PREPARING FOR CLIMATE CHANGE-RELATED FINANCIAL REPORTING

Organizations are becoming increasingly aware of the impacts that climate change can have on their operations and financial viability. Increasing temperatures, droughts, storms and flooding can impact normally reliable supply chains and disrupt an organization's ability to generate revenue. A perceived lack of environmental awareness can cause customers to move away from established products, creating opportunities for new companies to thrive, and new government regulation can dramatically affect a company's ability to carry on "business as usual."

The effects of climate change, both positive and negative, on a company's value need to be recognized so that potential investors understand the short-, medium- and long-term implications on the company's financial performance. To this end, the International Sustainability Standards Board (ISSB) has introduced **new financial reporting standards** that aim to ensure companies disclose their climate-related risks and opportunities. The new standards offer a comprehensive framework for assessing a company's exposure to these risks and opportunities, and affected companies are required to gather sustainability and climate change-related data in the 2024 financial year for reporting in 2025.

The questions you need to ask

Unfortunately, many organizations are unprepared for the level of detail that the new IFRS standards require. The IFRS standards outline four key areas that companies need to focus and report on.

1. GOVERNANCE

The IFRS standards identify governance as one of the most important aspects of managing and reporting on climate-related risks and opportunities. Specifically, companies need to know:

- Who is responsible for the oversight of sustainability and climate-related risks and opportunities?
- How often does the oversight committee meet?
- How are risks and opportunities presented to the board?
- How are sustainability and climate-related risks and opportunities considered when planning the organization's strategy and operations?
- How are relevant metrics identified, monitored and reported on?
- How is risk tracked from reporting period to reporting period?

In addition, companies should also consider:

- What data controls are in place to ensure that historical risk modeling is preserved, allowing it to be compared to current risk analyses?
- Is historic risk analysis data easily accessible and comparable to current projections?
- How can technology be used to support the governance of sustainability and climate-related risks and opportunities?

2. STRATEGY

Strategy looks at the risks and opportunities that may impact an organization's value. In particular, it considers risks and opportunities associated with the organization's business model, finances, cash flow and value chain. As part of this, the organization also needs to gain an understanding of its level of resiliency to climate-related risks.

3. RISK MANAGEMENT

While strategy focuses on identifying risks and opportunities, risk management focuses on the actual processes involved in identifying those risks and then actively managing them. Companies should focus on:

- How are sustainability and climate-related risks and opportunities identified in the short, medium and long term?
- How can risk modeling identify assets that are at risk from climate change in the short, medium and long term?
- How is the likelihood and potential impact of each risk and opportunity assessed?
- How can risk modeling support the prioritization of risks and opportunities?
- What metrics are needed to support risk management decisions and to evaluate progress towards targets?
- How are sustainability and climate-related risks incorporated into the organization's overall risk management process?

4. METRICS AND TARGETS

Metrics and targets concentrate on the monitoring and evaluation of an organization's progress towards climate-related goals. The IFRS standards ask companies to consider:

- What information do I need to measure, monitor, evaluate and manage sustainability and climate-related risks and opportunities?
- What specific metrics have been identified?
- How often will metrics be measured?
- What is the base period for the metrics from which progress can be measured and compared?
- What targets does the organization have?
- What progress is the organization making towards its targets?

TIME TO ACT

Climate-related impacts are expected to substantially increase in the next few decades, making climate-related financial disclosures of critical importance for investor confidence. The IFRS standards represent a major step globally towards addressing this issue, with the four elements of governance, strategy, risk management, and metrics and targets providing a comprehensive framework for understanding the impact of climate change on an organization's value. With the IFRS standards requiring affected companies to be compliant for 2024 financial year reports, companies have no time to waste in ensuring they put in place the necessary governance and risk management strategies and processes.

The time to act is now!

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