NIS Frequently Asked Questions Guide

NIS (Sustainability Reporting Standards)

forvis mazars

Content

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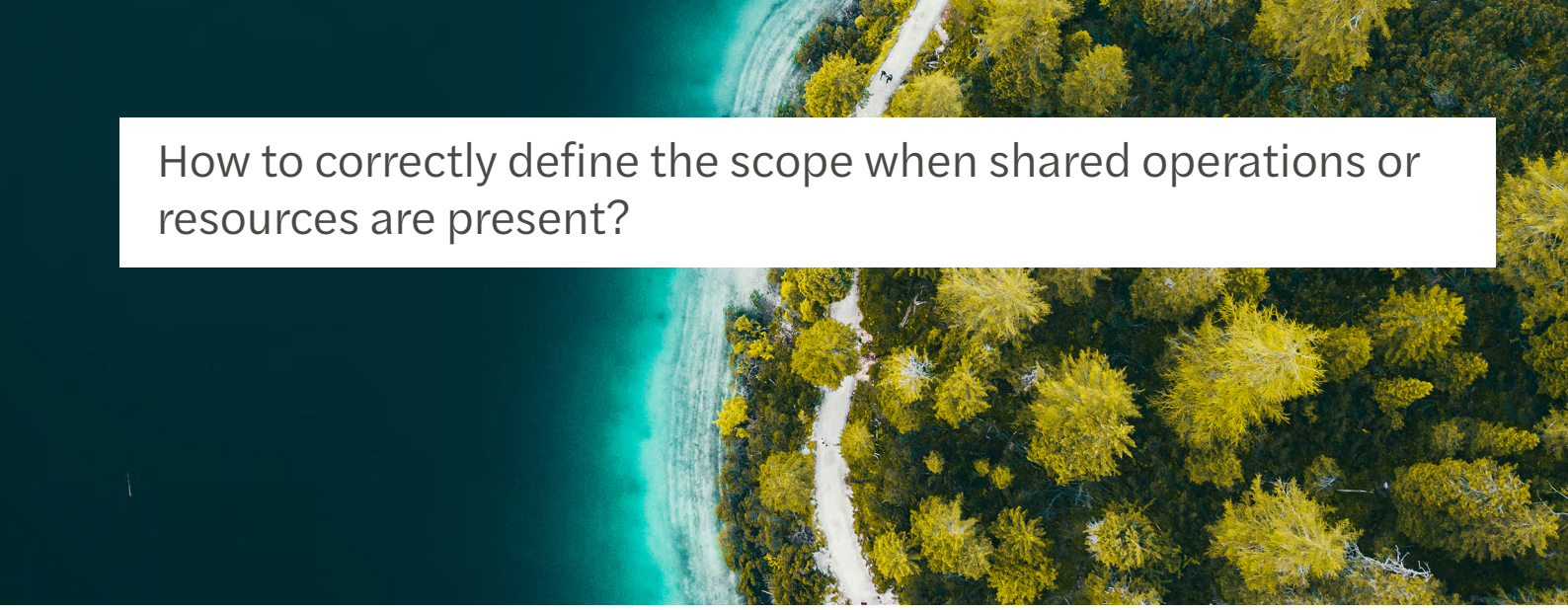
Introduction
NIS FAQ Guide

This document contains a series of frequently asked questions identified in the implementation of multiple NIS projects and in a comprehensive review of the standard. These questions arise from recurring situations and seek to guide entities in decision-making during the sustainability reporting process.

This document has an informative purpose and shall not be considered and/or be used as advice on taxes audit, finance, investment, legal aspects, sustainability nor in any other mater. This document does not substitute nor intends to substitute professional specialized advice and shall not be used as basis for decision making nor carrying out any action that can have an influence in your company

These recommendations represent good practices and reasonable criteria that an entity could consider in each situation, without limiting the adoption of other equally valid and justified approaches. Any examples included are entirely fictitious and are used for illustrative purposes only. Its partial or complete reproduction for purposes different than the aforementioned, is prohibited.



How to correctly define the scope when shared operations or resources are present?

Situation

Paragraph 52.1 of the Conceptual Framework of Sustainability Reporting Standards (NIS-A) requests that sustainability information must refer to the same economic entity that issues the basic financial statements and their notes.
In situations where two or more entities share services within the same building (water, electricity, gas, etc.), the scope must be delimited as reliably as possible to report indicator results individually. The ideal option is to install individual meters that provide the exact amounts consumed by each entity. However, this is not always possible due to budgetary, logistical, or structural issues of the properties.

Solution

The standard allows and recommends the use of estimates, provided that they are based on reasonable and technically justified criteria. There is a specifical mention of this in paragraph 15, "Uncertainty in measurement" of the NIS-A:

Uncertainty in measurement
In some cases, the economic activity of an entity involves operating in an environment of uncertainty, which requires making different assumptions to carry out an adequate evaluation and quantification of events related to sustainability issues subject to disclosure. Derived from the above, the use of estimates is an essential part of the process of preparing sustainability information; this does not diminish the usefulness of the information as long as the estimates are clearly and correctly described and explained; not even a high degree of uncertainty in their determination would necessarily prevent such an estimate from providing useful information. Their determination requires the use of professional judgment, which seeks to foresee and estimate probable facts in the light of current circumstances, but unknown in terms of their amount or date of occurrence, and can be adequately quantified despite the possible uncertainties inherent to the fact in question (CINIF, 2024, NIS A-1, paragraph 15.1).

It is important to mention that any estimates and professional judgments carried out to report the information must be mentioned in the Note to the Financial Statements as part of the disclosure of each applicable indicator.
On the other hand, the quality of the information must be improved in each reporting cycle: if it starts with estimates, the goal is to progressively move towards fully verifiable data.

Case study (example)

A cement company and a co-processing power generation plant are separate entities, but they operate within the same premises. This implies that they share electricity, LP gas and water infrastructure without independent metres, which prevents allocating exact consumption figures to each operation.

As mentioned, the standard allows the use of estimates provided that reasonable and technically justified criteria are applied according to the operating context of each entity (e.g., square metres occupied, number of employees or time of use of the facilities). Under this principle, the entities defined the following methodology to allocate their electricity, LP gas and water consumption:

The **electricity** from the external supply is fully assigned to the cement plant, since the electricity generation plant operates on a self-consumption scheme and does not use energy from the grid. Consequently, the total figure captured in the commercial metres is attributed to the cement manufacturing process, while the generator allocates its own self-consumption outside the external measurement system.

LP Gas is used only in the general service canteen of the property. Its consumption is divided proportionally between the cement plant and the electricity generation plant based on their number of employees, since this criterion clearly and objectively reflects the relative use of the resource and guarantees a consistent allocation.

The total **water** consumption of the property is allocated between the cement plant and the power generation plant by a method of technical proportionality. To this end, the relative consumption of each process is estimated using industry-specific water use factors, expressed in litres per tonne of cement produced and litres per MWh generated.

It is known that the total real water consumption associated with the two entities was 500,000L, which corresponds to a production of 1,000 ton of cement and a generation of 100 MWh of electrical power.

To prepare this estimate, the companies used water use factors obtained from the technical literature (source), considering 100 L per ton of cement for the cement plant and 2,000 L per MWh generated for the power plant.

Estimated cement plant consumption = 1,000 tons × 100 L/t = 100,000 L

Estimated cement plant consumption = 100 MWh × 2,000 L/MWh = 200,000 L

Based on these values, the total estimated consumption was determined.

Total estimated consumption = 100,000 L + 200,000 L = 300,000 L

Based on the total estimated consumption, the percentage share of each facility relative to water use was calculated.

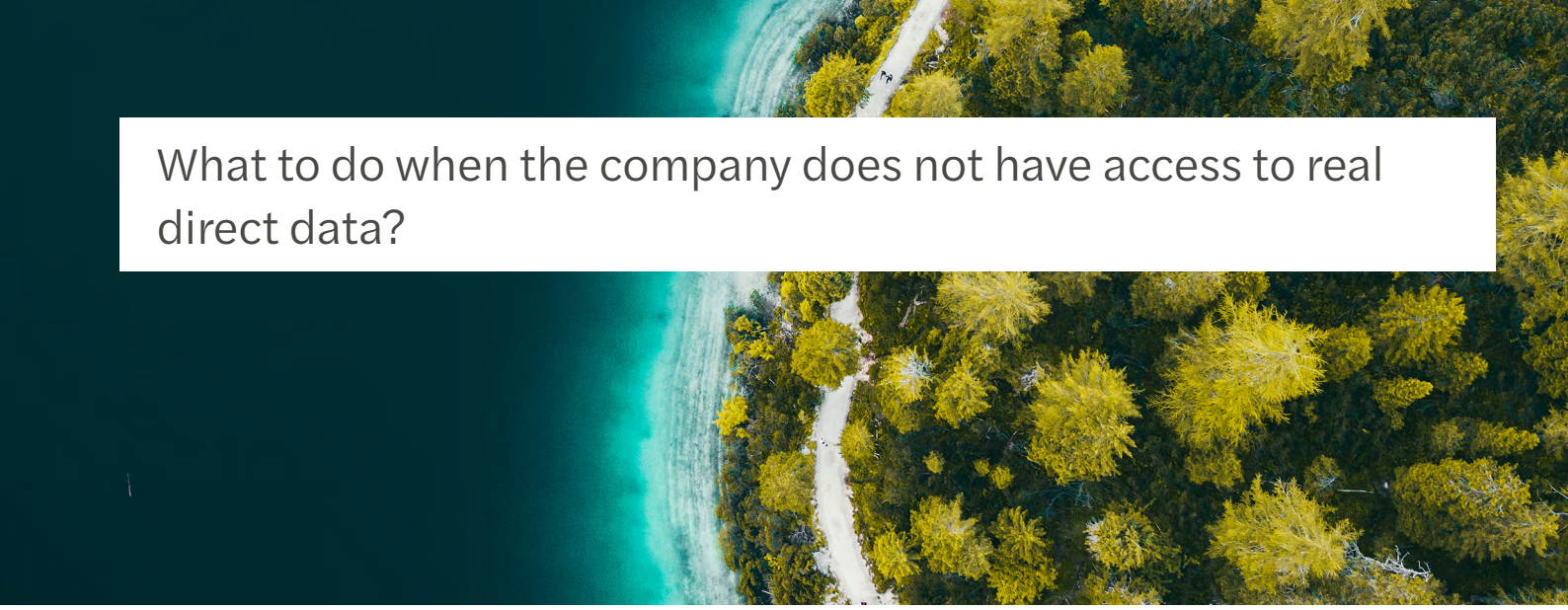
Cement plant proportion = ((100,000 L)/(300,000 L)) × 100% = 33.3%
Power plant proportion = ((200,000 L)/(300,000 L)) × 100% = 66.7%

Finally, these proportions were applied to the total real water consumption to estimate the real consumption attributable to each entity.

Real cement plant consumption = 500,000 L × 33.3% = 166,500 L

Real cement plant consumption = 500,000 L × 66.7% = 333,500 L

The company will clearly report the estimate made, the sources from which the factors were obtained, and the estimated totals.



What to do when the company does not have access to real direct data?

Situation

The absence of direct company data to report the NIS indicators may be due, for example, to the outsourcing of services. In this case, the company does not have the information, but this does not mean that it can omit it from the regulatory report. In other words, the lack of actual data does not exempt the entity from reporting the activities that are part of its operation, as specified in paragraph 15 of NIS A, mentioned in the previous question.

Solution

In these cases, as in the previous one, adequate and duly documented estimation methods must be applied, seeking to improve access to information and the quality of the data reported from year to year.

Case study (example)

An insurance company outsources services such as maintenance, cleaning and water supply in its offices, so it does not have direct access to the real consumption data associated with these activities. Among the main challenges identified are: maintaining the accuracy and traceability of estimates and reliance on third parties, since obtaining information depends on service providers.

The different ways in which the company plans to address this challenge are:

- **Use estimates supported by sector averages**, recognised benchmarks or specific consumption factors by type of activity, ensuring consistent and technically supported criteria.
- **Strengthen the relationship with suppliers** through contractual clauses that establish the obligation to deliver the information required for the report.
- **Collaborate with other companies in the industry** to identify common solutions and adopt the most accepted estimation methods in the industry.

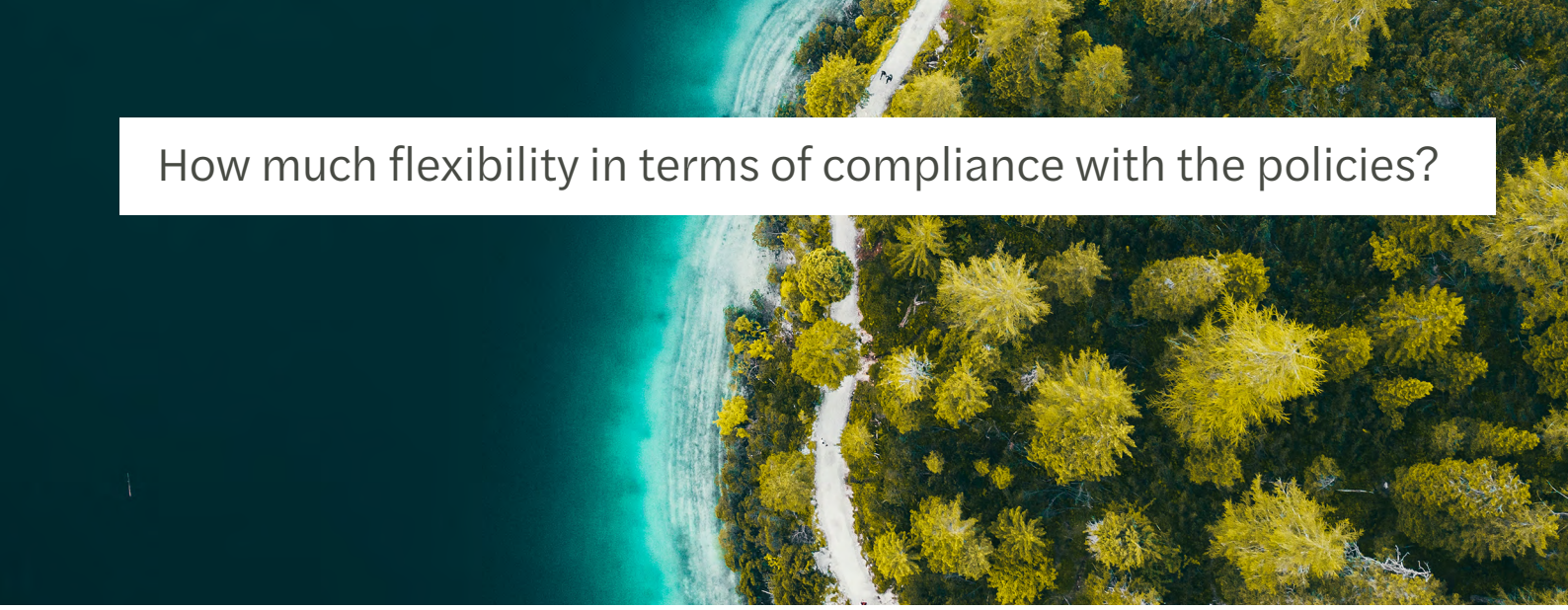
a. What can I report if there are quantitative indicators that I cannot estimate?

If an entity does not have the necessary information to determine a Basic Sustainability Indicator, we recommend disclosing the reasons, instead of reporting the indicator as "zero".

59.2 An entity must apply professional judgment to determine what type of additional information could supplement the sustainability information required by the NIS in such a way as to increase its usefulness (CINIF, 2024, NIS A-1, paragraph 59.2).

Example

Indicator A.15 Reused Waste requires the entity to report the amount of waste that was reused through reuse, remanufacturing and/or recycling. However, if the entity does not have verifiable information confirming that its waste was actually reused, it would also not be appropriate to make an unsubstantiated estimate. In this case, the indicator must be reported as "Not available", accompanied by a brief explanation that explains the lack of information.



How much flexibility in terms of compliance with the policies?

Situation

In many cases, companies have a series of process documents, policies, regulations and manuals that might together cover the requirements of the NIS for the different policies. However, the question often arises as to whether this is sufficient for compliance, or whether all the information should be in a single policy.

Solution

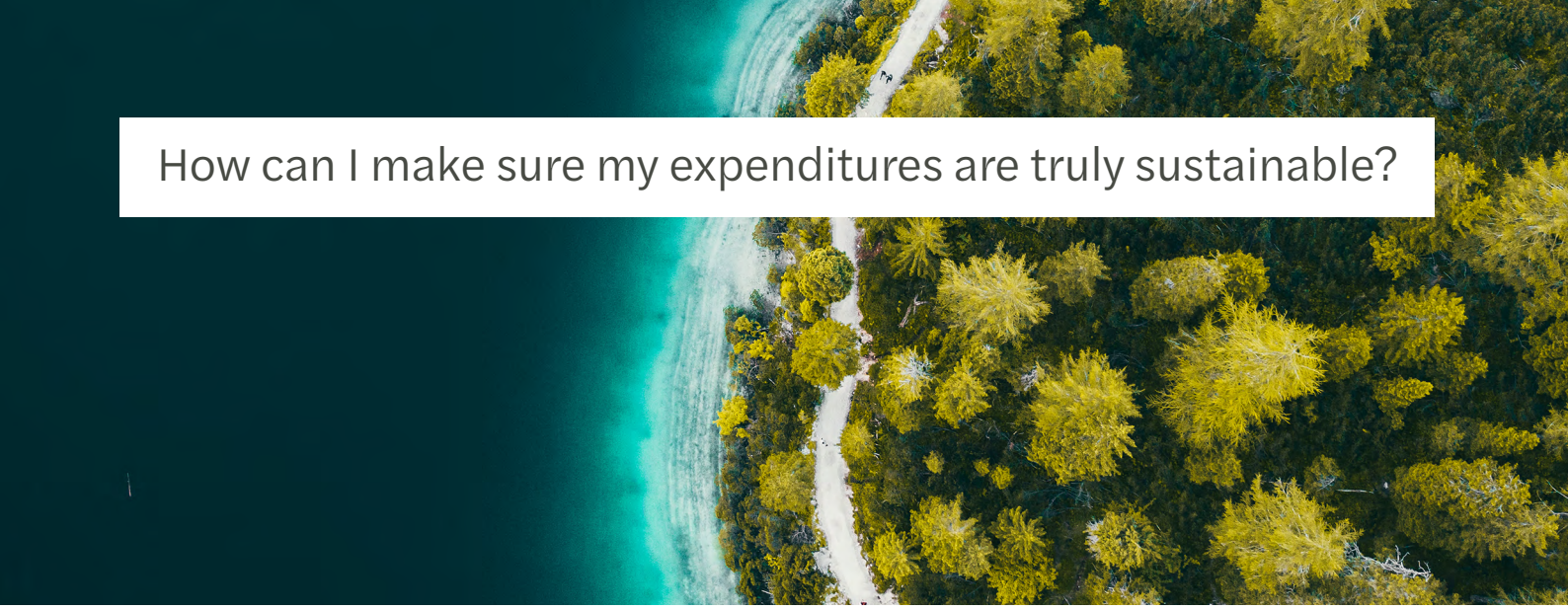
A valid policy must be a formal, approved and implemented document that addresses all aspects required by the standard in the same document or that makes explicit reference to other documents where such requirements are covered.
To ensure compliance we recommend:

- Identifying all existing documents and assess whether they cover each subsection of the standard.
- Formalising or reconstruct policies as official documents, maybe referencing external documents to avoid duplication of information.
- Ensuring policies are approved and signed by the Board of Directors or equivalent body.
- Validating each policy against the exact paragraphs of the standard, confirming which requirements are met and which have gaps.
- Meeting with the responsible teams to verify that documented cases faithfully reflect current operational practice.

Case study (example)

A software development company is in the process of aligning its policies with the NIS. During an internal pre-audit, the organisation claimed to have "all the policies ready", as it had various technical and operational documents. However, when conducting a more detailed review, they had compliance concerns, because the information was fragmented and many issues required by the standard were mentioned superficially.

The way in which the company resolved this problem was by re-reviewing the specific compliance of each of its policies against the requirements of the NIS. In some cases, they identified that additional clarifications needed to be made in the document to comply with any requirements and therefore updated the policy. In other cases where the information already complied with all the subsections, but it was contained in different documents (not all of which were policies), they included the explanation and specific reference of the other documents in the main policy.



How can I make sure my expenditures are truly sustainable?

Situation

There is frequent confusion related to indicator A.6, Sustainable Investments, which establishes that it is sufficient to report expenditures that each company considers to have sustainability criteria.

Solution

The standard requires an analysis to be carried out in accordance with the Sustainable Taxonomy of Mexico of the Ministry of Finance and Public Credit to report these expenditures.

A.6 Sustainable investment: Goal

43.4.1.1 The sustainable investment indicator allows entities to identify the amount of expenditures, whether capitalised or not, in sustainable activities per the classification system or taxonomy approved by an internationally recognised organisation, for example, in the case of Mexico, entities may use the Sustainable Taxonomy published by the SHCP. Sustainable investment improves the resilience of an entity related to risks linked to environmental and social factors, and can contribute positively to its operations and sustainable development. (CINIF, 2024, NIS B-1, para. 43.4.1.1)

43.4.1.2 It is the amount of disbursements made by an entity during the reporting period, whether capitalised or not, in sustainable activities per the Sustainable Taxonomy of the SHCP, expressed in monetary terms. (CINIF, 2024, NIS B-1, para. 43.4.1.2)

The correct process involves identifying the sector and the activity or activities of the entity, verifying whether it is included in Mexico's Sustainable Taxonomy and confirming that it complies with the technical criteria and other established requirements.

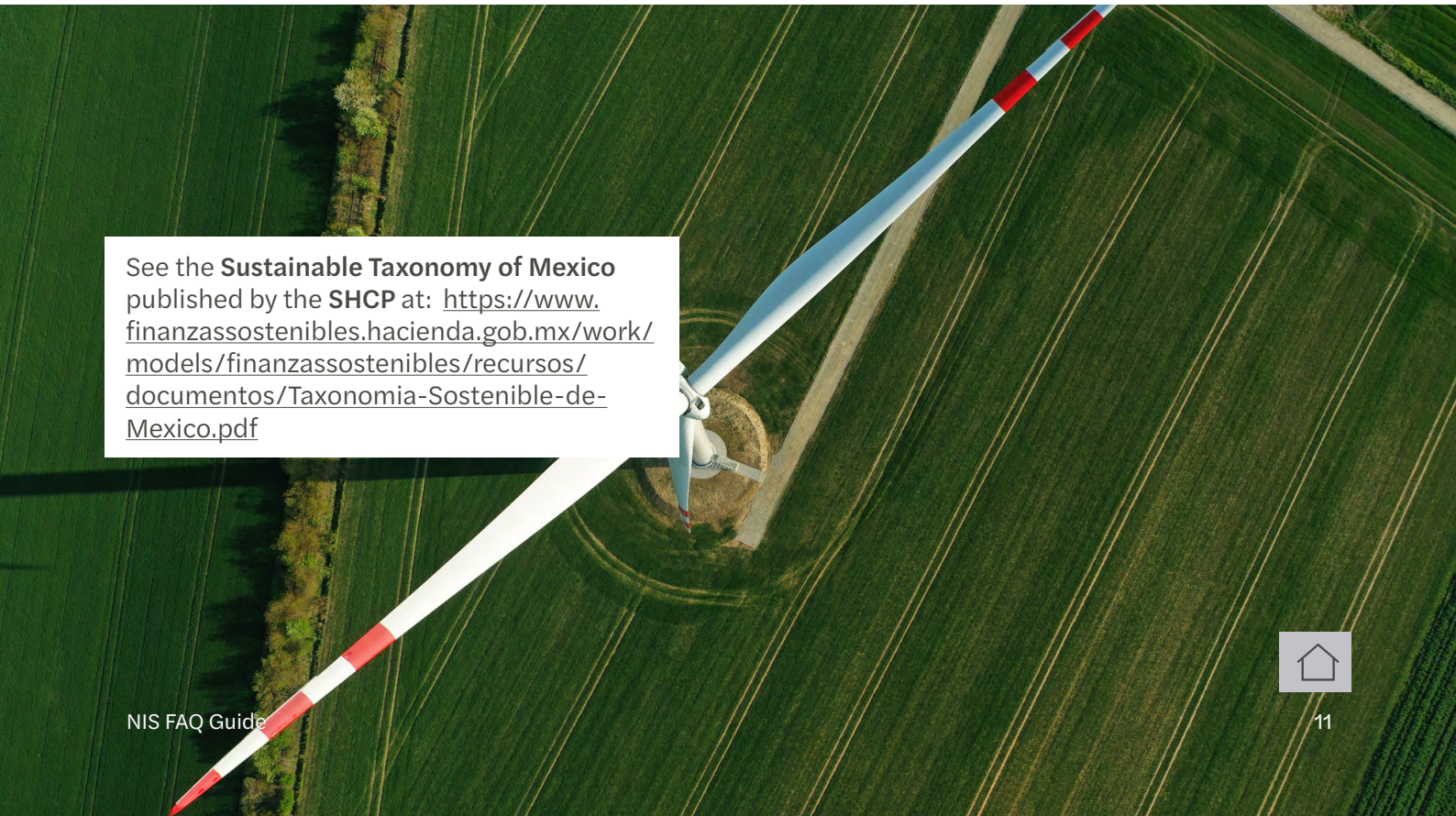
If the entity's main industry or activity is not included in the Mexican Taxonomy, the standard allows the use of other taxonomies issued by internationally recognised organisations or by another government.

43.4.1.3 In the event an entity determines that the Sustainable Taxonomy of the SHCP is limited because it fails to consider certain types of activities within its classification, the entity may supplementarily use the classification or taxonomy system approved by an internationally recognised body or by a federal government of another country, and must disclose the classification or taxonomy system used. (CINIF, 2024, NIS B-1, para. 43.4.1.3)

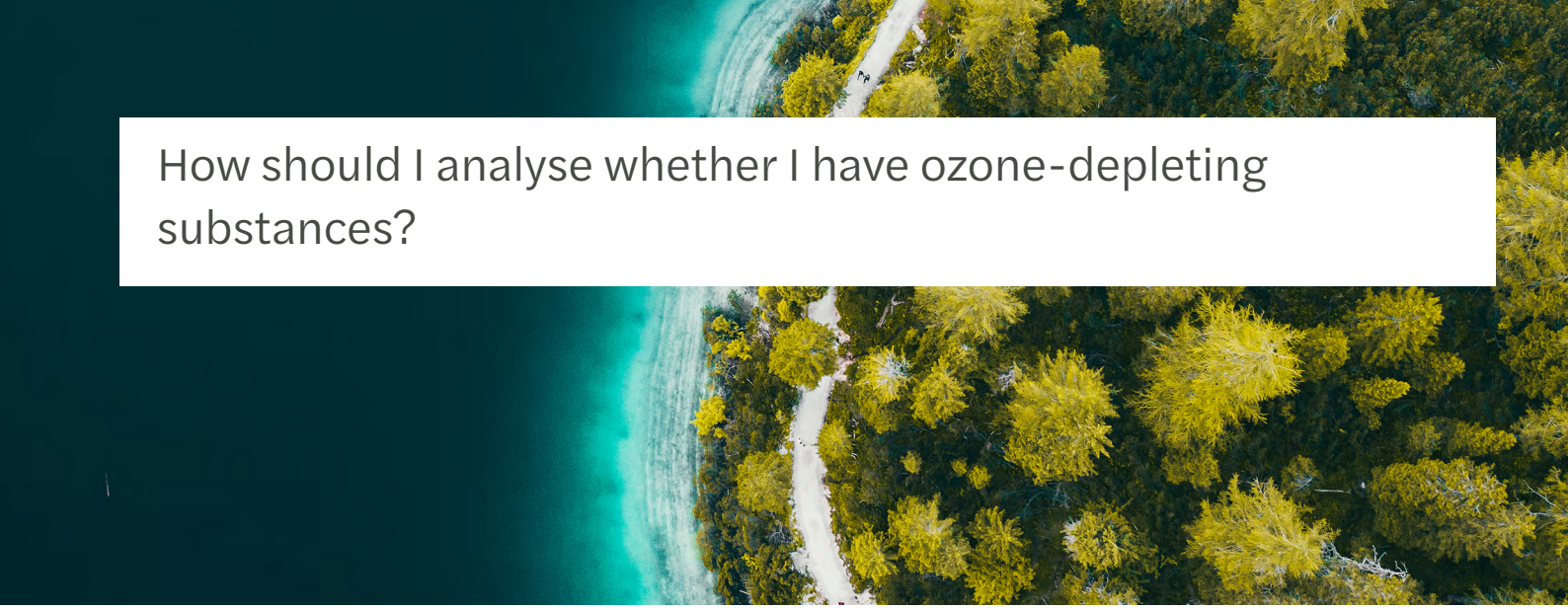
Case study (example)

A manufacturing company started an investment project to modernise its plant with "green" technologies, such as energy-efficient equipment and water recovery systems. They indicated that part of their CAPEX complied with the Mexico's Sustainable Taxonomy. However, while the investments sounded sustainable to the reporting team, no one performed a formal technical analysis.

Therefore, for this first year of reporting, the company decided to use transition relief to not report the indicator, with the idea of using that time to do an alignment analysis with the taxonomy. Their plan is that, if they do not find the activity in the Mexican taxonomy, they will look for alternatives in LATAM such as Colombia, Chile and Brazil. If the activity is not found in any of them, they will report "0" the following year and focus their future investments on alternatives that do meet the criteria of the taxonomies.



See the **Sustainable Taxonomy of Mexico** published by the **SHCP** at: https://www.finanzassostenibles.hacienda.gob.mx/work/models/finanzassostenibles/recursos/documentos/Taxonomia-Sostenible-de-Mexico.pdf



How should I analyse whether I have ozone-depleting substances?

Situation

As part of the qualitative improvement characteristics, the NIS-A states that submitted information must be verifiable. This implies that all sustainability data must be able to be checked and validated, as verifiability allows users to trust that the information is complete, neutral, truthful and accurate. There are situations where companies decide to report the indicator as zero, for example for ozone-depleting substances, simply because they do not know how to carry out the research. However, it is not correct to report 0 if they are unsure of the data.

43.2.1 To be verifiable, sustainability information must be able to be checked and validated. Verifiability helps users trust that information is complete, neutral, truthful, and accurate. The information is verifiable if it is possible to corroborate it or corroborate the data used to obtain it. Verifiable information is more useful to users than unverifiable information. (CINIF, 2024, NIS B-1, para. 43.2.1)

Solution

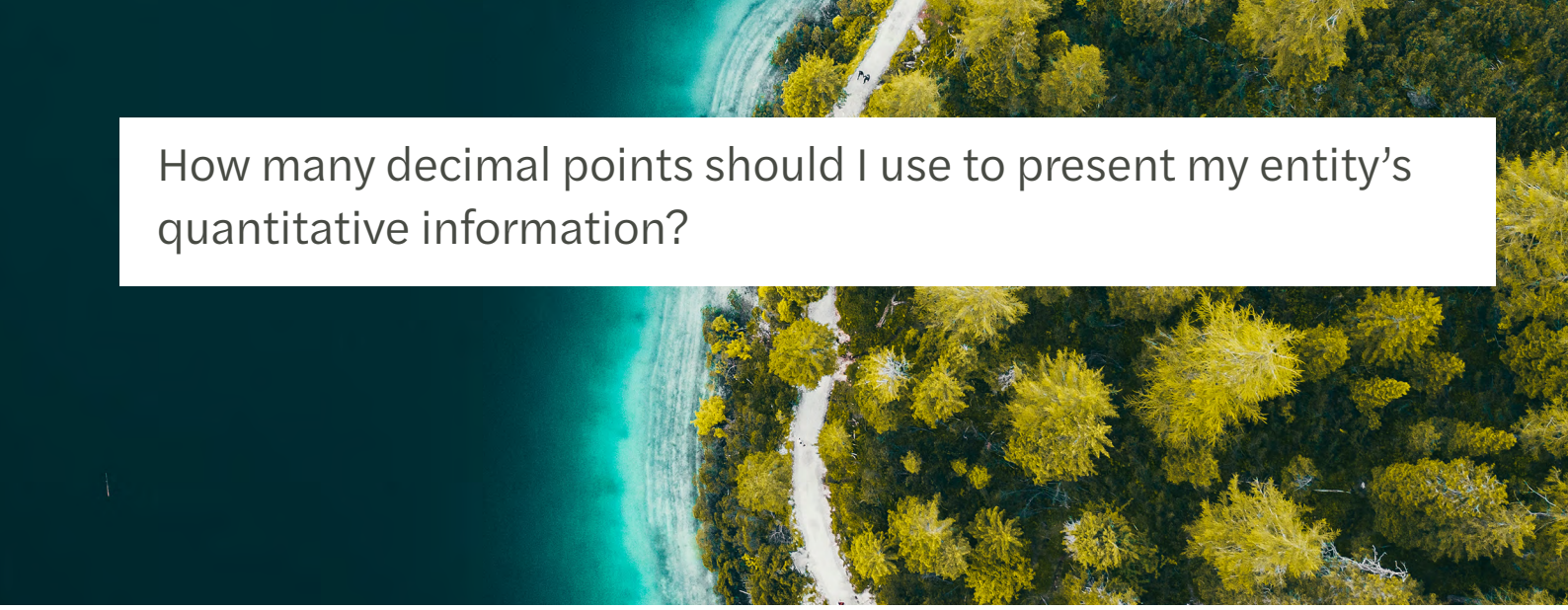
If an entity is unsure whether it has all the information required to report an indicator, it must conduct a thorough review before concluding that the data is null or not applicable.

Case study (example)

An administrative services company operates exclusively within its own offices. During its NIS implementation process, the team concluded that the company does not use ozone-depleting substances, based on the fact that its systems are “modern” and they did not have detailed information on the refrigerants used. However, as the review progressed, it became clear that this response had no technical basis.

To properly address this situation, the entity took the following steps:

- They reviewed the list of substances defined in the Montreal Protocol and verified if any of them are present in the equipment, refrigeration systems or other processes.
- They identified all equipment and processes that use gases or similar substances.
- They consulted data sheets, equipment labels, refrigerant specifications and service reports.
- They declared they do not use SDGs only after the validation was completed, documented and reviewed by the responsible areas.
- They recorded which substances were identified, which were discarded, and the evidence used to support the review.



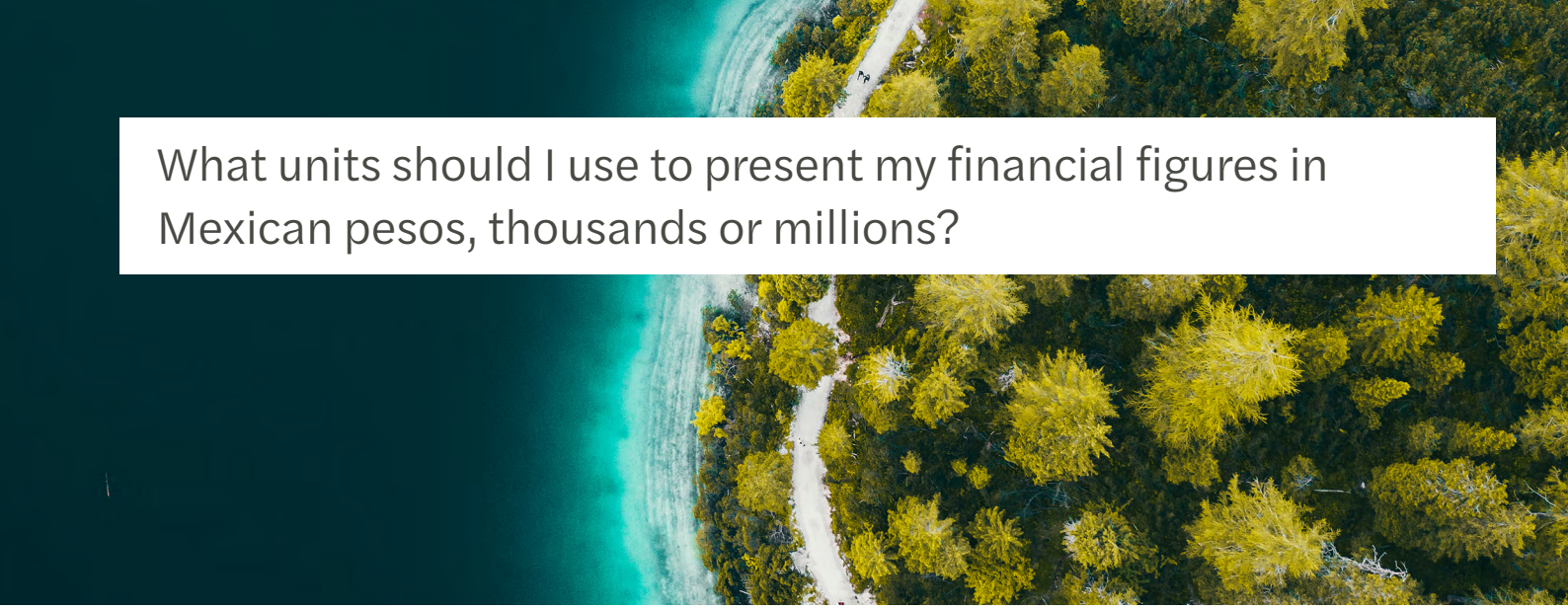
How many decimal points should I use to present my entity's quantitative information?

The standard states that relative values must be presented with a maximum of two decimal places. In this sense, we recommend reporting them using two significant figures in the decimal portion. This is because excessive rounding could create the impression that the entity omits or minimises the relative value corresponding to its consumption. This consideration applies especially to relative values because they often do not show significant figures until the third decimal place or more.

(b) relative value - is the ratio between the absolute value of the indicator and the reference value established by this NIS for each indicator, as is logical, so that the relative value can be understood as a measure of performance or operational efficiency of the entity. Where applicable, the relative value should be limited in the report to two decimal places. (CINIF, 2024, NIS B-1, para. 42.3 (b))

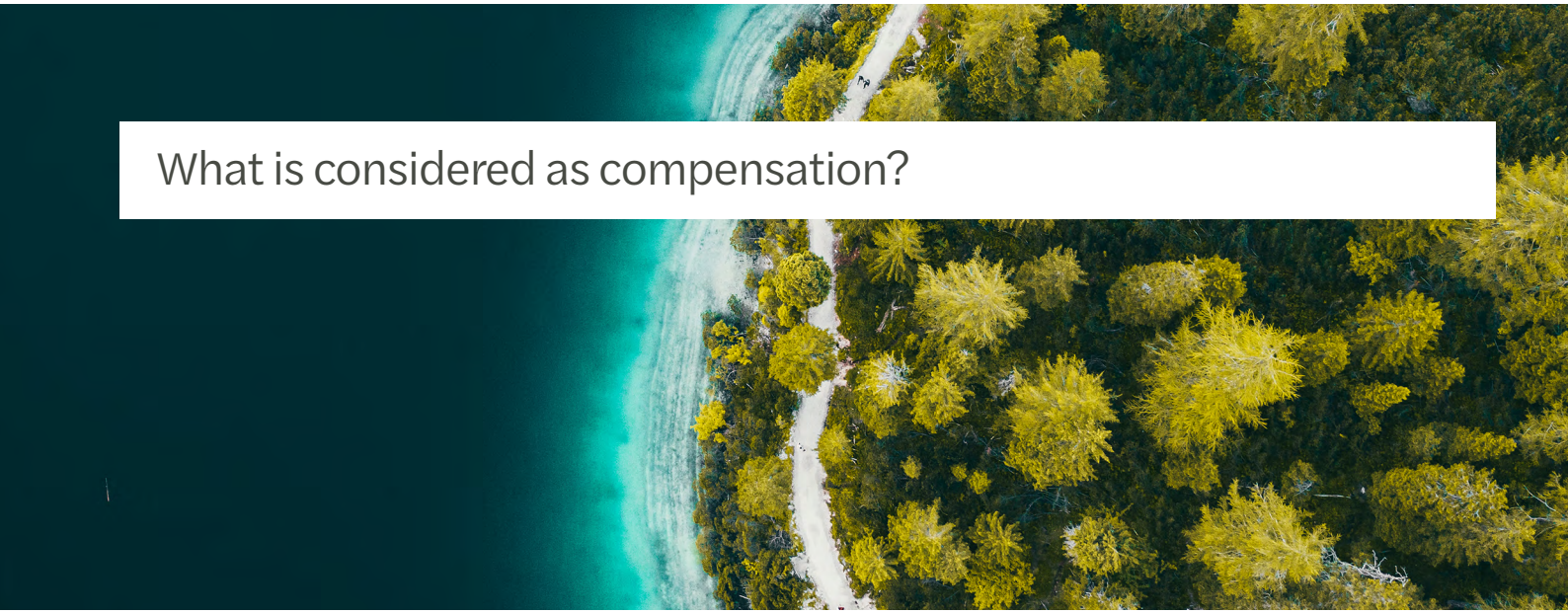
Example

If the relative values of indicators A.1 (Scope 1 GHG Emissions) and A.4 (Energy Consumption) are 0.000001789 tonCO_2e/net revenue unit and 0.218 kWh/net revenue unit, respectively, they shall be reported as 0.0000018 tonCO_2e/net revenue unit and 0.22 kWh/net revenue unit.



What units should I use to present my financial figures in Mexican pesos, thousands or millions?

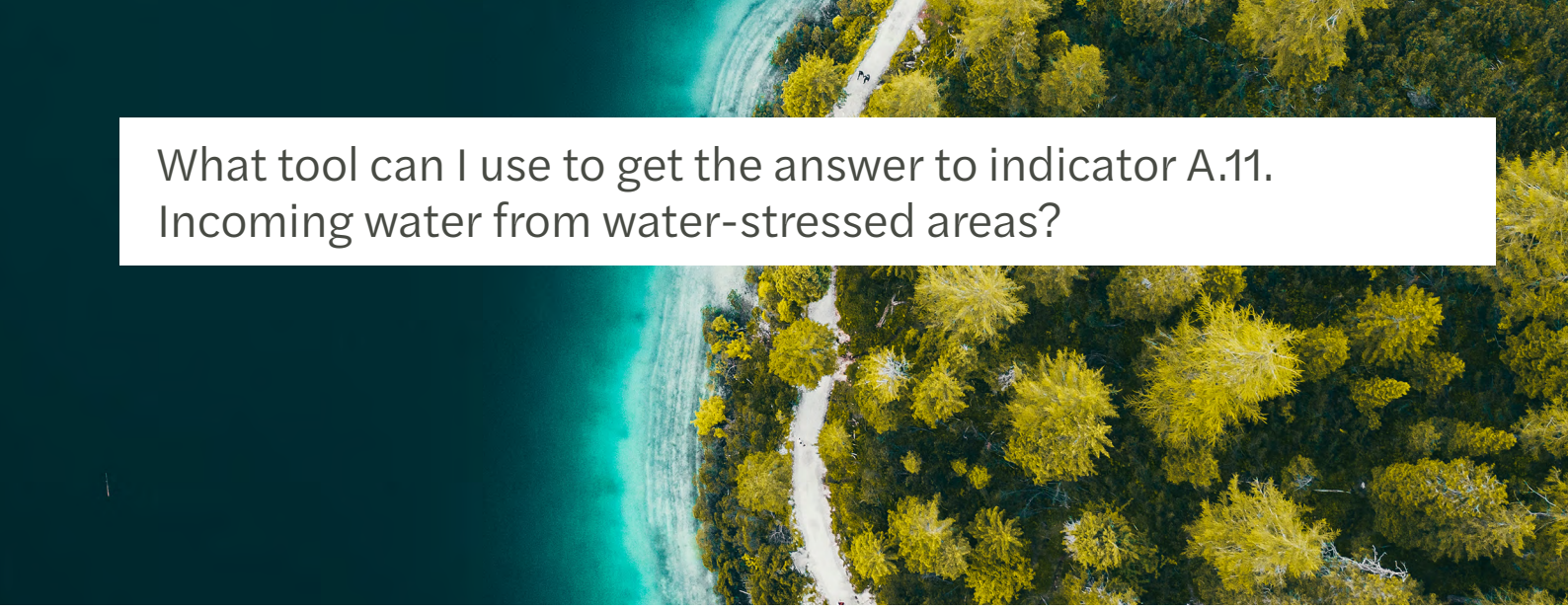
Although the standard does not specify it as such, the best practice is to use the same monetary units used in the entity's Financial Statements (Mexican pesos, thousands or millions of pesos, as appropriate), guaranteeing consistency between both documents.



What is considered as compensation?

Compensation includes any direct, short and/or long-term benefit received by an employee or worker under the terms established by the NIF. It may include wages, salaries, bonuses, gratuities, and other similar items.

For the purposes of the report, we recommend performing an annualised calculation that integrates all these components, specifying it in a footnote.



What tool can I use to get the answer to indicator A.11. Incoming water from water-stressed areas?

Situation

In indicator A.11, the standard requests that the entity report the volume of incoming water from water-stressed areas during the reporting period, in cubic metres. To calculate this indicator, the entity must identify whether the areas of origin of the water entering the organisation are classified as water-stressed areas. To do this, they must use a reliable source of information that allows them to determine this classification, but many companies have never sought this information and do not know where to start.

Solution

There are public platforms and tools that allow you to easily identify if the water entering an entity comes from a water-stressed area. The challenge is knowing and accessing these tools. Some of the tools that help us to correctly report the indicators include:

- Aqueduct Water Risk Atlas
- CINIF ZEH (Water Stress Areas) Tool
- National Water Information System (SINA) of the National Water Commission

Case study (example)

The CINIF provides a specialized calculator to report this indicator. The steps include:

1. Visiting the site of the Mexican Council of Financial Reporting Standards (CINIF), selecting the Sustainability tab and then ZEH Tools (click on the following link: Mexican Council of Financial Reporting Standards, A.C.)
2. Scroll to the bottom of the page, click “I Agree”, and then click “Download Calculator”.
3. Open the downloaded .zip file and run the application. If you see warning Windows protected your PC, click “Learn more”, and then click “Run anyway”.
4. On the home screen, click “I agree”.
5. The application offers two search options: by aquifer or by geographical location.

Search by aquifer:

- **Single aquifer:** select the aquifer number per the Public Registry of Water Rights (REPDA) and enter the volume of water in cubic metres.
- **Aquifer series:** upload an Excel or CSV file with columns: ID, Aquifer and Extracted_Water.

Search by geographic location:

- **A pair of coordinates:** enter latitude, longitude (obtainable from Google Maps) and the volume of water in cubic metres. After processing, the application will indicate whether the water comes from a water-stressed area; we recommend taking a screenshot as evidence.
- **Coordinate series:** upload an Excel or CSV file with columns: ID, Latitude, Longitude and Extracted_Water.

a. How does indicator A.11 report whether my entity supplies water from the sea?

The standard does not require specifying the sources from which the water is obtained. However, when part of the supply comes from the sea, it is recommended to expressly declare it by means of a note within the same report. As to the calculation of the indicator, seawater should not be included in the determination of water stress. This is due to the fact that seawater is not part of the freshwater resources on which stress is evaluated.

Therefore:

- If all incoming water comes from the sea, indicator A.11 must be reported with a value of 0.
- If the entity has additional sources of supply to the sea, only those sources should be considered in the calculation of the indicator. Seawater must be excluded.

What tool can I use to get the answer to indicator A.12. Land use within or near biodiversity risk areas?

Situation

Indicator A.12 establishes that the entity must report the number of properties that it controls or manages, as well as their surface area in square metres, that are within or near biodiversity risk areas or adjacent to them. To calculate this indicator, the entity must determine whether the properties under its control or administration are located in areas classified as biodiversity risk. To do this, they must use a reliable source of information that allows them to verify this classification, but many companies have never sought this information and do not know where to start.

Solution

There are public platforms and tools that allow you to easily identify whether a location is in a biodiversity risk area.

Some of the tools that help us to correctly report the indicators include:

- Key Biodiversity Areas (KBA) inventory developed by the KBA
- CINIF ZRB (Biodiversity Risk Area) tool
- Specialised agency websites, such as Protected Planet.

Case study (example)

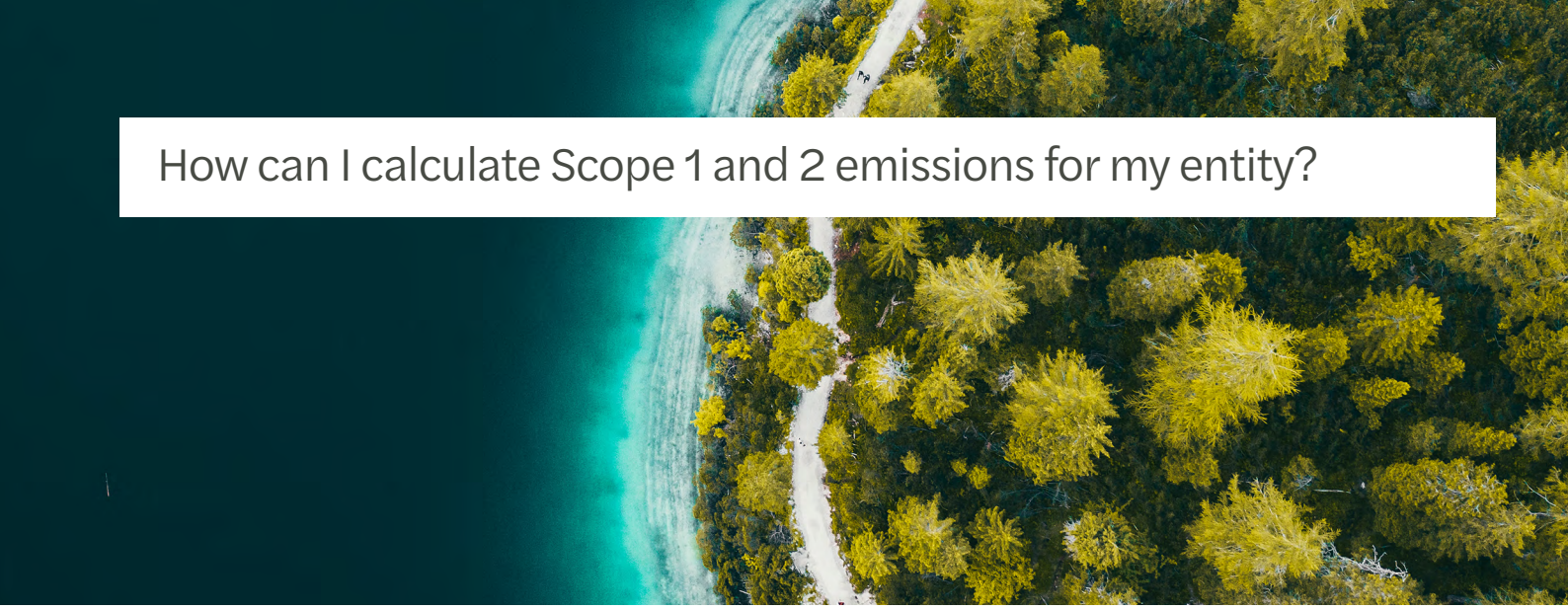
The CINIF has a specific calculator for this indicator.
The steps include:

1. At the CINIF website, selecting the Sustainability tab and then ZRB Tools (click on the following link: Mexican Council of Financial Reporting Standards, A.C.).
2. Scroll to the bottom of the page, click "I Agree", and then click "Download Calculator".
3. Open the .zip and run the application. If the Windows warning appears, follow the same procedure described in the previous question.
4. Click "I agree" on the home screen.
5. The application offers three analysis modalities:

- **A pair of geographical coordinates:** enter latitude, longitude (from Google Maps), search radius in metres and total area of the property in square metres. After processing, the application will indicate whether the property is nearby, adjoining or within a biodiversity risk area. We recommend taking a screenshot as evidence.
- **Coordinate series (Excel or CSV):** load a file with the columns Latitude, Longitude, Area and ID, and specify the search radius.
- **Polygon series (Shapefiles):** load a Shapefile or .zip file with the geospatial data of the property, specify the search radius and the name of the identifier column.

a. What is considered adjacent in the determination of IBSO A.12?

For the purposes of the NIS, any property whose search radius fully or partially overlaps a biodiversity risk area is considered to be adjacent to it. We recommend starting the analysis using a search radius of 100 metres.



How can I calculate Scope 1 and 2 emissions for my entity?

Situation

Indicators A.1 and A.2 require the entity to report gross Scope 1 and Scope 2 GHG emissions, respectively. Scope 1 emissions are a direct consequence of activities operated or controlled by the entity, including: generation of electricity, steam or heat; physical or chemical processes; transport of materials, product, waste and people; and generation of fugitive emissions. Scope 2 emissions, on the other hand, come from sources controlled by the entity's energy suppliers; that is, they are generated at the supplier's facilities as a result of the supply of electricity, heating or steam consumed by the entity.

Solution

There are public platforms and tools that calculate Scope 1 and 2 emissions based on the following information:

- Scope 1: Receipts from fuel suppliers; data on the entity's activities that are a source of GHG emissions; specific fuel consumption data.
- Scope 2: Receipts from electricity, heating or steam suppliers; emission factors published by energy suppliers, such as the Federal Electricity Commission (CFE).

Case study (example)

The CINIF has a calculator designed specifically for these indicators. To use it, follow the steps below:

- Go the CINIF website, select the Sustainability tab and then the GHG Calculator (access here: Consejo Mexicano de Normas de Informacion Financiera, A.C.).
- Scroll to the bottom of the page, click "I Agree", and then click "Download Calculator".
- Carefully read the use instructions contained in the document.
- Follow the indicated procedure to calculate Scope 1 and/or Scope 2 emissions.

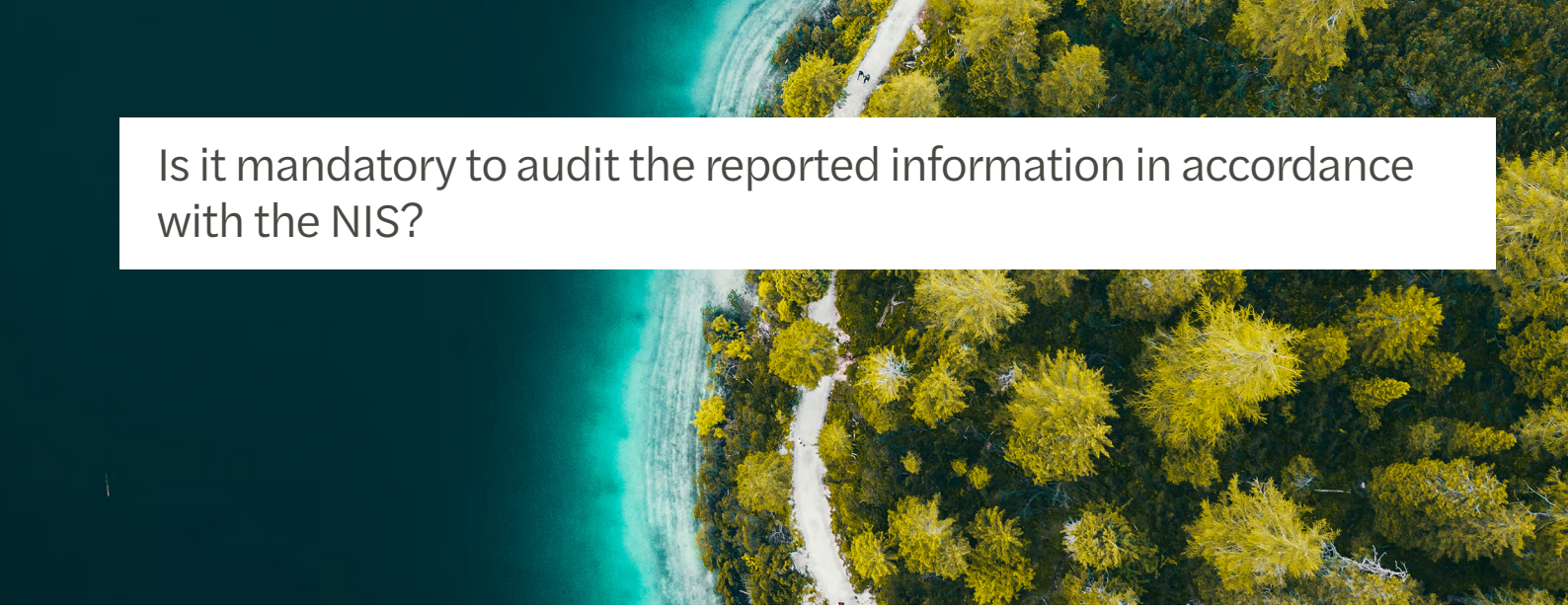
Should water for human consumption be considered within the volume of water reported in indicator A.7. Incoming water?

Yes. The entity must report all water entering its facilities, regardless of its source. This includes water intended for human consumption, such as any water that comes in jugs, bottles, dispensers or drinking fountains.

Although the standard does not require the volume to be disaggregated by source type, it is important to ensure that all water supplies, including those intended for human consumption, are duly accounted for in indicator A.7.

Should I report my sustainability information under NIS even if the company is not a large company or if it does not have significant environmental impacts?

The CINIF establishes that all entities that issue financial statements based on the NIF must include the disclosure of the 30 Basic Sustainability Indicators as part of the Notes to their Financial Statements, regardless of their size, industry, main activities or the level of environmental impact they generate.



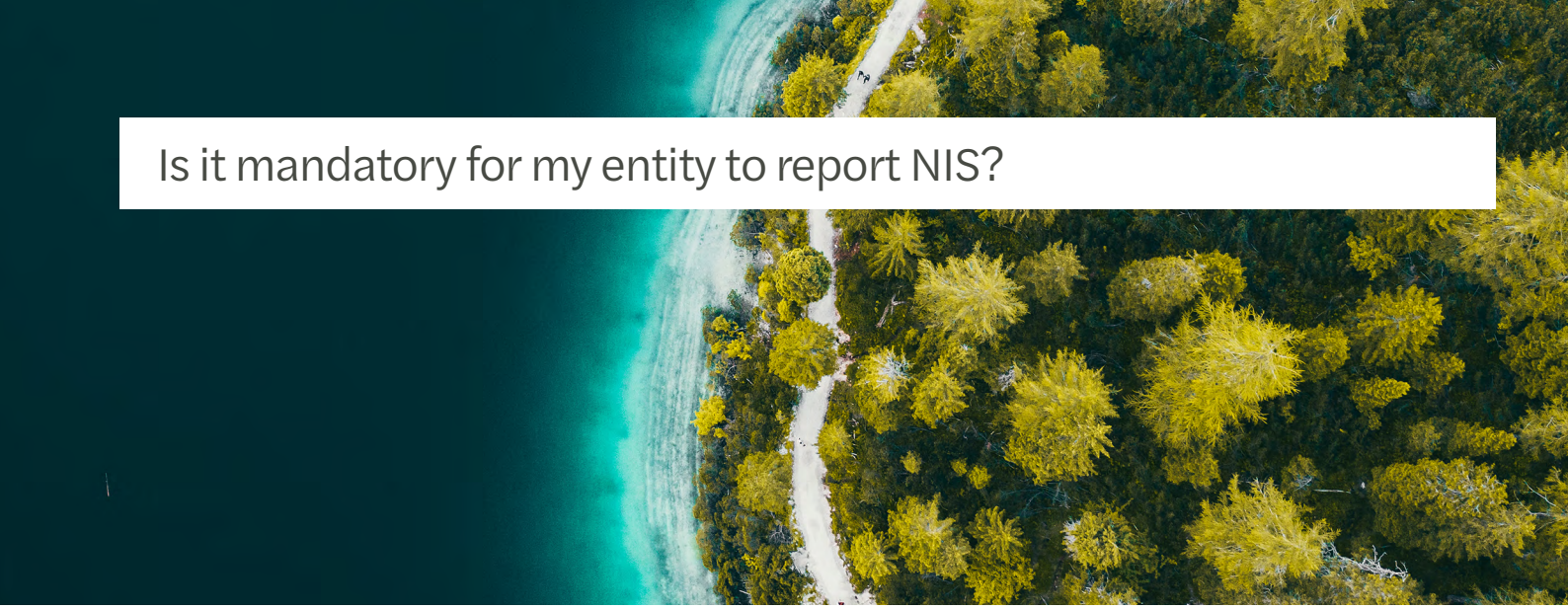
Is it mandatory to audit the reported information in accordance with the NIS?

No, sustainability information assurance is not part of the scope of the NIS and will depend on the needs of the users of such information. Each entity must evaluate, based on these needs, whether it is appropriate to subject their information to an independent assurance process.

However, it is possible that in the short or medium term this assurance will become necessary, at least to a limited extent, given that this has been the trend in other international regulations.

If my entity did not report NIS in 2025, will transition reliefs still apply for the first year my entity reports them?

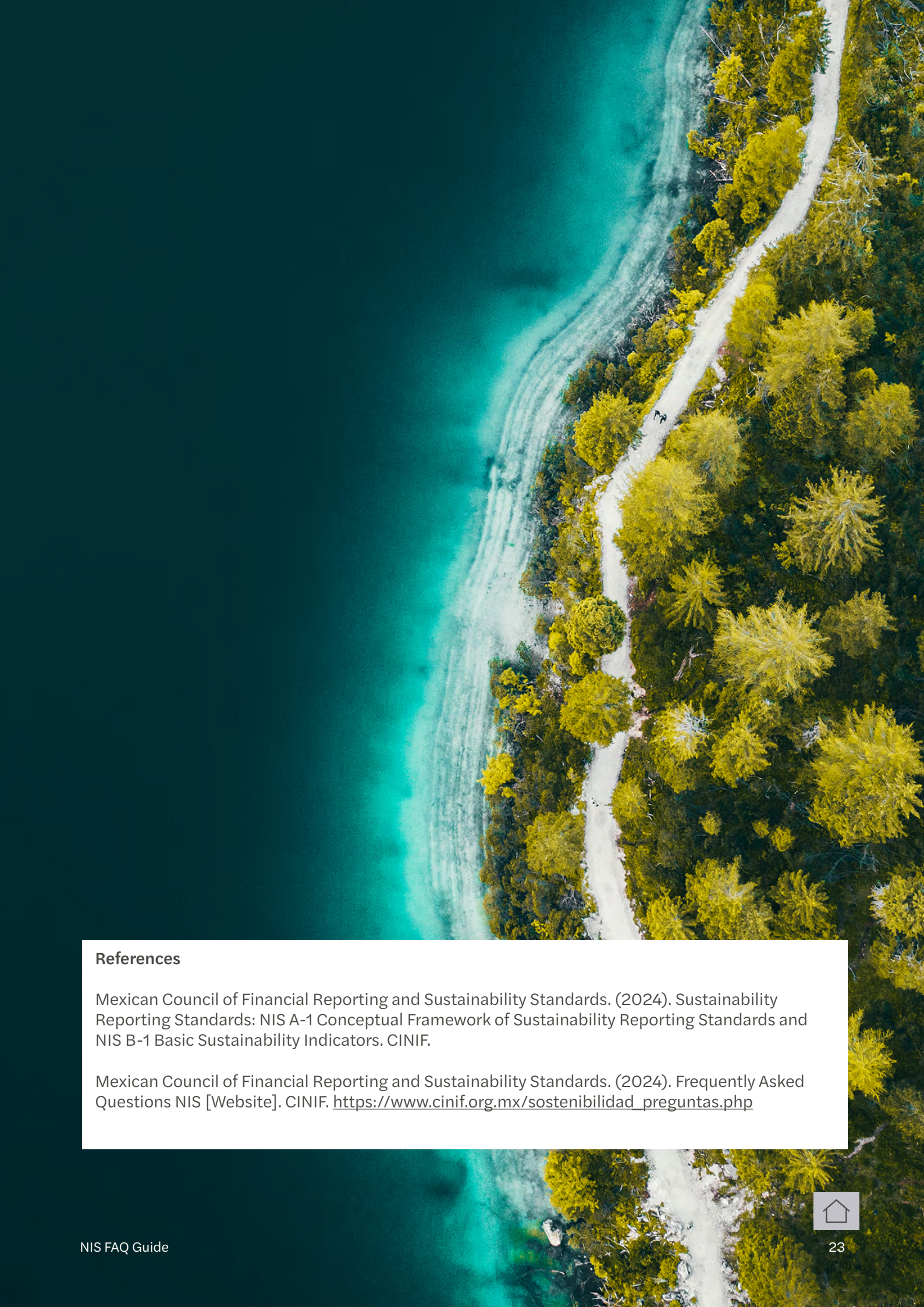
No, transition reliefs are associated with the beginning of the validity of the standard, not the first year of reporting.



Is it mandatory for my entity to report NIS?

Basic sustainability indicators must be disclosed in the notes to the financial statements as a regulatory requirement, as they are part of the information package that must be included in sustainability information. However, there is currently no law or provision issued by a regulator that specifically requires this information to appear in the notes or that establishes penalties for failing to do so.

What does exist is increasing market pressure; various actors in the value chain request ESG information from companies. For example, a financial institution may require this information to issue a loan, and many organisations have begun reporting it because they anticipate that it could soon become mandatory by law. In addition, financial auditors could include comments on this subject in the letter to management if they identify relevant gaps in the sustainability disclosure.



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