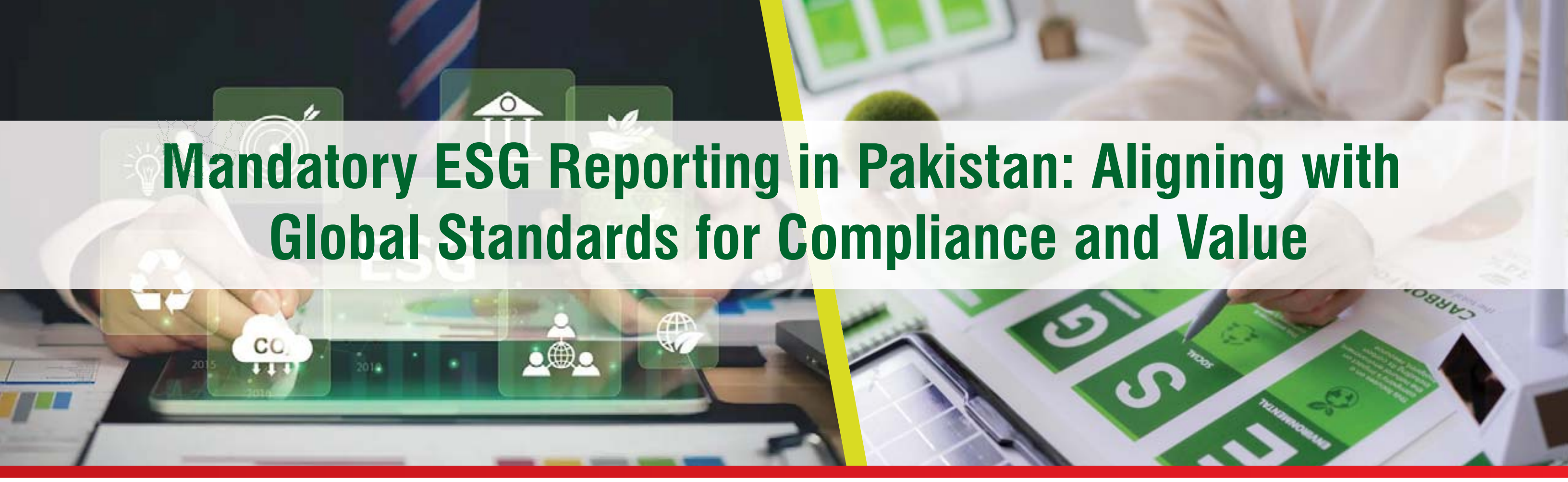

Mandatory ESG Reporting in Pakistan: Aligning with Global Standards for Compliance and Value

Jawad Ahmad, ACMA
Senior Officer (Strategy & Risk Management), Sui Northern Gas Pipeline Limited (SNGPL)

Environmental, Social and Governance (ESG) reporting is no longer a voluntary requirement or a public-relations tool. Over the past decade, companies worldwide have progressively adopted reporting practices to demonstrate their effectiveness in managing Environmental, Social, and Governance (ESG) aspects. What began as a voluntary effort to establish ethical and responsible operations has now evolved into a globally recognized approach for communicating how organizations identify, manage, and disclose their sustainability-related impacts, risks and opportunities.

Sustainability and ESG principles offer an organized way to demonstrate how the Company incorporates sustainability into daily operations, risk management and strategic planning. By adopting ESG practices and disclosures, the companies provide regulators, investors and other stakeholders with a transparent view of how well they oversee and manage their sustainability responsibilities in three key areas:

- **Environmental (E):** It deals with the management of climate impacts, risks and opportunities, greenhouse gas emissions, air quality, energy efficiency, waste and water management, biodiversity preservation and adherence to environ-mental laws.
- **Social (S):** Supporting human rights, community involvement, employee welfare, diversity and inclusion, occupational health and safety, customer responsibility, and socially conscious supply chain practices.
- **Governance (G):** Enhancing board supervision, moral behavior, anti-corruption initiatives, openness, data security, legal compliance and decision-making accountability

1. Why ESG Reporting & Disclosures Matter

In recent years, Sustainability and ESG reporting has emerged as a critical component of corporate strategy and public account- ability. Several converging forces have made Sustain- ability and ESG disclosure essential rather than optional.

1.1 Requirement of Code of Corporate Governance

The Securities and Exchange Commission of Pakistan (SECP) and the Pakistan Stock Exchange (PSX) have made it mandatory for the corporate sector of Pakistan to incorporate sustainability-related reporting and disclosures in their annual reports. The SECP vide SRO 920(I)/2024, has inserted Regulation 10A effective from June 2024 for all listed companies. This regulation has defined the role of the Board of Directors to address sustainability risks and opportunities. The summary of this regulation is as under:

Governance and Oversight:

- Responsibility for oversight of sustainability risks and opportunities, which include environmental, social, and governance (ESG) considerations.
- Set the sustainability strategies, priorities, and targets.
- Voluntarily adopt SECP's ESG Disclosure Guidelines.

Promote Diversity, Equity and Inclusion (DE&I):

- Implement policies for diversity, equity and inclusion.
- Encourage gender equality and the participation of women at all levels.

Risk Management:

- Address principal and emerging sustainability risks, including climate-related risks.
- Assess financial and operational impacts.
- Implement management and mitigation strategies.

Monitoring and Review:

- Periodically review and monitor sustainability and DE&I strategies, priorities, targets and performance against these targets.

Sustainability Committee:

- The board may establish a dedicated committee with at least one female director or assign responsibilities to an existing committee.
- Monitor sustainability risks and opportunities.
- Ensure DE&I practices and compliance with relevant laws.
- Report annually to the board on sustainability integration into organization's strategy.

Directors' Report:

- Disclose assessment and management of sustainability risks.
- Report on measures taken to promote DE&I.

1.2. International Financial Reporting Standards (IFRS S1 and S2)

In June 2023, the ISSB released IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures). These standards are the first globally applicable baseline for sustainability reporting. As per IFRS S1, companies must disclose general sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or the cost of capital over the short, medium or long term. Whereas IFRS S2 is designed to be used alongside IFRS S1. IFRS S2 addresses climate-related disclosures covering governance, strategy, risk management and metrics/targets for climate-related risks and opportunities.

The SECP, through its order dated December 31, 2024, has made it mandatory for listed companies to adopt these standards, and financial statements must reflect these disclosures. As per SECP directives, this adoption will be in the following three phases.

Phase 1
Period begining on or after July 1, 2025

- Listed Companies having Turnover greater than 25 billion in last two consecutive financial years as per their financial statements, or
- No. of Employees (permanent and contractual) greater than 1,000, or
- Total assets greater than Rs. 12.5 bilion

Phase 2
Period begining on or after July 1, 2026

- Listed Companies having Turnover greater than 12.5 billion in last two consecutive financial years as per their financial statements, or
- No. of Employees (permanent and contractual) greater than 500, or
- Total assets greater than Rs. 6.25 bilion

Phase 3
Period begining on or after July 1, 2027

- All Listed Companies other than those falling (in Phase 1 and Phase 2) and non-listed Public companies registered with SECP

Listed companies fulfilling any two criteria shall comply with the sustainability disclosure standards. The first reporting may be made within nine months from the close of the financial year. Thereafter, the auditor shall give assurance from the second year.

1.3. Investor and Capital-Market Pressure

Sustainability-related risks such as climate change, resource scarcity, supply-chain disruption, social unrest, and regulatory changes can materially affect cash flows, cost of capital, and enterprise value. Therefore, in today's world, investors, lenders, and creditors not only assess a company's financial statements but also assess its environmental and social risks, governance practices and long-term sustainability.

1.4. Stakeholder Expectations and License to Operate

In current business scenarios, employees, communities, civil society, customers, and shareholders expect responsible business behavior from the companies. Therefore, sustainability and ESG reporting helps companies demonstrate their commitment, build trust and safeguard their social license to operate.

1.5. Long-Term Value Creation

Sustainable business practices, including efficient energy usage, waste reduction, water consumption, fair labor practices and good governance, lead to cost savings and improve brand reputation. They also enhance stakeholder relationships, thereby contributing to long-term value creation.

Given these factors, sustainability reporting has evolved from a voluntary CSR-style activity to a mainstream mandatory requirement for responsible forward-looking companies.

2. What to include in ESG Report and Disclosures?

The internationally recognized sustainability reporting standards particularly IFRS (IFRS S1 and S2) guide the companies to disclose on the following:

Governance	Strategy	Risk Management	Metrics and Targets
•Governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities	• Approach the entity uses to manage sustainability-related risks and opportunities	• Processes the entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities	•Entity's performance in relation to sustainability-related risks and opportunities •Progress towards any targets the entity has set or is required to meet

Furthermore, a high-quality ESG report typically includes the following components:

- **Governance / BOD Chairman Statement:** It includes Board oversight on ESG, roles of the sustainability committee, policies, strategic context, tone- from-the-top and sustainability vision.
- **Reporting Boundary and Scope:** It may include legal entities covered, time period, major inclusions/exclusions, and restatements, if any.
- **Strategy:** How ESG factors affect the business model, strategy and long-term planning. For climate-relevant risks, scenario analysis or climate-risk implications, if material (refer to 2.1 for selection of material topics and materiality analysis), should be disclosed.
- **Performance & Narrative:** The report should include a summary of performance over the reporting period, comparison with previous periods (if any), and commentary explaining results, challenges and achievements.
- **Management Approach:** The report should mention the policies, programs, and processes adopted for training, supplier due diligence, community engagement, human-rights practices, labor practices, health & safety, environmental management, and waste/energy/water management.
- **Assurance & Verification Statement:** The SECP requires assurance from the second year of reporting; therefore, transparency on assurance is important. The ESG report should mention whether the report has been externally assured, the scope and level of assurance obtained (limited/ reasonable), the name of the auditor and the methodology used.
- **Appendices & Mapping Index:** Cross-reference table mapping report content to relevant frameworks (e.g., IFRS S1/S2, SECP guideline, local governance code), definitions, assumptions, boundary definitions, methodology notes, limitation disclaimers, and data-collection method descriptions.

Adhering to this structure helps produce a report that is comprehensive, credible, and aligned with both global and local expectations.

2.1. Materiality Analysis

Materiality in ESG reporting refers to the process of identifying material topics in Environmental, Social and Governance (ESG) issues that are most relevant and significant to an organization and its stakeholders. Key steps in materiality analysis include:

- **Identifying Potential ESG Topics:** The potential ESG topics may include environmental (climate, emissions, resource use), social (labor, health & safety, human rights, diversity), governance (board structure, policies, ethics, compliance), supply chain risk, stakeholder impact, etc. For identification of potential topics, companies may refer to sector-specific GRI Standards.

Potential Topics	Materiality Rating						Topic is material if assessed score exceeds 15
	Financial Impact	Time Scale	Severity	Likelihood	Irreversibility	Assessed score	
	5	5	5	5	5	25	
Employment practices	4	4	2	3	3	16	Material Topic
Waste	5	5	3	2	2	17	Material Topic
Biodiversity	2	2	2	3	2	11	Not Material Topic
Health and Safety	4	5	3	3	4	19	Material Topic
Data security & Customer Privacy	5	5	3	2	4	19	Material Topic
DE&I	4	3	3	4	2	16	Material Topic

Table: Illustration of determining scoring and prioritizing material topic

- **Stakeholder Engagement:** It includes engaging investors, employees, suppliers, community representatives, regulators, civil society, customers, etc. to understand what issues are material from their perspectives.
- **Prioritization and Scoring:** The rating of material ESG topics is based on potential financial impact (on investors, stakeholders and the environment), time horizon (short/medium/long term), severity, likelihood, and irreversibility of that event/topic.
- **Validation from Board and Sustainability Committee of BOD:** A formal approval of materiality assessment and selected ESG topics for disclosures is required to be obtained from the Board or sustainability committee of BOD for validation and approval.
- **Disclosure of Materiality process:** The ESG report of companies should describe their materiality assessment methodology, stakeholder engagement process, assumptions made, limitations and how the topics were selected and prioritized.

3. Common Challenges & Mitigations

It can be difficult to make the switch thorough ESG reporting, especially in order to satisfy local and international standards. Some common challenges and suggested mitigations include:

- **Lack of Data & Measurement Systems:** It is possible that many Pakistani businesses lack reliable systems for gathering data on energy use, emissions, waste, water, labor metrics, supply-chain data, diversity data, etc. Therefore, they should start with the important, high-priority metrics (such as energy use, emissions, and workplace safety) and progressively expand data collection to lessen this difficulty. To implement internal data-collection controls, use the operational and financial systems that are already in place, designate data owners, and record methodology and assumptions.
- **Gaps in Institutional Expertise and Capacity:** Interdisciplinary skills in supply chain management, risk management, human resources, finance, environment/climate science, and stakeholder engagement are all necessary for sustainability reporting. However, many businesses lack internal expertise. Consequently, businesses need to invest in training, consider external consultants or ESG-advisory firms, and collaborate with industry associations or regulators for capacity building.
- **Resource Constraints Including Time, Staff, Cost:** Producing a robust ESG report (with assurance) entails cost and management bandwidth, which may be burdensome for mid-size or smaller firms. Companies must adopt a phased approach. This should start with limited scope (material topics), simple disclosures, build baseline data and then grow it over time.
- **Risk of "Greenwashing" or Superficial Disclosures:** The ESG report may not be credible if companies disclose only positive ESG aspects while leaving out risks and challenges that have negative impacts. Hence, disclosures without robust data or assurance may raise concerns. Therefore, to mitigate this challenge, companies should adopt transparency in the methodology, avoid selective disclosure, focus on material topics and integrate ESG into governance and risk management.
- **Regulatory Uncertainty and Evolving Standards:** Global ESG standards and local regulatory regimes are still evolving. ESG reporting and disclosure requirements may expand over time (e.g., more metrics, deeper assurance, digital tagging). Therefore, ESG reporting processes and data systems ought to be flexible, keep up with regulatory changes (e.g., from SECP, global standard-setters) and plan for periodic review and updates.

Conclusion

With the twin forces of global investor demand and evolving regulations, companies can no longer treat ESG reporting and sustainability disclosure as peripheral or philanthropic. The way forward for high-quality ESG reporting is clear: board commitment, rigorous materiality assessment, robust data systems, transparent disclosures and assurance guided by harmonized global standards and local regulatory requirements.

The path to ESG reporting may be challenging for the time being, but the stakes in terms of investor confidence, regulatory compliance, social license and long-term sustainability are too high to ignore.

References:

- *SECP ESG Disclosure Guidelines (2023) and amendments*
- *Listed Companies (Code of Corporate Governance) Regulations, 2019 (10A Regulations)*
- *International Financial Reporting Standards (IFRS S1 and S2)*
- *GRI Universal Standards, 2021*

About the Author: *The writer is an Associate Member of ICMA Pakistan, a Certified Business Accountant (ICAP), Certified Internal Control Auditor (IIC–USA), ISO-31000 Certified Risk Manager (PECB–Canada) and an M. Com Gold Medalist. With over 12 years of experience, he has expertise in Enterprise Risk Management (ERM), sustainability reporting, business planning, internal audit and regulatory compliance. He is currently serving as Senior Officer (Strategy & Risk Management) at SNGPL and also works as a lead trainer on the Risk Management Framework at Sui Northern Gas Training Institute (SNGTI).*