their operations. This lack of standardization may lead to inconsistencies in data collection and reporting, making it difficult to compare sustainability performance across companies.



CHANGING REGULATIONS

Governments and regulatory bodies are increasingly mandating sustainability reporting, leading to a constantly changing regulatory landscape. This can be particularly challenging for companies operating in multiple jurisdictions, as they must comply with different reporting requirements and adapt to changing regulations.



EVOLVING STAKEHOLDER EXPECTATIONS

Stakeholders, including investors, customers, employees, and communities, are becoming more vocal in their demand for sustainability disclosures. Companies may face challenges in meeting these expectations, particularly as stakeholder priorities and interests continue to evolve.



THE FIELD OF SUSTAINABILITY REPORTING IS RAPIDLY EVOLVING AND PRESENTS SEVERAL CHALLENGES



DATA MANAGEMENT & ANALYSIS

Collecting and analyzing sustainability data can be complex and resource-intensive, particularly for companies with complex supply chains. Additionally, companies must ensure the accuracy and reliability of their data to avoid reputational risks and potential legal liabilities.



INTEGRATION WITH BUSINESS STRATEGY

To maximize the value of sustainability reporting, companies must integrate it with their overall business strategy. This may involve aligning sustainability goals with core business objectives, engaging stakeholders in the reporting process, and integrating sustainability considerations into decision-making at all levels of the organization. Achieving this level of integration requires significant effort and commitment from company leadership.



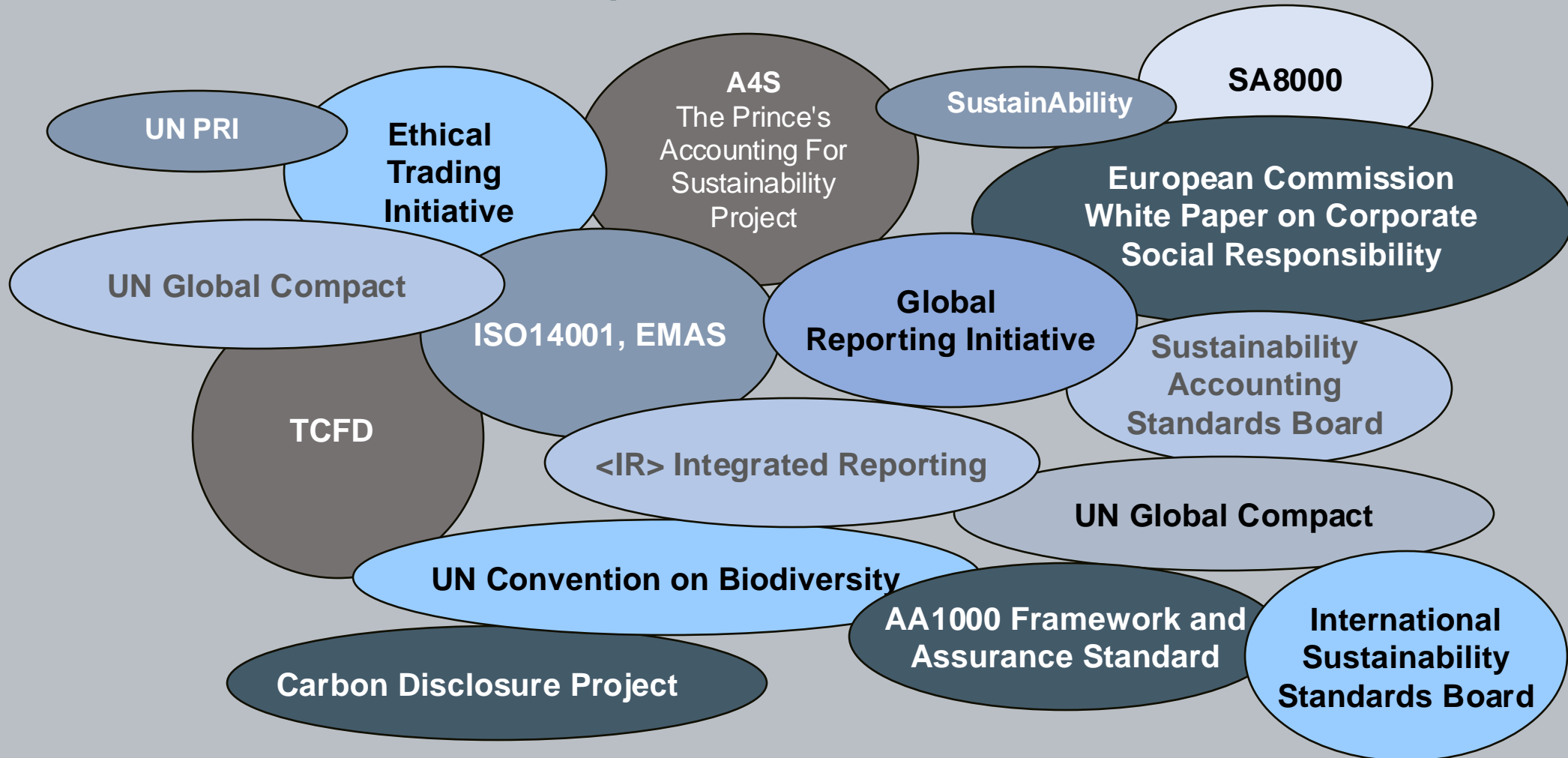
THE ACRONYM SOUP

CONTAINING NUMEROUS SUSTAINABILITY FRAMEWORKS, STANDARDS, GUIDELINES AND REGULATION



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MATURING OF SUSTAINABILITY FRAMEWORKS, STANDARDS, GUIDELINES AND REGULATION



SUSTAINABILITY REPORTING

ENTERING THE ARENA

1997

2002

2004

2009

2014

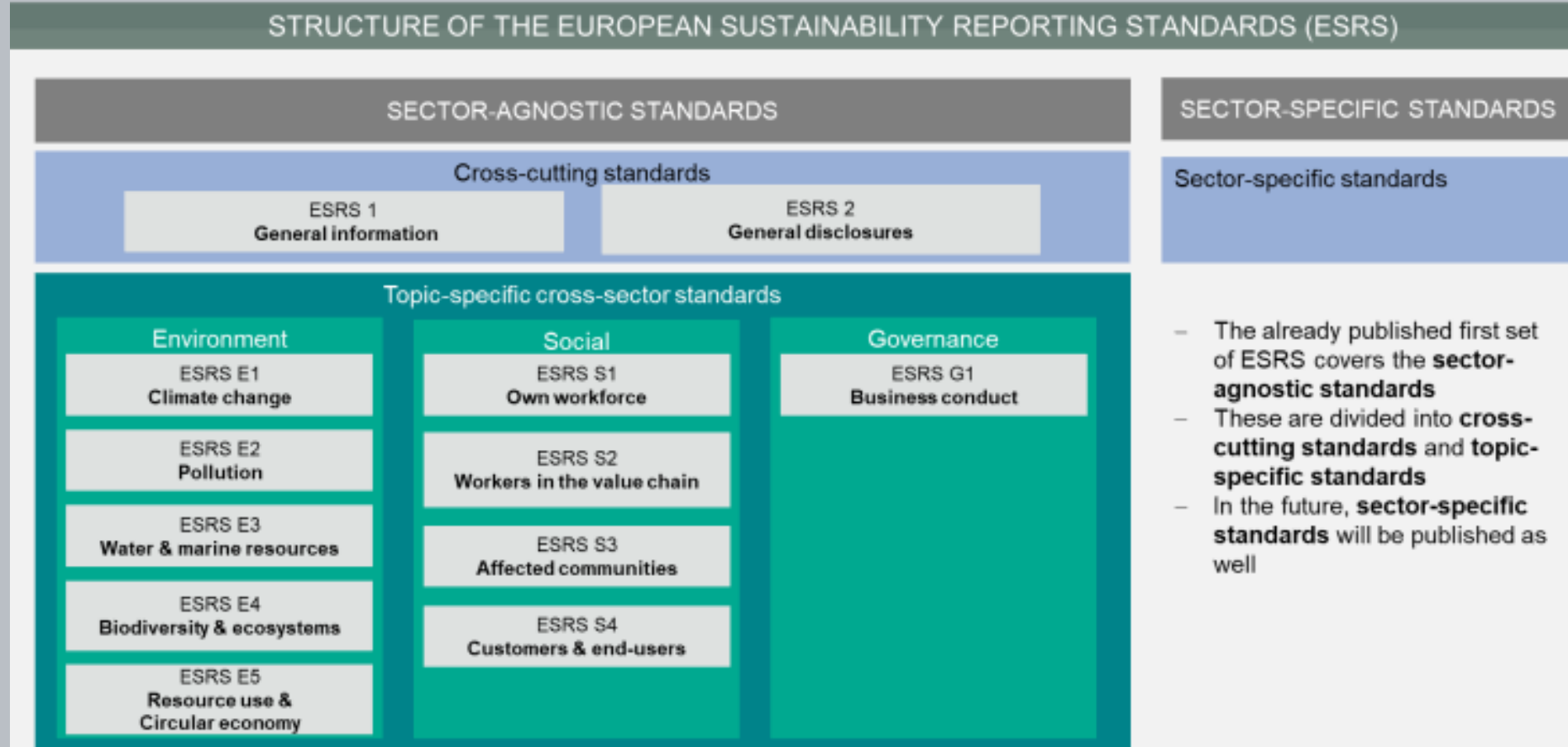
2019

2022



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ESRS MANDATORY STANDARDS



- The already published first set of ESRS covers the **sector-agnostic standards**
- These are divided into **cross-cutting standards** and **topic-specific standards**
- In the future, **sector-specific standards** will be published as well



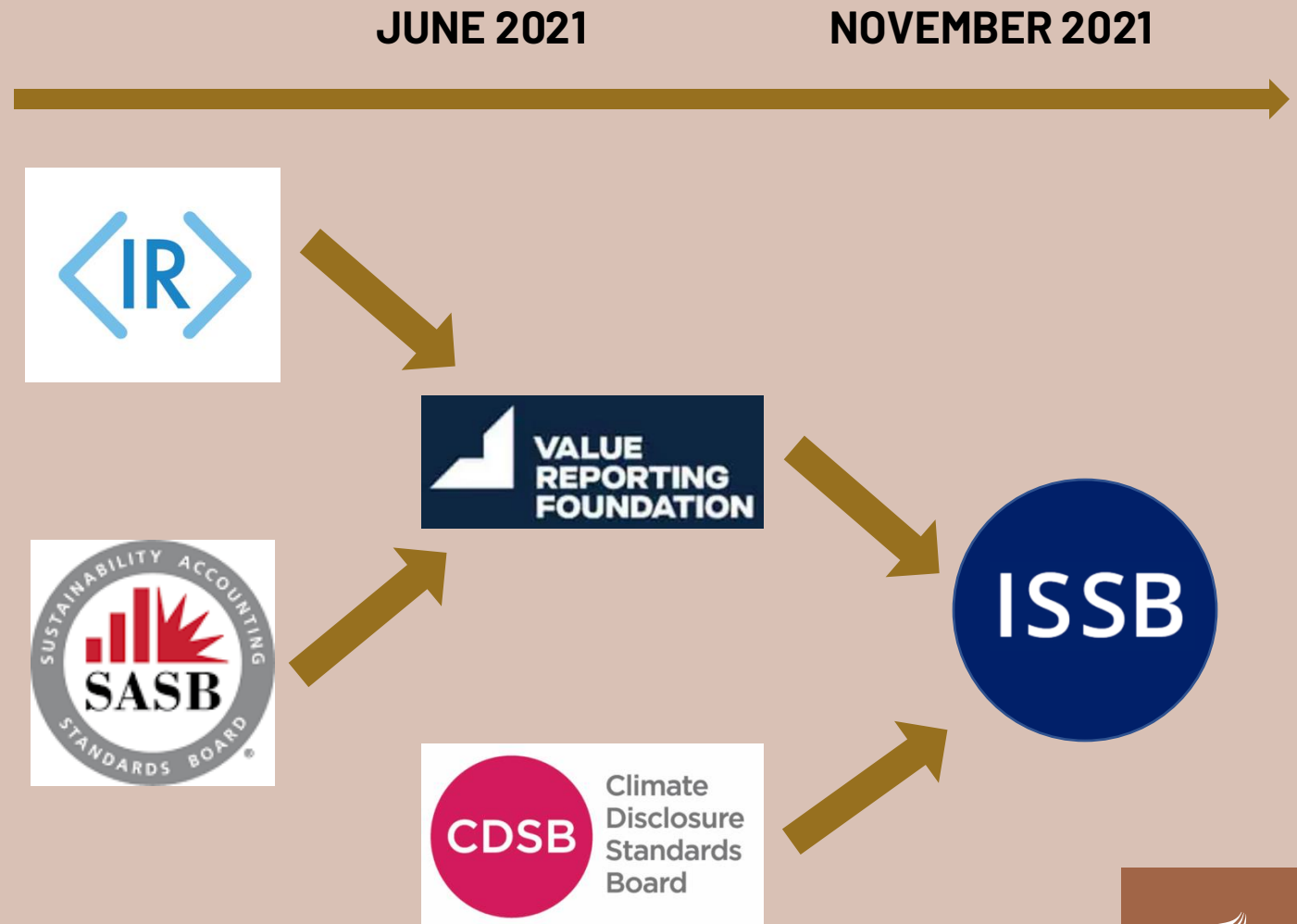
FAST MERGERS & CONSOLIDATIONS

June 2021

The International Integrated Reporting Council (IIRC) and SASB combined in June 2021 to form the Value Reporting Foundation (VRF).

November 2021

The International Financial Reporting Standards (IFRS) Foundation created the International Sustainability Standards Board (ISSB). The ISSB consolidated the VRF and the Climate Disclosure Standards Board (CDSB) to develop global sustainability disclosure standards.



COLLABORATION & MERGERS

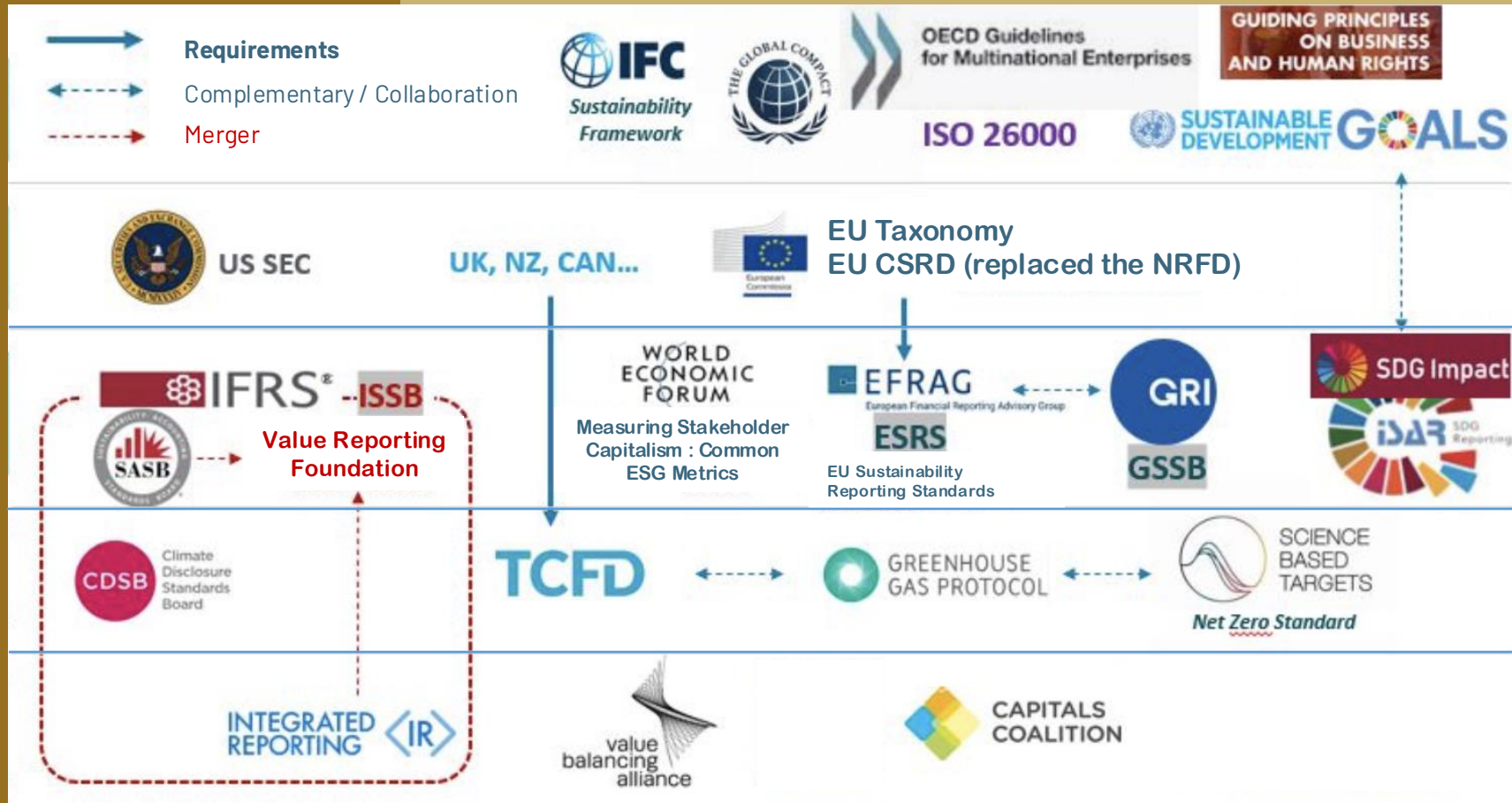
Global Sustainability Frameworks

Regional / National Regulations

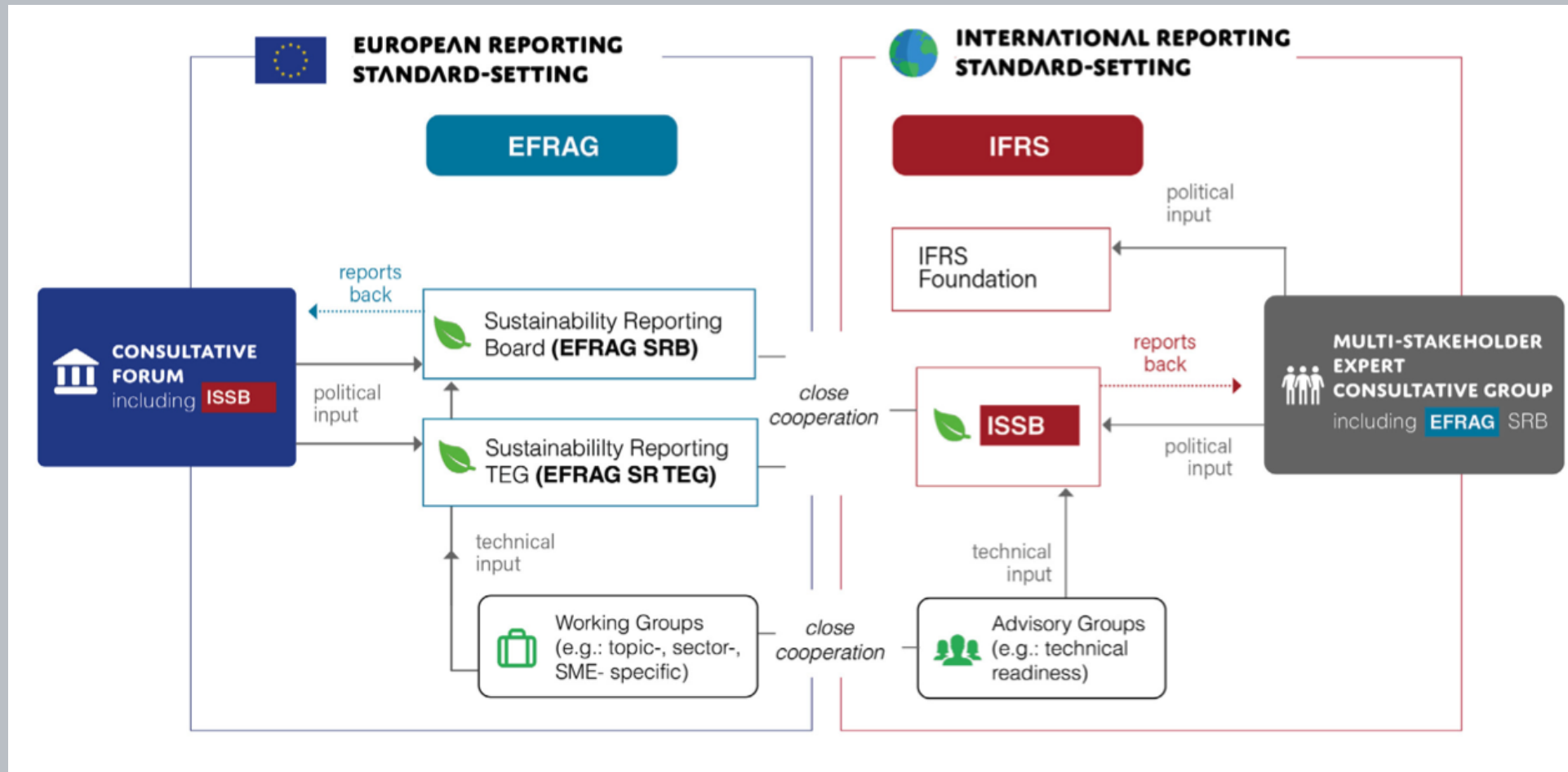
Global Sustainability Frameworks

Climate Reporting Standards

Multi-Capitals Reporting Models



A CONSTRUCTIVE TWO-WAY COOPERATION TO SUSTAINABILITY REPORTING STANDARD-SETTING



STANDARDISATION OF CLIMATE-RELATED FINANCIAL DISCLOSURES

- **November 2021:**
 - Establishment of the International Sustainability Standards Board (ISSB) with the aim to *'deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions'* (IFRS 2022).
- **March 2022:**
 - Release of Exposure Drafts IFRS S1 *'General Requirements for Disclosure of Sustainability-related Financial Information'* and IFRS S2 *'Climate-related Disclosures'*.
- **June 2023:**
 - Expected release of the final versions of IFRS S1 and IFRS S2 (effective date Jan 2024)



STANDARDISATION OF CLIMATE-RELATED FINANCIAL DISCLOSURES



March 2022
Exposure Draft
IFRS® Sustainability Disclosure Standard

[Draft] IFRS S2 Climate-related Disclosures
Comments to be received by 29 July 2022



International Sustainability Standards Board ED/2022/S2



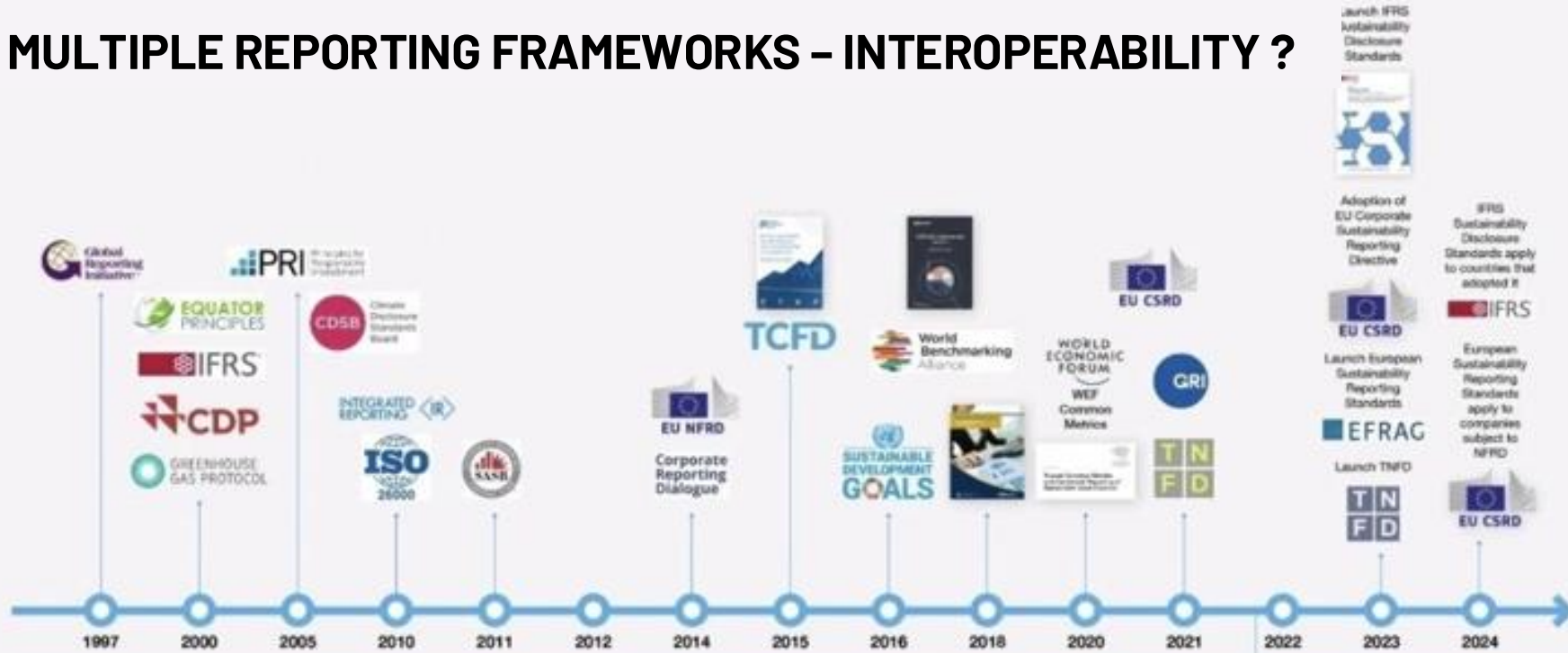
March 2022
Exposure Draft
IFRS® Sustainability Disclosure Standard

**[Draft] IFRS S2 Climate-related Disclosures
Appendix B Industry-based disclosure requirements**
Comments to be received by 29 July 2022



International Sustainability Standards Board ED/2022/S2

MULTIPLE REPORTING FRAMEWORKS – INTEROPERABILITY ?



Source IPC; 2023

HARMONISED SUSTAINABILITY REPORTING OPPORTUNITIES



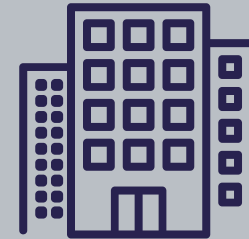
INCREASED TRANSPARENCY & ACCOUNTABILITY

Sustainability reporting standards promote transparency and accountability by requiring companies to disclose their environmental, social, and governance (ESG) performance. This enables stakeholders to make more informed decisions about the companies they invest in, work for, or purchase from.



IMPROVED COMPARABILITY

Harmonized sustainability reporting standards make it easier for stakeholders to compare the ESG performance of different companies. This creates a level playing field, enabling investors, consumers, and other stakeholders to make more informed decisions based on comparable ESG data.



BETTER RISK MANAGEMENT

Sustainability reporting standards can help companies identify and manage ESG risks more effectively. By providing a structured framework for reporting on ESG issues, companies can identify potential risks and take steps to mitigate them before they become material.



HARMONISED SUSTAINABILITY REPORTING OPPORTUNITIES



ENHANCED STAKEHOLDER ENGAGEMENT

Sustainability reporting standards promote transparency and accountability by requiring companies to disclose their environmental, social, and governance (ESG) performance. This enables stakeholders to make more informed decisions about the companies they invest in, work for, or purchase from.



INNOVATION

Sustainability reporting standards can drive innovation by encouraging companies to develop new products, services, and business models that address ESG challenges. This can help companies stay ahead of the curve and capture new market opportunities.



FURTHER READING

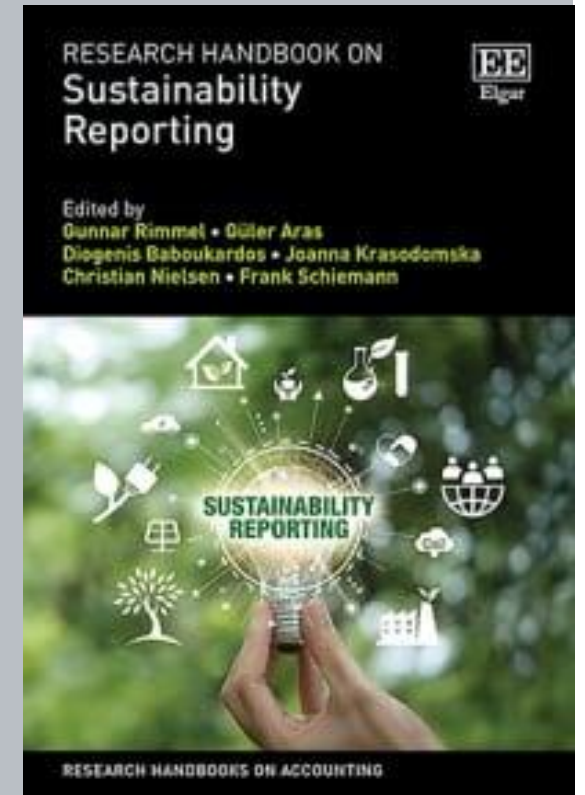


<https://www.efrag.org/lab6>



<https://www.routledge.com/Accounting-for-Sustainability/Rimmel/p/book/9780367478957>

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QUESTIONS ?

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