Roadmap Report for Adoption of IFRS Sustainability Disclosure Standards in Nigeria

Issued by the Adoption Readiness Working Group (ARWG) for Sustainability Reporting in Nigeria

Comments from ACCA

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As part of our commitment to sustainability, ACCA has been at the forefront of fostering a more robust business environment in implementing sustainability into accounting and finance practices. We set up a sustainability hub providing access to S1 and S2 explainer videos, reports, and articles to help our members and other accounting professionals keep up to date on sustainability matters. ACCA, INTOSAI Development Initiative (IDI) and IFAC have recently launched an introduction to sustainability reporting and assurance guide, intended for the public sector globally.

At national and regional levels, ACCA also continues to work collaboratively with professional accountancy organisations such as the Institute of Chartered Accountants of Nigeria (ICAN) and the Pan African Federation of Accountants (PAFA), in driving this commitment. Our joint engagements in building capacity and contributing to insight on local adoption of the international sustainability standards are some of the ways we seek to lead the future of our profession together and amplify our voice to influence key policy issues affecting the profession.

Further information about ACCA's comments can be requested from:

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1.0 General Comments

ACCA welcomes the opportunity to provide views in response to the ARWG's call for comments on the *Roadmap Report for Adoption of IFRS Sustainability Disclosure Standards in Nigeria*. We commend the Federal Reporting Council of Nigeria (FRCN) for being a first mover in committing to adopting the standards and leading the implementation efforts of the ARWG, wherein ACCA is represented.

This consultation response further highlights ACCA's commitment to support the FRCN in implementing sustainability standards in Nigeria, as part of the objectives outlined in the recently signed Memorandum of Understanding (MoU) by ACCA's Chief Executive, Helen Brand OBE and the FRCN's Executive Secretary, Mr. Rabiu Olowo on February 29th, 2024.

ACCA has consistently advocated for a global approach to the development of sustainability disclosure standards, and we fully support the role of the International Sustainability Standards Board (ISSB) in setting a consistent and comparable global baseline to sustainability reporting around the world.

At the same time, in developing reporting standards, it is important to ensure that the reporting catalyses the necessary systemic or operational changes, and that investors use these disclosures to allocate capital more efficiently and responsibly. For this to happen, we believe the widespread application of integrated thinking is necessary

We therefore encourage jurisdictions to build on the adoption of the ISSB standards, where jurisdiction-specific reporting frameworks or guidelines are developed in meeting region-specific needs of regulators, investors, and other key-stakeholders, in a way that supports compatibility and interoperability.

2.0 Additional views on components of ARWG roadmap

In addition to specific matters which the ARWG has requested comments on, we believe it will be useful to share our views on other components of the roadmap as follows.

2.1 Recommended framework for Nigerian entities

In providing for the use of additional frameworks for reporting by Nigerian entities, section 5.0 cites the recommendations of IFRS S1 referencing the use of other sources of guidance, such as the CDSB[1], ESRS[2] and GRI[3] standards. Consequently the ARWG roadmap provides for Nigerian reporting organisations with affiliated entities to consider emerging regulations, such as the Securities and Exchange Commission's proposed climate disclosures and the EU's CSRD[4], in alignment with the TCFD[5] recommendations.

In providing clarity, ACCA posits that an organisation operating across multiple jurisdictions might have the added complexity of first having to consider the base disclosure requirements that pertain to all organisations operating in each jurisdiction. The organisation will need to be alert to the possibility that a subsidiary operating in a different jurisdiction from its parent might be required to make disclosures at the same level as, or in a greater level of detail than, its parent. Then, the organisation needs to overlay that base with industry-specific requirements in the respective jurisdictions and consider how these apply together and interact with the organisation's overall structure and value chain.

Given these, we recommend that where an IFRS sustainability disclosure standard covers the reporting requirement for a particular sustainability reporting risk and opportunity, the option to refer to these additional standards be left as non-mandatory in reducing the cost and burden of reporting.

We acknowledge the FRCN's recommendation that ISSB standard adopters in Nigeria apply the SASB standards for industry-specific disclosures, in line with the ISSB's provisions, considering among other things, that it caters to disclosure requirements covering 11 sectors across 77 industries.

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[1] Climate Disclosure Standards Board (CDSB)
[2] European Sustainability Reporting Standards (ESRS)
[3] Global Reporting Initiative (GRI)
[4] Corporate Sustainability Reporting Directive (CSRD)
[5] Task Force on Climate-Related Financial Disclosures (TCFD)

ACCA is mindful that developed as the SASB Standards have been in the United States, the disclosure topics and metrics for each given industry have also been identified in relation to US-based entities. Given that entities will be required to refer to the SASB Standards not only in making disclosures, but also in identifying sustainability-related risks and opportunities (SRRO), this could be challenging for entities outside of the US, especially in the Global South, to apply. Consequently, the ARWG may consider making provisions for possible post-implementation review of how the SASB standards are used in applying the IFRS sustainability standards.

We also note that IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information permits an entity to conclude that the disclosure topics and metrics specified in the SASB Standards are not applicable in the entity's circumstances, as well as consider the applicability of other frameworks, standards, pronouncements, and industry practices to the extent that they do not conflict with the ISSB Standards.

Findings from our research on companies' readiness to adopt IFRS S2[6], show that companies need to reduce the number of sources/reports in which climate-related disclosures are provided and significantly improve the level of cross-referencing between sources/reports. Furthermore, irrespective of the source/report disclosures are provided in, it is important for disclosures to be concise and not too voluminous.

2.2 Readiness Test

Section 6.2 reflects the FRCN's decision to conduct a readiness test in ascertaining the preparedness of entities to adopt the IFRS sustainability disclosure standards, based on a list of required documentation.

We note that the ISSB introduced the concept of proportionality to ensure that reasonable and supportable information available at the reporting date is gotten without undue cost or effort, in providing guidance on the information required in applying the standards. As such, the concept of undue cost or effort in the ISSB's [Jurisdictional journey towards implementing IFRS S1 and IFRS S2 - Adoption Guide overview] is aimed at ensuring that what is required of entities is proportionate to their circumstances and should be strongly considered with respect to the requirements of the readiness test for entities in Nigeria.

Ordinarily, costs of application can be expected to be high as many companies have not been reporting on these issues at all and others may have been, but not to the extent set out in the standard. Where reporting requirements go beyond common practice – such as disclosures relating to the value chain – we believe the benefits are unlikely to outweigh the costs in the short term. Another significant cost for preparers would be the need to report under different sustainability reporting standards, depending on the local requirements of the countries where they operate and/or are

[6] Companies Readiness to Adopt IFRS S2 Climate-related Disclosures

listed. Please see our earlier comments on recommended framework for Nigerian entities in section 2.1.

2.3 Key considerations for effective adoption

Findings of our earlier cited research in section 2.1 indicated the strong influence of the TCFD Recommendations on reporting practices today, and the important role it plays in preparing companies to meet the requirements of IFRS S2. In essence, aligning jurisdictional disclosure requirements and guidelines with the TCFD recommendations remains a crucial step in achieving globally aligned climate-related disclosures.

Our analysis of 102 climate disclosure requirements in 50 largest emitting companies (based on their average Scope 1 and Scope 2 GHG emissions over a three-year period 2018-2020) showed that disclosures covered by the governance dimension of IFRS S2 saw the highest level of adherence, compared with disclosures of the strategy and risk management dimension.

Our views on the ARWG's approach to effectively adopting the ISSB standards in line with materiality and thematic areas of the TCFD recommendations captured in section 7.0 are as follows:

2.3.1 Materiality

Given how fundamental entity-specific materiality judgements will be in driving the content of entities' reporting, much more specific guidance is needed around the materiality determination process to ensure that the sustainability-related financial information is consistent, comparable, and verifiable. Application guidance should be developed to support entities in identifying sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects, as well as the process that entities should use in determining material sustainability-related financial information.

An important aim of the materiality determination process should ensure that information meets the needs of the primary users. ACCA's research has highlighted a tendency in some jurisdictions, for the annual reporting package to become increasingly voluminous, as entities apply jurisdictional reporting requirements including those covering sustainability-related disclosures. Disclosure overload will make it more difficult for investors and other stakeholders to find the information that they need.

Material information about an organisation's SRROs may also change over time. Information that was material in the previous period may no longer be material now if circumstances have changed. Conversely, information that was not material in the previous period may now become material. The ISSB Standards require materiality judgements to be reassessed at each reporting date, considering changed (or new) circumstances and assumptions.

Also, the interpretation of the concept of 'enterprise value' may add further complexity to judgements around materiality. We understand, and agree, that this concept should encompass consideration of a broad range of matters that can affect the risk profile of an entity over the short, medium, and long term, and that this can include an entity's external impacts. We recommend that further guidance on the definition of enterprise value should be provided to link the concept more explicitly to a consideration of the risks and opportunities over time, and the impacts of the entity's business model and activities on external stakeholders, to the extent that these will translate into risks and opportunities for the entity over time.

2.3.2 Governance

As stated, 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. In addition, the ISSB standards requires disclosure about how the responsible governance body ensures it has the appropriate skills and competencies. We encourage the ARWG to consider providing guidance on the relevant skills and capabilities (skills, behaviours, and mindset) that the governance body should be equipped with.

2.3.3 Strategy

As stated, the ISSB's 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 SRROs. This requires an entity to disclose information about the resilience of its strategy and cash flows, considering its SRROs, including how the analysis was undertaken and its time horizon.

While we agree that such disclosures are required, this is likely to be a nascent area of disclosure for most preparers outside of climate-related reporting. Evaluating the resilience of an entity's strategy over the short, medium, and long term will be extremely challenging, especially in jurisdictions where there is currently no existing mandatory requirement for entities to provide any form of forward-looking disclosure.

In ensuring a minimum level of reliable disclosures, extensive application guidance should be provided in addition to considerations for expanding transition reliefs. See our response to specific matter for comment 2 on *Transitional Reliefs* in section 3.2.

2.3.4 Risk Management

Risk management can support the articulation of the effects of SRROs for accounting and/or disclosure, for example asset valuations or provisions (eg liabilities of uncertain timing or amount), such as with respect to physical or transition risks, and activities aimed at achieving GHG emissions targets.

In ensuring that the objective for risk management disclosures is achieved, it is important for entities to not only explain the process but specify what the related risks and opportunities are. This will include identification of the SRROs that could reasonably be expected to affect the organisation's prospects, especially if and how they may dynamically relate back to the organisation,

- beyond those most traditionally associated with the industry,
- owing to a shift in the mindset of investors, consumers, and employees towards sustainability, and/or
- resulting from developments in sustainability- reporting standards.[7]

2.3.5 Metrices and targets

It is noted that IFRS S1 expects an entity to apply judgement, in the absence of an IFRS sustainability disclosure standard that specifically applies to a SRRO, considering 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.

We broadly agree with the sources of guidance set out by the ISSB. However, we note that the judgements involved in assessing a fair presentation are significant, including the topics to cover, the metrics to use and the level of aggregation to adopt. They are more demanding where there is no sustainability standard for that topic, as may be the case for the immediate future except as concerns climate change. Sustainability reporting will be new to many companies and so the application of judgements would be more difficult.

The reference to 'the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general-purpose financial reporting' may be too vague to be of use to preparers and give rise to issues around assurance and enforcement. Realistically there is likely to be an overall low level of comparability and quality of reporting as a result.

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[7] Sustainability reporting – the guide – see section 7.3.4 Review the organisation design – positioning of functions, capacity and access to capabilities.

2.4 Statement of Compliance

In section 9.4, we note that in line with existing requirements for 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.

We agree in principle with the requirement for a compliance statement. Similar statements, including those provided in the integrated reports of companies applying the King Code in South Africa have been a useful means of improving quality and gaining appropriate attention from the management of companies. However, important details need to be clarified for such statements of compliance to be effective:

- What compliance means: in particular, whether entities must fully comply with SASB Standards to claim compliance; and to what extent entities must comply with other permitted resources.
- The effect on compliance when specific disclosures are prohibited by local laws or regulations and thus omitted. IFRS S1 require such omissions to be acknowledged. At the same time, there is a risk that such non-disclosure penalises the entity.
- The effect of jurisdictional transitional relief measures on the statement of compliance should also be considered.
- The location of the statement of compliance; given that disclosures may be found in multiple locations, more clarity is needed over the location where the statement of compliance should be published.

2.5 Licensing of Sustainability Assurance providers

The provisions of section 10.2 outline the FRCN's expectation for assurance service providers to be qualified and independent from the entity being audited. Assurance providers will be expected to possess requisite professional qualifications and knowledge of assurance processes as may be required by the FRCN. The FRCN also provides for permission of arrangements for delegation to third-party assurance providers, where technical expertise to assure certain elements of sustainability related information are wanting. Summarily, we note that the FRCN mandates its regulatory registration of all professionals involved in assuring sustainability related financial disclosures.

Our research findings underscore the need for assurance skills obtained through audit experience, as this is vital for performing high quality sustainability assurance engagements, in particular the professional judgement required in applying the specific nuances of ISSA 5000[8]

The interconnected nature of financial reporting and sustainability reporting further emphasises the need for sustainability assurance providers to have undertaken

[8] Sustainability Assurance - Rising to the challenge – See section 6 (Conclusion and the way forward)

sufficient training and professional experience in both financial and sustainability reporting. We believe that accountants are well-suited to connect financial and non-financial information and apply professional judgement to the complex requirements of ISSA 5000, including for example the various concepts of materiality, estimates and extent of disclosures. However, we recognise the need to work inclusively with other professionals in building and adopting ethical and assurance standards that encompass all reporting frameworks.

2.6 Definition of terms

We note that the ARWG has shaped its roadmap based on its classification of entities defined at the end of the document, including:

- *Significant Public Interest Entities (SPIEs):* These includes listed entities on any recognized exchange in Nigeria; non- listed entities that are regulated; public limited companies; and private companies that are holding companies of public or regulated entities.
- *Other public interest entities (OPIEs):* This refers to those entities, other than listed entities (unquoted, private companies), which are of significant public interest because of their nature of business, size, or number of employees or their corporate status which require wide range of stakeholders.

While this is not out of place, we recommend that special care is taken in defining terminologies, to ensure that global, regional, and national standard-setters are using the same language (as opposed to aligning or using similar language), so that there is consistent understanding across the world of the meaning of key terms.

3.0 Comments on Specific Questions

3.1 Specific Matter for Comment 1: The Adoption Roadmap (Reporting)

In paragraph 6.1, the Adoption Readiness Working Group ("ARWG") for Sustainability in Nigeria has proposed timelines for reporting of sustainability-related financial information in phases (i.e. Phases 1 to 4). Do you agree with this proposal? If you do not agree, please explain your reasoning and your proposed alternative(s)

Yes, we support a phased approach to implementation that reflects the size of entities and the resources that they need to dedicate to implementation. We would expect that companies would want to have a 'dry run' before being required to fully comply with the standards. The implementation roadmap reflects this period of voluntary adoption before the standards are required to be adopted on a mandatory basis.

ACCA expects the consideration of risks and opportunities over the short-, medium- and long-term future timeframes to be challenging for entities, especially those in jurisdictions which currently do not require forward-looking disclosures. Even in those jurisdictions where future-orientated reporting is required, the strategic planning horizons currently considered by entities are likely to be too short to appropriately capture sustainability-related risks and opportunities.

We therefore believe that further application guidance and illustrative examples will be important in helping entities apply the standards as intended. It will be particularly challenging for entities to disclose information about the resilience of its strategy and cash flows considering its sustainability-related risks and opportunities, as this is likely to be a nascent area of disclosure for most preparers, despite the phased timelines.

3.1.1 Small and medium Enterprises (SME)

We note that the timelines for SMEs mandatory adoption is not until 2030 within the 3rd phase of the ARWG adoption roadmap. We support a longer lead time for smaller non-listed entities.

However, we believe that challenges around identification, evaluation, prioritisation and disclosure of risks and opportunities arising from the value chain will be particularly acute for smaller, non-listed entities adopting the standards.

We recommend that the ARWG conducts field-testing of the impact of such disclosure requirements on SMEs. The FRCN would need to consider some mechanisms to support SMEs with the burden of compliance, through the provision of additional or extended reliefs and/or enabling the use of proxy data. Providing illustrative examples will also be very useful to preparers in this respect.

3.1.2 Public sector

We note that the ARWG looks to conduct a review of adoption guidelines for the public sector when the International Public Sector Accounting Standards Board (IPSASB) sustainability reporting standards for public sector entities is issued, with a view to require adoption from 2029.

ACCA strongly supports the IPSASB's view that there is need for a global public sector-specific sustainability reporting guidance, as we believe that sustainability reporting information published by public sector entities will have a much broader group of primary users than those defined in IFRS S1 as 'existing and potential investors, lenders, and other creditors'. Equally, the range of decisions which could be based on sustainability reporting information by public entities is more extensive than those set out in IFRS, S1 which are focused on providing resources to a private sector entity. In this context, we welcome IPSASB's intention to develop standards from a baseline which includes both IFRS Sustainability Disclosure Standards and GRI Standards

With respect to progress on achieving the UN Sustainable Development Goals (SDGs) in the public sector, we believe this is an important priority for many national governments and providing information on progress to stakeholders is crucial for accountability and decision-making.

ACCA alongside the Pan African Federation of Accountants (PAFA) recommended to the IPSASB, the need to explore how SDGs (or any successor objectives, given their time-bound nature) can be integrated into public sector sustainability reporting. For example, mapping the IPSASB Sustainability Reporting Standards to UN SDGs using a similar approach to the GRI resources would support incorporating SDGs into an overarching sustainability reporting approach by public sector entities.

3.2 Specific Matter for Comment 2: Transitional Reliefs

In paragraph 8 (b), IFRS S1 and IFRS S2, which Adoption Readiness Working Group ("ARWG") for Sustainability reporting in Nigeria recommended transitional reliefs for some disclosure requirements for the first time Adopters of the standards. Do you consider these reliefs sufficient? If not, please explain, including any suggested alternatives.

ACCA welcomes the application of the transition reliefs included in IFRS S1 and IFRS S2. However, with respect to treatment of errors and misstatements, we recognise that providing retrospective restatements can be a significant challenge, especially in relation to those disclosure requirements in IFRS S2 which are new to preparers, and those for which quantitative measures and methodologies are emerging.

During the transition period, the benefit of reliable comparative information needs to be balanced against the cost of retrospective restatement where more robust methodologies may be developing year-on-year. We recommend that it may be worth considering, to additionally provide relief from retrospective restatement during the first few years of implementation.

Sustainability-related disclosures are often dependent on different data collection systems and involves the value chain. As such, it may be more difficult to provide sustainability-related disclosures within the same short timeframe that applies to financial reporting, at least in the first years of implementation. Some aspects of reporting, such as disclosures about business models and policies, may not change from year to year. As such, provisions may be made for detailed disclosures about them to be appropriately presented as standing data, rather than on an annual basis.

We also recommend that the ISSB's provisions for reliefs in E4 be extended beyond the first year, subject to further consultation on how many years to extend.

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3.3 Specific Matter for Comment 3: Location of Disclosures

In paragraph 9.1, the Adoption Readiness Working Group ("ARWG") for Sustainability reporting in Nigeria has proposed that sustainability disclosures should be located after the Directors' Report in the General-Purpose Financial Statements.

Do you agree with this proposal? If you do not agree, please explain your reasoning, including any proposed alternatives.

While ACCA welcomes the flexibility around the location of disclosures, we do not recommend that disclosures required by IFRS S1 and IFRS S2 should be made within the financial statement.

Requiring sustainability-related information to be disclosed within financial statements may have an impact on financial statements audit, as it may create unintended consequences where the auditing standards for financial statements is not designed to audit sustainability-related information, posing a challenge in issuing an unqualified opinion in respect of the entire financial statement.

More so, considering the provision for flexibility will mean that across jurisdictions, companies will have flexibility about the source/report or location in which to disclose sustainability-related information, we believe there is need for national/regional regulators to work closely with the ISSB in enabling more consistent and comparable sustainability reporting, including improved cross-referencing across sources/reports[9]

3.4 Specific Matter for Comment 4: The Adoption Roadmap (Assurance)

In paragraph 10.3, the Adoption Readiness Working Group ("ARWG") for Sustainability in Nigeria has proposed timelines for assurance of sustainability-related financial information in phases (i.e. Phases 1 to 4, spanning over a period between 2026 and 2032). Do you agree with the proposed timelines? If you do not agree, please explain your reasoning, and state your proposed alternative(s).

ACCA commends the International Auditing and Assurance Standard Board's (IAASB) for accelerating the development of the Exposure Draft of ISSA 5000, in response to the demand for high quality sustainability assurance.

Feedback from our joint outreach with the Chartered Accountants Australia and New Zealand (CA ANZ) in submitting a joint response to the ED consultation found that there is a need for more specificity in addressing some of the challenging aspects of sustainability reporting such as value-chain information and forward-looking information. Consequently, we find that these areas will require further work in the form

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[9] Companies Readiness to Adopt IFRS S2 Climate-Related Disclosures – see Implications for national and regional regulators.

of additional requirements/standards/guidance, which were suggested for prioritisation in the IAASB's work on *Further Standards for Assurance on Sustainability Reporting*.

Considering these, the ARWG's proposed timelines for seeking limited assurance of S1 and S2 disclosures (excluding Scope 3 emissions, scenario analysis and transition plans) from voluntary and mandatory adopters between 2027 and 2031 respectively, appears accommodative of the IAASBs approach. The proposed strategy and workplan for 2024 – 2027 recognises that expectations will evolve, and the standard may need to be refined over time as well as supplemented by additional standard(s) when needs are identified going forward.

However, in developing an implementation plan/roadmap for sustainability reporting, including the requirement for assurance, the FRCN should carefully consider the extent of the skills and human resources gap across the corporate reporting ecosystem in Nigeria, whereby the anticipated demand for sustainability reporting talent may far exceed the supply in reporting entities, vendors, assurance firms and regulators. Scarcity of talent will have implications on the cost of compliance, and assurance and is likely to persist beyond the initial transition period. A lack of financial resources, likely an acute issue for smaller entities, can compound this issue.

Professional accountants will need to rapidly develop new skillsets and adopt new mindsets to meet the drive to provide sustainability-related information. At the same time, other professionals, including sustainability experts, will need to adapt to concepts and terminology related to general purpose financial reporting. It is also likely that extensive application guidance and education material will be needed to support implementation.