Reporting on Sustainability

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Corporate reporting has undergone a string of changes in the past couple of years as the global landscape has shifted the needs of users of annual reports. A user's attention was primarily focused on profits and other financial measures. Nevertheless, a new era in reporting is dawning in which profit is viewed from a sustainability perspective. Sustainability reporting asks companies to report on how they can continuously create value for the foreseeable future. To do this, companies need to evaluate how environmental, social, and governance issues affect their business model and how they plan to navigate around the risk and opportunities that may arise. Various frameworks exist to achieve this, but this article will focus on the International Sustainability Standards Board (ISSB) standards, which may be early adopted in Zimbabwe as per Public Accountants and Auditors Board (PAAB) communications.

The International Sustainability Standards Board (ISSB) will release a set of new standards for sustainability reporting by the end of the 2nd quarter of 2023. These standards are expected to have a significant impact on how companies report on sustainability practices. The new standards, International Financial Reporting Standard on Sustainability 1 (IFRS S1) – General Requirements for Disclosure of Sustainability-Related Financial Information and IFRS S2 – Climate-related Disclosures, are designed to bring a consolidated and comparable set of international standards for sustainability reporting based on other frameworks such as the Sustainability Accounting Standards Board (SASB), Global Reporting Initiative (GRI) and Taskforce on Climate-related Financial Disclosures (TCFD) among many others. The standards have an effective date of 1 January 2024.

The proposed standards require companies to disclose information that enables investors to assess the effect of significant sustainability-related risks and opportunities on enterprise value. The climate-related disclosure standards focus on establishing disclosure requirements specific to climate-related risks and opportunities. With global attention to climate change and its impact on businesses, comprehensive climate reporting has become more critical than ever. As an example, climate risks such as cyclones and changing weather patterns could affect your business negatively by damaging property or shifting consumer demand. The call is for companies to assess and disclose the impact of such based on their business model to better help users to make more informed decisions. Suppliers and debt providers would want to evaluate whether they should extend a line of credit. Investors would want to know whether they should make an investor divest. For example, a company might evaluate the risk of increased regulation on the use of fossil fuels and decide to shift to renewable energy sources to reduce climate risk exposure.

The adoption of these standards is also highly interlinked with financial reporting standards. Some examples that bring out this linkage are property, plant and equipment may be subject to impairment if regulation or natural disaster risks shift the demand for a company's products. To avoid obscuring the information that will be provided, the standards call for only "material" information to be disclosed and this aligns with the financial reporting definition of materiality. Information is material if its omission or input thereof would affect economic decisions. The concept of materiality is up for debate as these standards are implemented as definitions of materiality may differ depending on the characteristics of the primary user of the financial statements.

Zimbabwe has taken a proactive approach to sustainability reporting by early adopting these new standards. As a developing nation, Zimbabwe faces various sustainability challenges such as poverty, environmental degradation, and climate change. The early adoption of these standards will enable Zimbabwean companies to report on their sustainability performance more transparently and in line with international standards. This move is likely to boost investor confidence in Zimbabwean businesses and attract more investments to the country.

The adoption of these standards will be a major step forward in the effort to create a more sustainable Zimbabwe with enhanced accountability and transparency within companies. It will represent a significant breakthrough in the way companies prioritise sustainability in their operations. Companies that meet these standards will be able to demonstrate to their customers, shareholders, and other stakeholders that they are taking meaningful steps towards sustainability.

Moreover, the introduction of these standards will help companies in Zimbabwe identify and manage sustainability risks better. It will also enable them to take advantage of opportunities arising from sustainable practices, such as the growing demand for sustainable products and services. A common example is how in some shops they have shifted from providing plastic bags and are now using paper bags to limit the usage of non-biodegradable packaging. The standards will help Zimbabwean companies align their sustainability practices with global best practices and demonstrate their commitment to sustainability.

In conclusion, the introduction of these new standards by the ISSB highlights the growing importance of sustainability reporting in today's world. The early adoption of these standards by Zimbabwean entities will allow them to unlock value in a changing world as they manage their sustainability risks better.