



Financial Reporting Webinar Series: ESG reporting – Beyond Compliance

Friday 13 November 2020



The changing risk landscape: 2007-2020



Top 5 Global Risks in Terms of Likelihood

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1st	Infrastructure breakdown	Blow up in asset prices	Asset price collapse	Asset price collapse	Storms and cyclones	Income disparity	Income disparity	Income disparity	Interstate conflict	Involuntary migration	Extreme weather	Extreme weather	Extreme weather	Extreme weather
2nd	Chronic diseases	Middle East instability	China economic slowdown	China economic slowdown	Flooding	Fiscal imbalances	Fiscal imbalances	Extreme weather	Extreme weather	Extreme weather	Involuntary migration	Natural disasters	Climate action failure	Climate action failure
3rd	Oil price shock	Failed and failing states	Chronic diseases	Chronic disease	Corruption	Greenhouse gas emissions	Greenhouse gas emissions	Unemployment	Failure of national governance	Climate action failure	Natural disasters	Cyberattacks	Natural disasters	Natural disasters
4th	China hard landing	Oil price shock	Global governance gaps	Fiscal crises	Biodiversity loss	Cyberattacks	Water crises	Climate action failure	State collapse or crisis	Interstate conflict	Terrorist attacks	Data fraud or theft	Data fraud or theft	Biodiversity loss
5th	Blow up in asset prices	Chronic diseases	Deglobalization (emerging)	Global governance gaps	Climate change	Water crises	Population ageing	Cyberattacks	Unemployment	Natural catastrophes	Data fraud or theft	Climate action failure	Cyberattacks	Human-made environmental disasters



Top 5 Global Risks in Terms of Impact

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1st	Blow up in asset prices	Blow up in asset prices	Asset price collapse	Asset price collapse	Fiscal crises	Financial failure	Financial failure	Fiscal crises	Water crises	Climate action failure	Weapons of mass destruction	Weapons of mass destruction	Weapons of mass destruction	Climate action failure
2nd	Deglobalization	Deglobalization (developed)	Deglobalization (developed)	Deglobalization (developed)	Climate change	Water crises	Water crises	Climate action failure	Infectious diseases	Weapons of mass destruction	Extreme weather	Extreme weather	Climate action failure	Weapons of mass destruction
3rd	Interstate and civil wars	China hard landing	Oil and gas price spike	Oil price spikes	Geopolitical conflict	Food crises	Fiscal imbalances	Water crises	Weapons of mass destruction	Water crises	Water crises	Natural disasters	Extreme weather	Biodiversity loss
4th	Pandemics	Oil price shock	Chronic diseases	Chronic disease	Asset price collapse	Fiscal imbalances	Weapons of mass destruction	Unemployment	Interstate conflict	Involuntary migration	Natural disasters	Climate action failure	Water crises	Extreme weather
5th	Oil price shock	Pandemics	Fiscal crises	Fiscal crises	Energy price volatility	Energy price volatility	Climate action failure	Infrastructure breakdown	Climate action failure	Energy price shock	Climate action failure	Water crises	Natural disasters	Water crises

Source: World Economic Forum, [The Global Risks Reports 2020](#), accessed 10 Nov 2020

Progressing the sustainability agenda



Time to raise the bar on climate change reporting

“Users of corporate reports expect more from companies, auditors, regulators and standard setters in terms of climate change reporting. While this review highlights some bright spots of better practice in both corporate reporting and auditing, we also found that more needs to be done. I know that this is a difficult time to ask for more, but now is the time for all of us to raise the bar.” – Sir Jonathan Thompson, Chief Executive of FRC

Source: [UK Financial Reporting Council News](#), 10 Nov 2020

International Finance Corporation and the Hong Kong Monetary Authority Launch New Alliance to Address Climate Change

“The HKMA’s vision and continued progress towards making Hong Kong SAR a prominent green finance hub for Asia, makes it the ideal inaugural partner to mainstream green finance in Asia,” - Stephanie von Friedeburg, interim managing director, executive vice president and Chief Operating Officer of IFC

Source: [Hong Kong Monetary Authority Press Release](#), 9 Nov 2020

September 2020

IFRS® Foundation

Consultation Paper on Sustainability Reporting

Comments to be received by 31 December 2020

November 2019

In Brief

IFRS® Standards and climate-related disclosures



Nick Anderson

Climate-change is a topic on which investors and other stakeholders increasingly ask the International Accounting Standards Board (Board), why this is not mentioned explicitly in IFRS Standards. In this update, Nick Anderson, a member of the Board, provides an overview in ten steps to help investors understand what already exists in the current requirements and guidance on the application of materiality, and how it relates to climate and other emerging risks. While climate-change risks and other emerging risks are not covered explicitly by IFRS Standards, the Standards do address issues that relate to them. This article has been inspired by work from the Australian Accounting Standards Board (AASB) and Audit and Assurance Board (AUASB).

What is this publication about?

The International Accounting Standards Board (Board) is often asked why IFRS Standards don't mention climate change. While the phrase 'climate change' does not feature in our requirements, IFRS Standards do address issues that relate to climate-change risks and other emerging risks. The Board is also updating its non-mandatory guidance on management commentary, where it would expect companies to address material environmental and societal issues, complementing the information in financial statements.

In April 2019 the Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) issued a joint bulletin, 'Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/AUASB Practice Statement 2'. The focus of that publication was to illustrate how qualitative external factors, such as the industry in which the company operates, and investor expectations may make such risks 'material' and warrant disclosures in the financial statements, regardless of their numerical impact.

Taking inspiration from the joint AASB-AUASB bulletin, we have prepared this publication to help analysts and investors better understand our requirements and our guidance on the application of materiality.

In the rest of this document we discuss:

- 1 Board guidance on how to make materiality judgements
- 2 applying IFRS Practice Statement 2 Making Materiality Judgements to climate-related and emerging risks
- 3 financial reporting considerations when applying IFRS Standards
- 4 disclosing climate-related and other emerging risks in the financial statements
- 5 management commentary: providing context to the financial statements
- 6 summary: materiality judgements should serve investors' information needs

<https://www.iasb.org/document/external/consultation/IFRS-standards-climate-related-disclosures-consultation-materiality>

In Brief | Climate-related and other emerging risks disclosures: Assessing financial statement materiality | November 2019 | 1

Progressing the sustainability agenda (cont'd)



Enhancing Corporate Reporting: *The Way Forward*

IFAC calls for a new Sustainability Standards Board alongside the IASB



The time for a global solution is now—to answer the demand from investors, policymakers and other stakeholders for a reporting system that delivers consistent, comparable, reliable, and assurable information relevant to enterprise value creation, sustainable development and evolving expectations. A fragmented approach perpetuates inefficiency, increased cost, and a lack of trust. Important work is underway (e.g., WEF/IBC metrics, IOSCO's task force, EFRAG's preparatory work, and alignment between the leading reporting initiatives), and these efforts should continue and ultimately contribute to the emerging global system.

STRUCTURE

- The IFRS Foundation, with an enhanced remit and composition, should create an International Sustainability Standards Board ("ISSB"), leveraging the independence and success of IFRS governance (i.e., Monitoring Board and IFRS Foundation Trustees) to develop global standards and rationalize the current fragmented ecosystem.
- Clear support from global institutions like IOSCO and appropriate funding are critical to success.
- The IASB must remain focused on financial reporting standards. Coordination between the ISSB and IASB will be necessary to avoid overlaps and gaps (e.g., Management Commentary).
- Applicability of ISSB standards should be determined (e.g., SMEs vs. PIEs).
- The ISSB should engage with both IFRS and non-IFRS jurisdictions to encourage global adoption and use.
- The ISSB should adopt a "building blocks" approach, working with and leveraging the expertise and disclosure requirements of leading initiatives, including CDP, CDSB, GRI, IIRC, and SASB.

BUILDING BLOCKS

- **Block 1:** Requirements for material non-financial information focused on company performance, risk profile, economic decisions and enterprise value creation should be the remit of the ISSB. This focus is consistent with the work of the IASB and will attract broad global support.
- **Block 2:** The ISSB should also collaborate with respect to reporting requirements designed to address broader, material sustainable development and company impacts on economy, environment, and people. These requirements may ultimately be incorporated or endorsed into ISSB standards.
- **Block 3:** The system should accommodate supplemental jurisdictional requirements to support local public accountability. These should not detract from Blocks 1 or 2 and may be absorbed into them over time.
- **Framework:** Financial and non-financial information should be connected through a conceptual framework. Integrated reporting principles and the work of TCFD should serve as a starting point.

GLOBAL APPROACH

A new standard setting board is necessary to build and coordinate a coherent global system of interconnected corporate reporting.

COMPLETING THE ECOSYSTEM

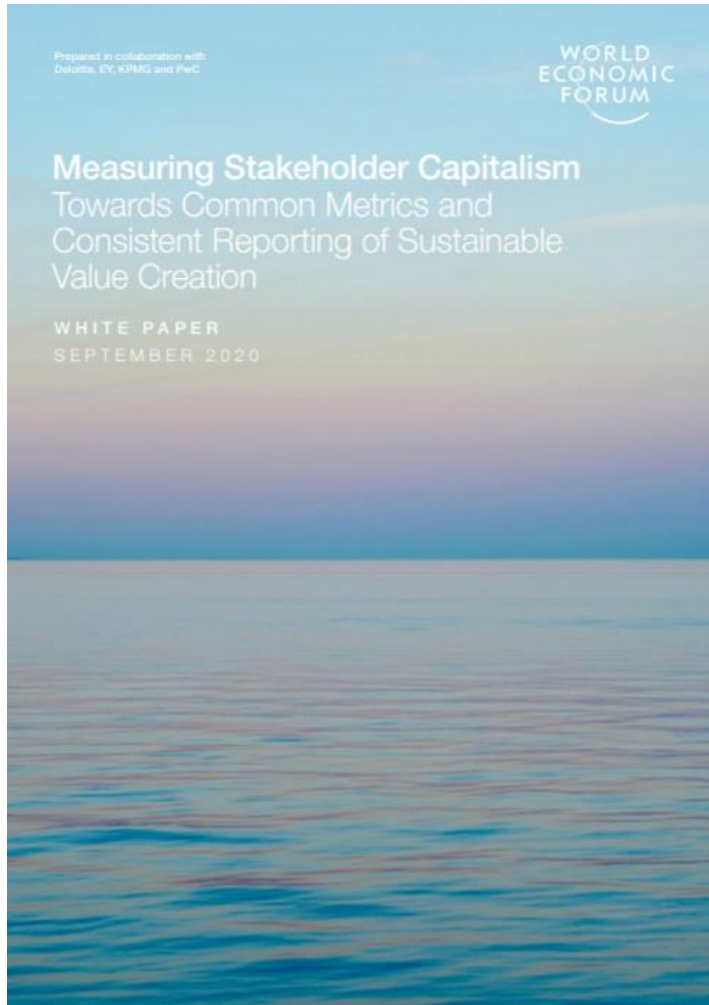
- Corporate governance must evolve to provide effective oversight of expanded reporting obligations.
- Enhanced corporate controls and data systems will be necessary to generate high quality information.
- Assurance is a necessary component of the global system. The work by the IAASB will play a critical role.
- Reporting standards and assurance processes must be digital ready.
- Professional accountants and firms need to continue to enhance their competencies to prepare and assure this new information and work closely with experts in sustainability and other fields.
- Providers of sustainability/ESG ratings, rankings or indices should embrace the development of global reporting requirements so that consistent, comparable, reliable, and assurable information can be incorporated into their work.
- Public sector reporting should also evolve to require more comprehensive information.

"The time for a global solution is now. Given the momentum that has developed this year—because of work by Accountancy Europe, WEF/IBC, the European Commission, the IOSCO Task Force and the five leading reporting initiatives—we have a unique opportunity to act in concert to do the right thing in the public interest. IFAC believes the IFRS Foundation, with the backing of public authorities, is optimally positioned to lead and coordinate this initiative, and they would do so with our full support."

Kevin Dacey, IFAC CEO, 11 Sept 2020

Source: [IFAC calls for Creation of an International Sustainability Standards Board Alongside the IASB](#), accessed 11 Nov 2020

Bringing greater comparability and consistency to ESG disclosures

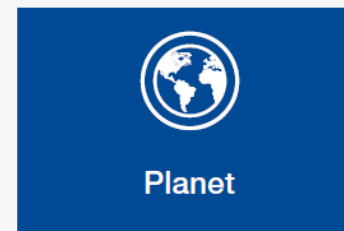


The four pillars



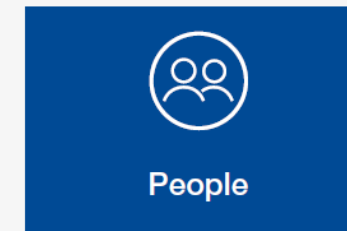
Principles of Governance

The definition of governance is evolving as organizations are increasingly expected to define and embed their purpose at the centre of their business. But the principles of agency, accountability and stewardship continue to be vital for truly “good governance”.



Planet

An ambition to protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that it can support the needs of the present and future generations.



People

An ambition to end poverty and hunger, in all their forms and dimensions, and to ensure that all human beings can fulfil their potential in dignity and equality and in a healthy environment.



Prosperity

An ambition to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social and technological progress occurs in harmony with nature.

Forthcoming HKICPA's ESG Assurance Reporting guide



Technical Bulletin - AATB 5
Issued [] 2020

Technical Bulletin

Environmental, Social and Governance (ESG) Assurance Reporting

This Technical Bulletin is issued by the Auditing and Assurance Standards Committee of the Hong Kong Institute of Certified Public Accountants (HKICPA). The Technical Bulletin does not constitute an auditing or assurance standard. Professional judgement should be used by members in its application. No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this Technical Bulletin can be accepted by the HKICPA.



HKEX review of ESG reports for FY 2018



The Exchange reviewed ESG reports for the financial year ended on 31 March, 30 June or 31 December 2018 from 400 randomly selected issuers

Key findings and recommendations of the ESG Disclosure Review include:

- Two-thirds of Sample Issuers disclosed that a materiality assessment had been undertaken, some described the assessment in a more detailed manner than others. The Exchange emphasises the importance of materiality since it is a fundamental element for a company to assess ESG-related risks it faces.
- ESG reports from a majority of Sample Issuers contained little or no description of board involvement. It is important for boards to be meaningfully involved in assessing and addressing ESG-related risks.
- When an issuer is required to “comply or explain”, only 3 per cent of such provisions were “explained”. The high percentage of reports adopting the “comply” option may suggest that issuers have not properly determined what is material to them, or that the “explain” option is believed to be a less-preferable option. Issuers are reminded that if a “comply or explain” provision is immaterial to them, then an explanation to that effect may well be appropriate. “Explanation” is not a less preferred or secondary option.

Source: [Analysis of Environmental, Social and Governance Practice Disclosure In 2018](#)

Revised HKEX ESG
reporting guide applies 1
July 2020

Resources



Articles available on KPMG IMPACT include:

- [Creating trust in ESG data in real-time](#)
- [Sector insights on climate resilience and decarbonization](#)
- [Uncovering the true value of global infrastructure](#)
- [More regulators pick up the ESG baton](#)

Tentative dates and topics for 2020



- 15 May – Sailing through the storm with clarity (COVID-19 related accounting issues)
- 12 June – ESG reporting: latest developments
- 17 July – Use of non-GAAP measures and IASB's primary financial statements project
- 18 September – The search for value in Goodwill
- 13 November – Beyond compliance – ESG reporting
- **11 December – Key year-end reporting considerations**

For more details and access to our webinar series:

<https://home.kpmg/cn/en/home/services/audit/ifrs-news/financial-reporting-webinar-series.html>

Speakers



Gabriel Wilson-Otto

Global Head of
Sustainability Research
BNP Paribas Asset
Management



Katherine Ng

Managing Director
Chief Operating Officer Head of
Policy and Secretariat Services,
Listing Division
HKEX



Joshua Wong

Corporate Sustainability
Manager
The Hongkong and Shanghai
Hotels, Limited



Pat Woo

Head of Sustainable Finance
Hong Kong
KPMG China
E pat.woo@kpmg.com



Serene Seah-Tan

Partner
Department of Professional Practice
KPMG China
E serene.seah-tan@kpmg.com





Thank you



kpmg.com/cn/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2020 KPMG, a Hong Kong partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited (“KPMG International”), a private English company limited by guarantee. All rights reserved. Printed in Hong Kong, China.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.