ADOPTION READINESS WORKING GROUP (ARWG) FOR SUSTAINABILITY REPORTING IN NIGERIA

ROADMAP REPORT FOR ADOPTION OF IFRS SUSTAINABILITY DISCLOSURE STANDARDS IN NIGERIA

MARCH 2024

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1.0 Background

Sustainability reporting globally has evolved from what is considered a business non-essential to a responsible business practice today. Among the key trends shaping the corporate sustainability landscape today are the consolidation among standard-setters; regulation focused on ESG-related disclosures; and maturation of ESG data and disclosures within private markets.

Prior to the issuance of the IFRS sustainability disclosure standards (ISSB Standards), Nigerian entities have been disclosing their ESG practices using different frameworks. There is the CBN sustainable banking principles that require Nigerian Banks to emphasize sustainability reporting and disclosures as a means to ensure transparency and accountability in the Banking sector. The NSE (now NGX) sustainability disclosure guidelines which provide a framework for listed companies to disclose their ESG performance and the Nigerian Sustainable Finance Principles issued by the Securities and Exchange Commission which requires public interest/listed entities to integrate ESG considerations in their operations and decision-making amongst others.

The challenge with these initiatives is the absence of a common framework across entities which hampers comparability. To address this deficiency, Nigeria supported the establishment of the ISSB 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.

Nigeria went further at Cop 27 through the Financial Reporting Council of Nigeria (FRC) to announce its intention to early adopt the IFRS S1 & S2 which were the first two standards issued by the ISSB. The announcement stated that FRC Nigeria is working in collaboration with the Federal Ministry of Finance and other relevant regulators and professional accounting organisations, to develop a strategy to raise awareness; engage stakeholders around the standards; and develop a roadmap for timely implementation in the Nigerian market.

To ensure a robust regulatory framework for Nigeria to adopt the ISSB standards, the Financial Reporting Council Act (FRC Act) of Nigeria 2011 was amended and section 8(h) of the amended Act mandated the FRC to promote compliance with the adopted standards issued by the International Federation of Accountants (IFAC), International Financial Reporting Standards (IFRS) Foundation, International Public Sector Accounting Standards Board (IPSASB), or any other body that may be designated as such and any other standards setting body relating to the mandate of the Council.

The decision of Nigeria to adopt the ISSB standards is based on the fact that it represents a global baseline for a single set of high-quality sustainability reporting standards and its adoption has the effect of unlocking capital and generating the much-needed foreign direct investments for Nigeria. Aside from this, the ISSB standards have strong international support with backing by the G7, the G20, the International Organization of Securities Commissions (IOSCO), the Financial Stability Board, African Finance Ministers, and Central Bank Governors from more than 40 jurisdictions and still counting.

Consequent to the announcement by Nigeria to adopt the ISSB standards at Cop 27, the FRC established the Adoption Readiness Working Group (ARWG) for Sustainability Reporting in Nigeria. The group was inaugurated by the Permanent Secretary, Federal Ministry of Industry, Trade and Investment (FMITI), Dr. Evelyn Ngige, on June 6, 2023, in Abuja. The group which is made up of members from diverse backgrounds, including chief executives, chief finance officers, chief sustainability officers, sustainability reporting professionals and representatives of professional accountancy organisations, audit firms, financial institutions, regulators, investors, and academia is tasked with the role of developing a roadmap for timely and effective implementation of the standards and to support the adoption of the standards through advocacy and engagements.

2.0 International Sustainability and ESG Frameworks

Regulators and standard setters in various jurisdictions issued definitive proposals to transform ESG reporting in 2022. The year brought ESG disclosures from; the European Union (EU) as part of the Corporate Sustainability Reporting Directive (CSRD), internationally by the International Sustainability Standards Board (ISSB), and in the United States by the Securities and Exchange Commission (SEC). These proposals each detailed expansive sustainability disclosure requirements – although their proposed scopes and other details varied.

Understanding where the frameworks align and diverge will help companies develop the requisite reporting strategy, data gathering processes, and related controls, providing for a streamlined process and effective deployment of resources.

One of the foundational points of alignment among the frameworks is the incorporation of elements based on the Task Force on Climate-related Financial Disclosures (TCFD) framework. Leveraging this popular framework unites the disclosure frameworks through key themes, including required disclosure of the broad impacts of sustainability-related risks as well as governance and oversight of the related risks and opportunities.

We provide an outline which compares and contrasts the key provisions among several frameworks and standards, including the TCFD framework, the European Sustainability Reporting Standards (ESRS), the SEC (US) proposal, and the standards issued on June 26, 2023, by the ISSB. By understanding the different requirements, preparers can develop the appropriate reporting strategy, one designed to capture the right data the first time.

2.1 EU Regulations and Disclosure Requirements

The European Commission (EC), the European Parliament, and the Council of the European Union have made strides to ensure that sustainability regulations under the Corporate Sustainability Reporting Directive (CSRD) will be a reality. The CSRD was effective on January 5, 2023; EU Member States had 18 months to incorporatethe CSRD's provisions into national law. The CSRD resulted in the development of the European Sustainability Reporting Standards (ESRS), as proposed by the European Financial Reporting Advisory Group (EFRAG).

2.2 IFRS Sustainability Disclosure Standards

The ISSB published its first two standards in June 2023: one on climate-related disclosure requirements (IFRS S2) and one on general disclosure requirements addressing governance and other sustainability matters (IFRS S1)"one. IFRS S1 requires companies to "refer to and consider" the applicability of the disclosure topics and related metrics in the industry-based Sustainability Accounting Standards Board (SASB) standards. Other sources, such as the Climate Disclosure Standards Board (CDSB) Framework, pronouncements from other standard setters, and the ESRS and Global Reporting Initiative (GRI) standards may also be considered. IFRS S1 and IFRS S2 are effective for periods beginning on or after January 1, 2024. The ISSB provided transition relief, however, requiring only climate-related disclosures in the first year of reporting.

2.3 SASB Standards

In August 2022, the IFRS Foundation assumed responsibility for SASB Standards when it merged with the International Integrated Reporting Council (IIRC) to become (Value Reporting Foundation (VRF). It is important to state that both the SASB and IIRC were integrated into the ISSB standards. SASB Standards enable organizations to provide industry-based sustainability disclosures about risks and opportunities that affect enterprise value. The SASB standards are broken down by industry, making SASB metrics comparable from company to company within an identified peer group. Currently, there are 77 identified industries in the SASB Standards in 11 different Sectors across 5 dimensions of sustainability namely, environmental, social capital, human capital, business model and innovation, leadership, and governance.

2.4 TCFD Recommendations

The Task Force on Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board (FSB) in 2015, to develop consistent disclosure standards for companies, to enable the assessment of companies' climate-related financial risk. The recommendations were published in June 2017, and have until now effectively been serving as the industry standard for climate-related disclosures. The TCFD structured its recommendations around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics & targets. The ISSB has taken over the responsibility of the Task Force on Climate-related Financial Disclosures (TCFD) which was previously held by the FSB.

2.5 GHG Protocol

Launched in 1998, the Greenhouse Gas (GHG) protocol initiative has a mission to develop internationally accepted GHG accounting and reporting standards for businesses and to promote their broad adoption. The GHG protocol supports various reporting frameworks and standards by providing guidelines for measuring and managing GHG emissions, enabling organizations to track their climate impact.

2.6 GRI Standards

The Global Reporting Initiative (GRI) standards are a modular framework that includes sets of universal, sector-specific, and topic-based sustainability reporting standards. The GRI released its formal standards in 2016, then began adding the topic standards in 2019 and the sector ones in 2021. While the GHG Protocol can be used across different frameworks, the GRI has its own set of protocols embedded within its standards for measuring and reporting sustainability performance.

2.7 PCAF Recommendations

The Partnership for Carbon Accounting Financials (PCAF) is a financial industry led initiative. PCAF developed the Global GHG Accounting and Reporting Standard for the financial industry, focusing on measuring and reporting financed emissions. Published in November 2020, the standard provides detailed methodological guidance to measure and disclose GHG emissions associated with six asset classes: listed equity and corporate bonds, business loans and unlisted equity, project finance, commercial real estate, mortgages, and motor vehicle loans.

2.8 Carbon Disclosure Project

Now known simply as CDP, the Carbon Disclosure Project was founded in 2000 to encourage environmental transparency and performance improvements through carbon, water, and forest-related disclosures, as well as new plastics disclosures. CDP gives reporting companies letter-gradescores in each area that can be viewed by various stakeholders.

In the following table, we compare and contrast the key features and differences among five of these frameworks including the EU's CSRD, the IFRS ISSB, the TCFD, the IFRS SASB and the GRI.

THEME	CSRD	ISSB	TCFD	SASB	GRI
Topics in scope	Proposed standards span a broad list of ESG topics, including one dedicated to climate disclosures.	Standards address climate and other sustainability risks. Additional thematic standards are expected in the future.	Standards address climate-related financial risks.	Standards address climate and other sustainability risks.	Standard helps organizations report on their economic, environmental, and social impacts.
Industry standards	Ten sector-specific standards in development.	The ISSB cuts across all industries and sectors.	The TCFD cuts across all industries with emphasis on a Dynamic Risk Assessment approach.	11 sector-specific standards across 77 industries.	The Universal, Sector, and Topic Standards are the GRI's three main standards.
Location of disclosures	Disclosure would be included within a dedicated section of the management report. No financial statement footnote disclosure required.	There's an optional provision to either release the IFRS Sustainability Standards with the General Purpose financial statements or separately as a Stand-alone statement.	The Task Force recommends that preparers of climate-related financial disclosures provide such disclosures in their mainstream (i.e) public annual financial filing.	Disclosures are industry-specific and can be used as additional sources of guidance for ESG reporting purposes.	Can be produced as a stand-alone sustainability report, or can reference information disclosed in a variety of locations and formats.
Materiality	Based on "double materiality," consisting of "financial materiality" (an outside in perspective) and "impact materiality" (an inside out perspective).	Materiality would be assessed based on factors that could reasonably be expected to influence decisions that the primary users make based on that information.	Materiality would be assessed based on factors that could impact the enterprise value of the company from the standpoint of the investor and other participants in the world's capital markets	The responsibility for making materiality judgements and determinations rests with the reporting entity.	Materiality is based on the most significant impacts of activities and business relationships on the economy, environment, and people.

Targets and transition plans	Commitment to and disclosure of GHG emissions reduction targets would be required in five-year rolling periods. Disclosure about the transition plan's compatibility with the Paris Agreement would also be required.	Disclosure would be required of any climate-related targets set by the company, including how such targets were informed by the "latest international agreement on climate change (currently the Paris Agreement).	Disclosure of the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	Commitment to and disclosure of GHG emissions reduction targets and timelines for the reduction activity would be required.	Proposed climate change and energy standard would require disclosures related to transition plans, climate change adaptation, emission reduction targets, GHG removal within organizations' value chains and the use of carbon credits.
Use of scenario analysis	Explanation is required of whether and how scenario analysis is consistent with the Paris Agreement and limiting climate change to 1.5°C.	Disclosure of whether the company used a scenario that aligns with the "latest international agreement on climate change" would be required.	Disclosure of how strategies might change to address potential climate-related risks and opportunities including a 2° Celsius or lower scenario.	Disclosure of how strategies might change to address potential climate-related risks and opportunities including a 2° Celsius or lower scenario.	GRI leverages the IPCC assessment reports based on a 100-year timeframe. Which guides on the use of scenario analysis.
GHG Protocol	Consideration of the GHG Protocol is required.	Use of the GHG Protocol would be required, unless a different method is required by a jurisdictional authority or exchange.	GHG emissions should be calculated in line with the GHG Protocol methodology to allow for aggregation and comparability across organizations and jurisdictions.	Use of the GHG Protocol would be required but provide additional guidance, such as industry- or region specific guidance.	The reporting requirements for GHG emissions are based on the requirements of the GHG Protocol.
GHG emissions - organizational boundaries	Parent and consolidated subsidiaries' emissions: follow the organizational boundaries of the consolidated FS. Associates and JVs emissions: presented based on operational control.	Emissions would be reported using either a control or equity share approach (consistent with optionality described in the GHG Protocol).	Emissions would be reported based on climate risk profiling for each organization	Emissions would be recorded based on peculiar industry- based models e.g Energy and Extractive emissions, Financial services lending portfolios, etc.	The reporting organization shall report the consolidation approach for emissions; whether equity share, financial control, or operational control.

Scope 1 and scope 2 GHG emission	Disclosure of gross Scope 1 and Scope 2 emissions for Parent, consolidated subsidiaries, and associated entities.- Separate disclosures of the percentage of Scope 1 emissions under regulated emission trading schemes.- Separate disclosures of Scope 2 emissions.- No requirement to disaggregate emissions by type of GHG	Disclosure of gross scope 1 and scope 2 GHG emissions for the consolidated group and separately for the investees excluded from consolidation, such as its associates and joint ventures. Scope 2 emissions would be disclosed using the location- based method. No requirement to disaggregate emissions by type of GHG.	Disclosure of Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. No requirement to disaggregate emissions by type of GHG.	Gross Scope 1 GHG emission data shall be consolidated according to the approach with which the entity consolidates its financial reporting data, Would require emissions to be disaggregated by type of GHG	Disclosure of Gross direct (Scope 1) GHG emissions in metric tons of CO2 equivalent and Gross location-based energy indirect (Scope 2) GHG emissions in metric tons of CO2 equivalent are required.
Scope1 and Scope2 GHG intensity	Disclosure of total GHG emissions per net revenue would be required.	No requirement to disclose GHG emissions intensity.	Disclosure of industry specific GHG efficiency ratios e.g. emissions per unit of economic output.	Disclosure of GHG emissions per unit of total revenue and per unit of production would be required.	Disclosure of scopes 1, 2 and 3 GHG emissions intensity ratio is required.
Scope 3 GHG emissions	Scope 3 emissions would be disclosed in total for the parent and consolidated subsidiaries as well as entities over which it has operational control, including significant scope 3 categories.(i.e., those that are a priority for the undertaking).	Scope 3 emissions would be disclosed in total, including component categories.	Scope 3 emissions would be disclosed in total, including component categories.	Scope 3 emissions would be disclosed in total, including component categories per relevant industry	Disclosure of Gross other indirect (Scope 3) GHG emissions in metric tons of CO2 equivalent required.
Scope 3 GHG intensity	Disclosure of total GHG emissions per net revenue would be required.	No requirement to disclose GHG emissions intensity.	Disclosure of industry specific GHG efficiency ratios e.g. emissions per unit of economic output.	Disclosure of GHG emissions per unit of total revenue and per unit of production would be required.	Disclosure of scopes 1, 2 and 3 GHG emissions intensity ratio is required.

Assurance excluding GHG emissions	Sustainability information would initially be subject to limited assurance, transitioning to reasonable assurance at an unspecified date.	Sustainability information would be subject to assurance based on the rules of the jurisdictions adopting the standards.	Sustainability information would be subject to assurance based on the rules of each jurisdiction	Sustainability information would be subject to assurance based on the rules of each jurisdiction relation to each industry within the jurisdiction.	Encourages organizations to use external assurance to increase the confidence of decision-makers in the accuracy and reliability of the reported information.
Timing of application	Timing is established by the CSRD and would be phased by type of entity.	Timing will depend on how standards are implemented in each jurisdiction. Disclosure requirements of IFRSS2 are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. In the first year of reporting, entities are permitted to apply IFRS S1 only to the extent it relates to the disclosure of Climate-related information.	Timing will depend on type of preparer with disclosure requirements being the industry standard for climate-related disclosures since published in June 2017.	Timing would depend on if the SASB standards are consulted as additional sources of guidance for reporting purposes.	
Comparative information	Comparative information would not be required in the first year of adoption but required thereafter.	Comparative information would not be required in the first year of adoption but required thereafter.	Presenting comparative information is preferred; however, in some situations it may be preferable to include a new disclosure even if comparative information cannot be prepared or restated.	Comparative information would not be required in the first year of adoption (as an additional guidance) but required thereafter.	The information shall be presented in a manner that enables analysis of changes in organization's performance over time, and relative to other organizations.

3.0 Local Laws, regulations and guidelines that support ESG

Sustainability disclosure practices in Nigeria is gaining importance in recent years as businesses and stakeholders recognize the need for transparency and accountability in addressing environmental, social, and governance (ESG) issues. While Nigeria is still in the early stages of developing comprehensive sustainability reporting frameworks, there are notable efforts to promote sustainability disclosures. The following are local laws, regulations and guidelines, though not exhaustive that support ESG initiatives in Nigeria.

The Environmental Impact Assessment Act, 2004 LFN	The Act mandates that an environmental impact assessment must be conducted for any project or activity that is likely to significantly affect the environment. The EIA report is required to be submitted to the National Environmental Standards and Regulations Enforcement Agency ("NESREA" – the Federal Environmental Protection Agency) for approval and a certificate issued.
The National Environmental Standards and Regulations Enforcement Agency (NESREA) Act, 2007	The recent and very important regulatory law to Nigeria's environmental regime is the National Environmental Standards and Regulations Enforcement Agency (Establishment) Act (NESREA Act), which came into force in 2007. The Act establishes the National Environmental Standards and Regulations Enforcement Agency (NESREA or Agency), Nigeria's lead environmental protection agency. The NESREA Act empowers the Agency to be responsible for enforcing all environmental laws, guidelines, policies, standards and regulations in Nigeria, as well as enforcing compliance with provisions of international agreements, protocols, conventions and treaties on the environment to which Nigeria is a signatory.
The Companies and AlliedMatters Act, 2020 ("CAMA")	CAMA imposes an environmental obligation on directors of Nigerian companies. The Act mandates directors to consider the impact of the company's operations on the environment in the community where the company carries out its business operations.

The Petroleum Industry Act, 2021 ("PIA")	Section 239 of the PIA empowers a body known as the Host Community Development Trust to finance and execute projects for the benefit and sustainable development of hostcommunities. This provision mandates operators to participate in environmental and social sustainability actions in the communities in which they operate such as decommissioning and the abandonment of petroleum wells, installations, structures, etc.
NSE (Now NGX) Sustainability Disclosure Guidelines, 2019	The NSE plays a vital role in promoting sustainability reporting among listed companies. In 2017, the NSE launched the NSE Sustainability Disclosure Guidelines, which provide a framework for listed companies to disclose their ESG performance. The guidelines cover key areas such as governance, environmental impact, labor practices, human rights, andcommunity involvement.
Nigeria Code of Corporate Governance (2018)	The FRC has made efforts to incorporate sustainability reporting into financial reporting requirements. The National Code of Corporate Governance now includes provisions related to sustainability reporting, encouraging companies to disclose ESG information.
The Nigerian Climate Change Act (2021)	The Nigerian Climate Change Act, signed in 2021, aims to address climate change and promote sustainable development in the country. The National Council on Climate Change(NCCC) is responsible for implementing the act, which could significantly impact ESG Reporting in Nigeria.
CBN's Sustainable Banking Principles (2012)	In 2012, the Central Bank of Nigeria (CBN) released the Sustainable Banking Principles,which guide Nigerian banks on integrating sustainability practices into their operations. The principles emphasize sustainability reporting and disclosure as a meansto ensure transparency and accountability in the banking sector.
SEC guidelines on sustainable financial principles for the Nigerian capital market (2021)	In 2021, the SEC approved the Guidelines on Sustainability Financial Principles for the Nigerian Capital Market. The objectives of the guidelines include to stimulate a resilient, competitive and sustainable capital market, and to improve corporate governance practices. The guideline requires public interest/ listed entities to integrate ESG considerations into their operations and decision-making processes to avoid, minimize oroffset negative impacts.

4.0 Recommended Sustainability framework for Nigerian entities

Nigeria embraced the ISSB standards because of its global baseline and high quality standards which facilitate the disclosure of the sustainability-related risks and opportunities faced by an entity. The adoption of the standard will ensure the streamlining of sustainability disclosures and enhancement of comparability which has the potential to unlock capital flows to Nigeria.

The ISSB sustainability standards have also received International commendation and support from a broad range of stakeholders including but not limited to the G7, the G20, the International Organization of Securities Commissions (IOSCO), and the Financial Stability Board, Central Bank Governors from more than 40 jurisdictions.

Where the ISSB standards did not address a particular sustainability issue, the IFRS S1 requires entities to "refer to and consider" the applicability of the disclosure topics and related metrics in the industry-based SASB standards. The standard also recommends the consideration of other sources, such as the Climate Disclosure Standards Board (CDSB), European Sustainability Reporting Standards (ESRS), and the Global Reporting Initiative (GRI) standards.

There is currently no arrangement to mandate dual reporting of sustainability issues in general-purpose reporting.

5.0 The IFRS Sustainability Disclosure Standards Reporting Roadmap

Nigeria has adopted a phased approach to the adoption of the IFRS Sustainability disclosure standards with full application of the mandatory reporting for applicable entities commencing from the accounting period beginning on or after January 1, 2028.

a. Phase 1 (Early Adopters) - The IFRS sustainability disclosure standards became effective for annual reporting periods beginning on or after January 1, 2024. Entities in this category are required to report their sustainability-related information for the accounting period ending on or before December 31, 2023, and pass the readiness test assessment to qualify as early adopters.

b. Phase 2 (Voluntary Adopters) - This Phase is for the accounting period beginning on or after 1 January 2024 and through to the accounting period ending on or before 31 December 2027. During this period reporting entities are required to build capacity and get ready for mandatory adoption. Any entity that desires to report during this period shall be subjected to the readiness test assessment of the FRC.

c. Phase 3 (Mandatory Adoption) - From the accounting period beginning on or after 1 January 2028, it will become mandatory for all entities except government and government organizations to adopt the IFRS sustainability disclosure standards. This phase is categorized into two (2) as follows;

    i. All PIEs (Reporting date: Accounting period beginning on or after January 1, 2028); and

    ii. SMEs (Reporting date: Accounting period beginning on or after January 1, 2030).

The readiness test assessment is compulsory for all entities reporting in these phases and must be carried out before an entity publishes its first sustainability report.

d. Phase 4 (Governments and government organizations) - A review will be conducted when the sustainability reporting standards for public sector entities currently being developed by the International Public Sector Accounting Standards Board (IPSASB) become available with the aim of determining the appropriate period when sustainability reporting disclosures by public sector entities will be required.

<table>
<tr><td rowspan="2">Phase 1:
Early Adopters

(Dec, 31, 2023)</td><td rowspan="2">Phase 2:
Voluntary Adopters

(2024 -2027)</td><td colspan="2">Phase 3:
Mandatory Adopters</td><td rowspan="2">Phase 4:
Government & Govt. Organisations
(To be determined)</td></tr>
<tr><td>All PIEs:
2028</td><td>SMEs:
2030</td></tr>
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5.1 Readiness Test Assessment

Readiness test assessment will be conducted to ascertain the preparedness or otherwise of entities to adopt the IFRS sustainability disclosure standards. The following documents will be required to be submitted by reporting entities to the FRC for the assessment.

1. Board resolution approving the adoption of IFRS sustainability Disclosure standards;
2. GAP Analysis Report;
3. Implementation plan;
4. IFRS Sustainability Disclosures Policies;
5. Identification and application of transitional reliefs;
6. Enterprise Risk Management and Sustainability Framework;
7. Evidence of Board Approval of the IFRS Sustainability Disclosure Policies;
8. Evidence of Board-Approval of Enterprise Risk Management and Sustainability Framework;
9. Evidence of Sustainability and ESG-specific training for Board Members, Management, and Preparers by reputable training providers acceptable by the FRC;
10. Evidence of registration of the entity and professionals engaged in the sustainability reporting process with FRC;
11. Description of Models used for scenario analysis;

12. Identification of sustainability and climate-related risks and opportunities;

13. Evidence of the establishment of a governance structure for sustainability reporting;

14. Targets and metrics set to manage and measure identified risks and opportunities;

15. Identification of aspects of financial reports requiring updates;

16. Identification of current and anticipated effects of sustainability-related risks and opportunities on the entity's business model and value chain; and

17. Internal control over sustainability reporting.

The order of submission of the readiness assessment document is as follows;

a. **Items 1 to 3 will be required to be submitted at least three (3) months before the beginning of the reporting date.**
b. **Items 4 to 9 will be required to be submitted not more than three (3) months after the beginning of the reporting date.**
c. **All other items are to be submitted not more than six (6) months after the beginning of the reporting date.**

The FRC would review these documentation and provide appropriate feedback as necessary.

6.0 Key considerations for effective Adoption

6.1 Materiality

Reporting entities in line with IFRS S1 are required to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Sustainability information is deemed material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures that provide information about a specific reporting entity.

6.2 Governance

The objective of sustainability-related financial disclosures on governance is to enable users of general-purpose financial reports to understand the governance processes, controls, and procedures an entity uses to monitor, manage, and oversee sustainability-related risks and opportunities.

It is required that disclosures will include information about the governance body responsible for oversight of sustainability-related risks and opportunities and how the company's governance bodies are involved in overseeing and monitoring sustainability-related risks and opportunities, including an explanation of how this role is incorporated into the company policy and procedures including management's role in the governance processes, controls and procedures used to monitor, manage and oversee sustainability-related risks and opportunities.

6. 3 Strategy

The objective of sustainability-related financial disclosures on strategy is to enable users of general purpose financial reports to understand an entity's strategy for managing sustainability-related risks and opportunities. Disclosures relating to an entity's strategy would include information about the:

- The sustainability-related risks and opportunities that could reasonably be expected to affect the Entity's prospects.
- Current and anticipated effects of risks and opportunities faced by the reporting entity (for the reporting period and over the short, medium, and long term) on the entity's:
- Climate resilience of strategy and business model to both transition and physical risks.

6.3.1 Assessing Climate Resilience

An entity shall disclose information that enables users of general purpose financial reports to understand its capacity to adjust to the uncertainties arising from sustainability-related risks. An entity shall use scenario analysis for this assessment. While methods of scenario analysis can vary in their sophistication, entities are required to provide a disclosure of the approach used.

The recommended approach is one that is commensurate with an entity's circumstance, and it shall be informed by the assessments of the entity's exposure to climate-related risks and opportunities and its available skills, capabilities and resources. Entities may be required to use qualitative scenario analysis at the initial period and progress to quantitative scenario analysis for subsequent periods.

6.4 Risk management

The objective of sustainability-related financial disclosures on risk management is to enable users of general purpose financial reports to understand an entity's processes to identify, assess, prioritise and monitor sustainability-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process; and to assess the entity's overall risk profile and its overall risk management process.

Entities will be required to disclose information about the processes and related policies the entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities and the extent to which, and how, these processes are integrated into and inform the entity's overall risk management process.

6.5 Metrics and Targets

The objective of sustainability-related financial disclosures on metrics and targets is to enable users of general-purpose financial reports to understand an entity's performance regarding its sustainability-related risks and opportunities, including progress towards any targets the entity has set, and any targets it is required to meet by law or regulation.

An entity will be required to disclose, for each sustainability-related risk and opportunity that could reasonably be expected to affect its prospects: *the metrics required by an applicable IFRS Sustainability Disclosure Standard*; and *the metrics the entity uses to measure and monitor that sustainability-related risk or opportunity*; and its performance about that sustainability-related risk or opportunity.

As provided in IFRS S1, in the absence of an IFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity, an entity is expected to apply judgment to identify information.

In making such judgements, the entity shall refer to and consider the -

- *Applicability of the metrics associated with the disclosure topics included in the SASB Standards;* or
- Refer to and *consider the applicability of the CDSB Framework Application Guidance*;
- *The most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general purpose financial reports; and;*
- *The information, including metrics, disclosed by entities that operate in the same industry(s) or geographical region.*

An entity may also refer to and consider the applicability of the Global Reporting Initiative Standards and the European Sustainability Reporting Standards.

6.5.1 Climate-related metrics

An entity shall be required to disclose information relevant to the cross-industry metric categories of:

- Greenhouse gases – (absolute gross greenhouse gas emissions generated classified as scope 1, scope 2 and scope 3 emissions and the approach it uses to measure its greenhouse gas emissions).
- Climate-related transition risks;
- Climate-related physical risks;

- Climate-related opportunities;
- Capital deployment;
- Internal carbon prices
- Remuneration — executive remuneration and the percentage of executive management remuneration recognised in the current period that is linked to climate related considerations.

6.5.2 Climate-related targets

An entity will be required to disclose the quantitative and qualitative climate-related targets it has set to monitor progress towards achieving its strategic goals, and any targets it is required to meet by law or regulation, including any greenhouse gas emissions targets. The approach used to set and review the targets and how progress is monitored against each target is also required to be disclosed.

It is also required that entities should disclose information about its performance against each climate-related target and an analysis of trends or changes in the entity's performance.

7.0 Support and Transitional Reliefs for Preparers

The ISSB is providing support and transition reliefs that will assist both preparers and regulators with implementation of the standards. The following support have so far been provided by the ISSB for reporting entities.

7.1 Support for Adopters

a. Introducing proportionality and scalability mechanisms in IFRS S1 and IFRS S2 by introducing concepts such as *'reasonable and supportable information that is available at the reporting date without undue cost or effort*; and '*the skills, capabilities and resources available to the entity'* in the determination of anticipated financial effects, Climate-related scenario analysis, Measurement of Scope 3 GHG emissions, identification of risks and opportunities, determination of the scope of the value chain and calculation of metrics in some cross-industry categories.

b. Establishment of capacity-building programmes and Knowledge hub to provide technical support to regulators and to increase the capacity among preparers and other stakeholders to apply IFRS S1 and IFRS S2.

c. Developing an Adoption Guide aimed to support regulators in their implementation considerations and to enable the introduction of scalability and phasing-in of the application of the requirements in IFRS S1 and IFRS S2 at a jurisdictional level.

7.2 Transitional Reliefs

The following transitional reliefs as provided in IFRS S1 and IFRS S2 allow entities to deviate from some disclosure requirements when the standards are first applied. The ARWG requires reporting entities in Nigeria to apply the following transition reliefs;

- Climate-first reporting— entities are allowed to disclose information on only climate-related risks and opportunities in the first annual reporting period in which that entity applies IFRS S1.

- Scope 3 GHG emissions—provides a transition relief in the first annual reporting period from disclosing Scope 3 GHG emissions. Further guidance will be issued by the ARWG/FRC on scope 3 GHG emissions.
- Timing of reporting— in the first annual reporting period, IFRS S1 permits entities to report their annual sustainability-related financial disclosures after they publish their related financial statements, along with their half-year financial reports. Reporting entities in Nigeria are allowed to issue the first sustainability report as a standalone report under ISSB's sustainability reporting framework.
- comparative reporting—if an entity decides to apply the relief to disclose information on only climate-related risks and opportunities in the first annual reporting period, then it does not need to provide comparative information about its sustainability-related risks and opportunities apart from climate in its second year.
- GHG Protocol—IFRS S2 allows an entity already using a different measurement method to continue to use that method in the first year it applies IFRS S2. Reporting entities in Nigeria are also allowed to continue to use the different measurement methods beyond the first year if there is evidence that it aligns significantly with the GHG Protocol.

8.0 Disclosing Sustainability Information

a. **Reporting Entity** – Sustainability-related financial disclosures shall be for the same reporting entity as for the related general-purpose financial statements. For consolidated entities, the sustainability-related financial disclosures shall enable users of general-purpose financial reports to understand the effects of the sustainability-related risks and opportunities for that same parent and its subsidiaries.

b. **Location of disclosures -** In order to align with existing reporting practices, reporting entities in Nigeria will be required to provide disclosures required by IFRS Sustainability Disclosure Standards as part of its general purpose financial reports and this should be presented after the directors report before the financial statements. Entities will be required to include an index or reference within their annual report that displays sustainability-related financial information and the corresponding disclosure section and page number(s) to enhance the user's ability to navigate information.

c. **Timing of reporting** – The timing of sustainability-related disclosures should be consistent with the timing of financial statements. Nigerian entities are required to report their sustainability-related financial disclosures at the same time as their related financial statements and it shall cover the same reporting period as the related financial statements subject to the exemption provided for the first year of reporting.

d. **Comparative information** – An entity is required to disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period. An entity shall not comply with this requirement where another IFRS Sustainability Disclosure Standard permits or requires otherwise or the entity decides to apply the relief available for comparative reporting for the first year.

e. **Statement of compliance** – In line with existing requirements in financial statements, an entity whose sustainability-related financial disclosures comply with all the requirements of IFRS Sustainability Disclosure Standards shall make an explicit and unreserved statement of compliance. An entity shall not describe sustainability-related financial disclosures as complying with IFRS Sustainability Disclosure Standards unless they comply with all the requirements of IFRS Sustainability Disclosure Standards.

f. **Publishing Requirement -** All applicable entities would be subject to the requirement of making their sustainability-related financial disclosures public.

9.0 Assurance

The importance of assuring sustainability-related financial disclosures cannot be overemphasized. The assurance roadmap is designed in such a way that there is progress from limited to reasonable assurance and from requiring assurance/verification on some aspects of the disclosures to requiring full reasonable assurance on all the disclosure requirements. Entities that already obtain some form of assurance on their sustainability disclosures should be encouraged to continue and ensure they do not deviate from the provisions of the assurance roadmap. Reporting entities are also allowed but not mandated to require a higher level of assurance than those required at various phases of the roadmap. (For example, an entity may require limited assurance during a period where no assurance is required and reasonable assurance during period of limited assurance).

a. Assurance Standard

Assurance will be based on ISAA 5000 (Proposed International Standard on Sustainability Assurance 5000, General Requirements for Sustainability Assurance Engagements) currently being developed by the International Auditing and Assurance Standards Board (IAASB) to address both limited and reasonable assurance. The standard is expected to become available before the end of 2024. Presently, in use and widely too, are accounting standards such as International Standards on Engagement 3000 and 3402. Therefore, transition to ISAA 5000 will be communicated once it becomes effective.

b. Licensing of Sustainability Assurance Providers

Assurance/verification of sustainability disclosures is expected to be carried out by a qualified and experienced independent provider. Providers of assurance for sustainability-related disclosures would be required to be independent of the entity being audited in accordance with the International Ethics Standards Board for Accountants (IESBA) code. The assurance providers will be expected to possess requisite professional qualifications and knowledge of assurance processes as may be required by the FRC.

Due to the technical and sophisticated nature of the assurance required, it will not be unusual to find professionals who may not possess the skills or technical expertise to assure/verify certain elements of sustainability related information. All professionals involved in assuring sustainability related financial disclosures will be required to be registered with the FRC.

c. The Assurance Roadmap

Assurance/verification will be required from the third year of reporting. However, entities are permitted to provide assurance before the mandatory third year. For the third and fourth year after reporting, limited assurance will be required on all sustainability disclosures except scope 3 emissions, transition plans and scenario analysis. For the Fifth year after reporting, limited assurance will be required for scope 3 emissions, transition plans and scenario analysis while reasonable assurance will be required on all other disclosures. From the sixth year after reporting, reasonable assurance will be required on all sustainability disclosures. The Assurance timeline for government and government organisations will be considered together with the reporting roadmap.

Third and Fourth Years after Reporting	Fifth Year After Reporting	Sixth Year After Reporting
• Limited assurance/verification of S1 and S2 disclosures (excluding scope 3 emissions, scenario analysis and transition plans.	• Reasonable assurance/verification of S1 and S2 disclosures (excluding scope 3 emissions, scenario analysis and transition plans). • Limited assurance/verification of scope 3 emissions, scenario analysis and transition plans.	• Reasonable assurance/verification of all disclosures (full quantitative assurance).

10.0 Advocacy and Communication

Advocacy and communication are very important requirement for effective adoption. Professional bodies, Regulators, Policy Makers, Specialized Institutions, Academia and the Media (including the social media) have been identified as necessary stakeholders in the adoption process. There is need to create awareness, to enable the stakeholders embrace the implication of sustainability in depths.

The various mediums of engagement identified are virtual, in-person meetings, hybrid meetings, webinars, workshops, visitations, social media handles, jingles etc. The FRC has also signed an MOU with the Nigerian Integrated Reporting Committee (NIRC) to assist in the advocacy and enlightenment as well as capacity building.

11.0 Monitoring and Enforcement

The same Regulator for monitoring and enforcement of financial reporting will be required for monitoring of sustainability related financial disclosures. By the FRC amendment Act of 2023, the FRC is empowered to promote compliance with the adopted standards issued by the IFRS Foundation (which includes the International Sustainability Standards Board that issues the IFRS sustainability standards). The enforcement action of the FRC will be initially focused on supporting and guiding entities as they navigate their way in implementing the standards. It is not expected that the FRC will apply sanctions especially at the early stage of adoption. Regulatory roundtable will be held to develop a framework that will specify the roles and responsibilities of other relevant regulators and stakeholders in the adoption process to ensure synergy and harmonization of efforts.

Appendix A

Definition of Terms

1. **Early adopters:** These are entities that have decided to adopt the standard before its effective date. The IFRS Sustainability disclosure standards became effective for accounting period beginning on or after January 1, 2024. For an entity to qualify as an early adopter, it must have indicated its willingness and readiness to adopt the IFRS S1 and S2 for accounting period ending on or before December 31, 2023 and pass the readiness test assessment to be conducted by FRC.

2. **Government and government organisations:** These are public sector entities that are required to apply the International Public Sector Accounting Standards (IPSAS) in their financial reporting in line with the IPSAS applicability Statement issued by the FRC. Such entities -

    a. Are responsible for the delivery of services to benefit the public and/or to redistribute income and wealth;

    b. Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt, or fees; and

    c. Do not have a primary objective to make profits.

3. **Limited Assurance:** This is an assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence

obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated. The nature, timing, and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful

4. **Mandatory Adopters:** These entities who have elected to adopt the IFRS sustainability disclosure standards when they become mandatory in Nigeria or at the expiration of the voluntary period.

6. **Public Interest Entities** is as defined in the FRC Act 2011 (as amended) and includes –

    a. governments and government organizations;

    b. listed entities on any recognised exchange in Nigeria;

    c. non- listed entities that are regulated;

    d. public limited companies;

    e. private companies that are holding companies of public or regulated entities;

    f. concession entities;

    g. privatized entities in which government retains an interest;

    h. entities engaged by any tier of government in public works with annual contract sum of N1 billion and above, and settled from public funds;

    i. licensees of government; and

   j. all other entities with an annual turnover of N30 billion and above.

7. **Reasonable Assurance:** This is an assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion.

8. **Small and Medium-sized Entities (SMEs):** This refers to entities that may not have public accountability and:

   a. Their debt or equity instruments are not traded in a public market;

   b. They are not in the process of issuing such instruments for trading in a public market;

   c. They do not hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses.

   d. The amount of its annual turnover is not more than N500 million or such amount as may be fixed by the Corporate Affairs Commission,

   e. Its total asset value is not more than N200 million or such amount as may be fixed by the Corporate Affairs Commission,

   f. No Board members are an alien,

   g. No members are a government or a government corporation or agency or its nominee, and

   h. The directors among them hold not less than 51 percent of its equity share capital.

9. **Sustainability reporting Standards:** This refers to IFRS S1 and S2 and other standards Issued and or adopted by the International Sustainability Standards Board (ISSB).

10. **Voluntary Adopters:** These are categories of reporters who have elected to adopt the IFRS Sustainability disclosure standards before it becomes mandatory in Nigeria. Adoption of the standard becomes mandatory in Nigeria from accounting period beginning on or after January 1, 2028.

Appendix B: Members of ARWG

The ARWG comprises of professionals from diverse backgrounds, including chief executives, directors, sustainability officers, Auditors, financial institutions, regulators, investors, and the academia.

S/N	NAME	ORGANISATION
1.	Dr. Rabiu Olowo (Project Sponsor)	Financial Reporting Council of Nigeria
2	Iheanyi Anyahara, PhD (Chairman)	Financial Reporting Council of Nigeria
3	Dr. Ndidi Nnoli- Edozien	International Sustainability Standards Board (ISSB)
4	Ms. Tinuade Awe	Former CEO, NGX Regulations Ltd
5	Dr. Innocent Okwuosa	Nigeria Integrated Reporting Committee
6	Mrs. Adekemi Adisa	MTN Nigeria Communications Plc
7	Dr. Igaezuema Okorobo	Dangote Cement Plc
8	Mrs. Grace Fatogbe	NISRAL Plc
9	Nkeiru Chime	The Infrastructure Bank Plc
10	Prof. Jane Ande	Association of National Accountants of Nigeria (ANAN)
11	Prof. Fatima Alfa	University of Maiduguri
12	Dr. A. O. Okunola	Institute of Chartered Accountants of Nigeria (ICAN)
13	Dr. Onyinye Eneh	Nnamdi Azikiwe University
14	Mr. Ibironke Babajide	Abuja Electricity Distribution Company (AEDC)
15	Ms. Rukaiya El-Rufai	SA to the President on National Economic Council (NEC) and Climate Change
16	Dr. Oduware Uwadie	Deloitte & Touche
17	Mr. Sam Agbavem	Ernst & Young
18	Mrs. Tomi Adepoju	KPMG
19	Ms. Essien E. E	Central Bank of Nigeria (CBN)

S/N	NAME	ORGANISATION
20	Elizabeth Oyinlola Akinboye	Seven Pillars
21	Jane Ohadike	ACCA
22	Mr. Emmanuel Etaderhi	FMDQ Holdings Plc
23	Tarfa M. C. Makyur	Securities & Exchange Commission (SEC)
24	John Maguire	Interswitch Group
25	Mrs. Kikelomo Fischer	Leadway Assurance Compny Limited
26	Dr. Jacob Ame	Nasarawa State University
27	Mrs. Ijeoma Ozulumba	Development Bank of Nigeria (DBN)
28	Mr. Michael Ivenso	Nigerian Council on Climate Change (NCCC)
29	Marilyn Obaisa-Osula	PwC
30	Bolanle Adekoya	PwC
31	Sa'ad Abubakar	Securities & Exchange Commission (SEC)
32	Chioma Orjiako	National Pension Commission (PENCOM)
33	Oluwatoyin A. Charles	National Insurance Commission (NAICOM)
34	Eunice Sampson	Ernst & Young
35	Yomi Adebanjo	Institute of Chartered Secretaries and Administrators (ICSAN)
36	Ibe O. Ibe	Financial Reporting Council of Nigeria
37	Stanley Aniagbaoso	Financial Reporting Council of Nigeria
38	Dr. Abdurazzaq Abubakar (Secretary)	Financial Reporting Council of Nigeria
39	Anthonia Odo	Financial Reporting Council of Nigeria