Sustainability Reporting Developments

Financial Reporting Webinar Series

Friday, 28 April 2023

Where the ISSB is at – final standards expected June 2023

Mar 2022
First two proposals[1] released – general requirements and climate

Jul 2022
> 1,400 comment letters

First International Sustainability Standards Board (ISSB) meeting

Sept 2022 – Feb 2023
Discussed focus areas and agreed key changes to the proposals

H1 2023
Continuing work on interoperability
Finalising drafting of the first two standards

Final standards in June 2023

Jurisdictions
Endorse for local adoption or incorporate into local requirements

Foundational activities
Supporting companies to be ready to apply

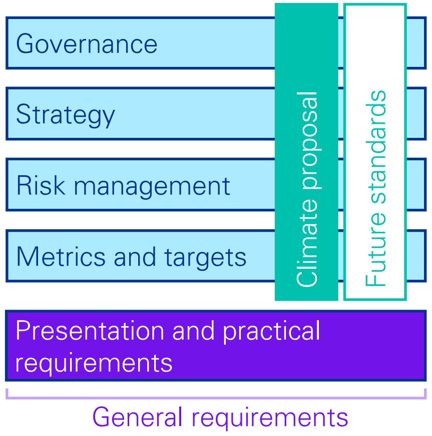
The original proposals

The proposals build on the four-pillar structure of the **TCFD**[2].

The **general requirements** proposal defines the scope and objectives of reporting and provides core content, presentation and practical requirements.

It requires disclosure of material information on all significant sustainability-related risks and opportunities – not just on climate.

The **climate proposal** replicates the core content requirements and supplements them with climate-specific reporting requirements.



Focus areas for change

General requirements
- Fundamental topics including materiality and sources of guidance
- Practicalities of reporting, including timing of reporting and proportionality

Climate
- Greenhouse gas emissions
- Transition plans and targets
- Climate resilience
- Industry-specific materials

- **Climate-first option –** allowing companies to report **only** on climate-related risks and opportunities in the first year of reporting

1. Proposed IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and proposed IFRS S2 *Climate-related Disclosures*. 2. Task Force on Climate-related Financial Disclosures.

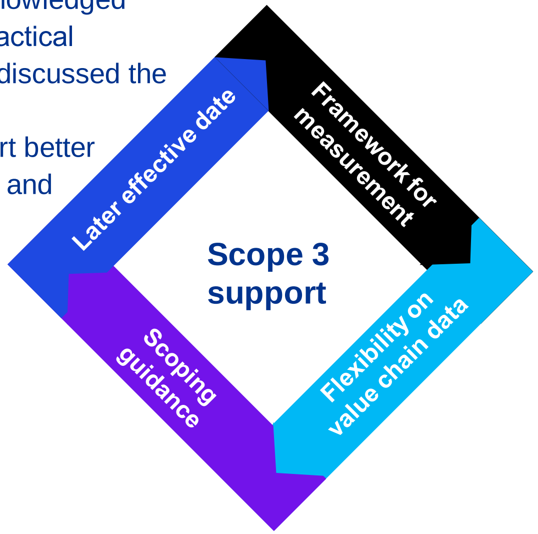
Key decisions – Climate-related requirements

Greenhouse gas emissions

The ISSB agreed to retain its requirement to report Scope 1, 2 and 3* emissions using the **GHG Protocol**

Scope 3 emissions disclosures are fundamental for understanding a company's exposure to transition risks.

The ISSB acknowledged companies' practical concerns and discussed the following ways to support better **data quality** and **availability**



*Certain industries will be required to disclose financed emissions.

Climate resilience

Companies will be required to use **scenario analysis** when describing their assessment of climate resilience.

The ISSB is taking a **proportionate** approach to ensure that all types of company can disclose decision-useful information for investors.

The type of analysis will depend on the company's exposure to climate-related risks and the approach would use **'reasonable and supportable'** information.

The ISSB plans to provide guidance, building on TCFD requirements and setting out a **range of approaches** to scenario analysis.

Transition plans and targets

Investors want to understand companies' readiness to transition to a lower-carbon economy. More **transparent** and **granular** disclosures can achieve this.

The ISSB has agreed additional requirements to disclose information on **transition plans** and **climate-related targets** in response to stakeholder feedback.

Industry-specific materials

The ISSB will require industry-specific disclosures, but for now it would classify the content in Appendix B of the climate standard as **illustrative examples**

The ISSB plans to make content based on SASB **mandatory in future**, after further consultation.

IFRS S2 – Scope 3 GHG emissions requirements

S2 will require:

- ✓ Scope 3 GHG emission, when material
- ✓ Which of 15 categories of Scope 3
- ✓ Use of GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard
- ✓ How and why the entity has used specific inputs, assumptions and estimation techniques to measure its GHG emissions, and information about changes

Furthermore, companies with emissions associated with investments (category 15) will be required to provide additional disclosures for financed emissions, as part of Scope 3 GHG emissions disclosures. ISSB decided not to require facilitated emissions for now.

This is applicable for companies that are in, or have activities associated with, the following industries:

- Asset management & Custody Activities;
- Commercial Banks;
- Insurance, for their investment activities.

IFRS S2 – Scope 3 GHG emissions relief and support

HKEx proposed additional interim relief on scope 3

Relief: Temporary exemption of 1 year from this disclosure when first applying S2

Relief: Permission to include information obtained from companies in the value chain with a different reporting cycle

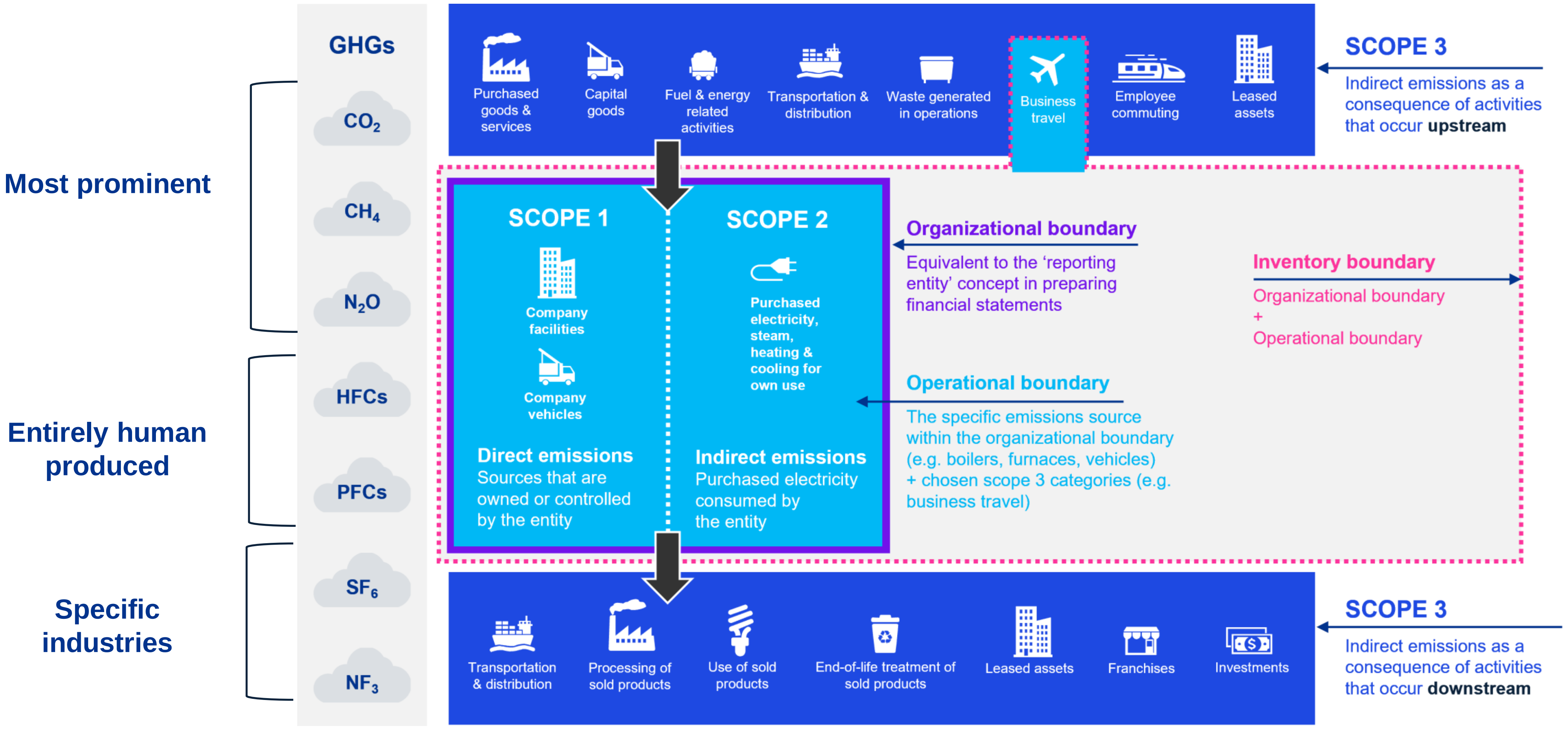
Relief: Use of reasonable and supportable information that is available **without undue cost or effort**

Guidance: The ISSB will provide framework for Scope 3 measurement that incorporates use of estimation – aim is to provide transparency on primary vs estimates and verified vs unverified data

Other key decisions on GHG emissions disclosures

- GHG emissions intensity no longer required
- No requirement to disaggregate GHG emissions by constituent gases
- Require use of IPCC's GWP 100 year time-horizon values
- Estimation techniques, inputs, assumptions used to be disclosed in measuring emissions
- Scope 2: required to use location-based method along with information about contractual instruments related to managing energy purchased

Roadmap to GHG emissions reporting discussed in the Handbook



US SEC's climate proposal at a glance

Applies to FPIs, IPO applicants

21 March 2022

Proposed climate disclosures issued

Almost 15,000 responses received by the SEC*

April 2023 (tentative)

Final climate-related disclosure rule expected

*Source: Speech by Chair Gary Gensler before the US House of Representatives Committee on Financial Services

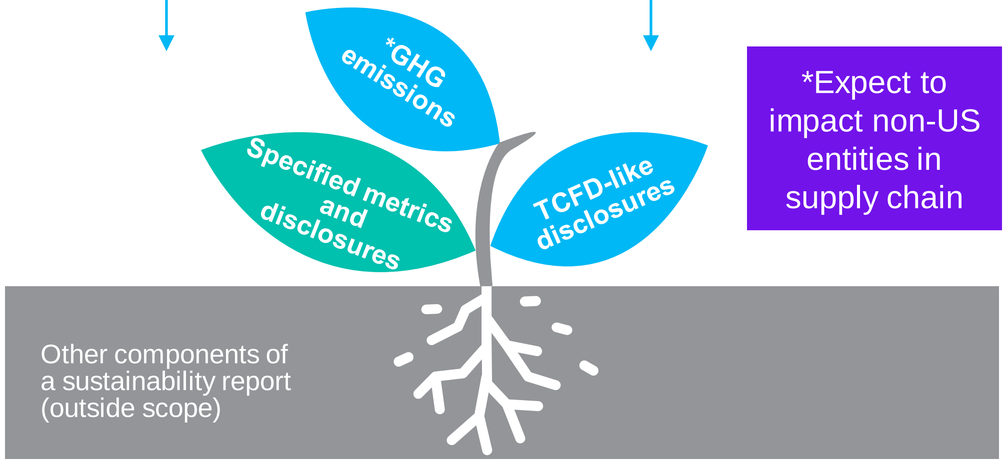
Disclosures filed, not furnished

- In a new note to the audited financial statements, disclose certain climate-related metrics and related disclosures
- In a separate 'climate-related disclosure' section of the annual report or registration statement – or by reference from another section (e.g. MD&A) – disclose GHG emissions and certain information about material climate-related risks
- In quarterly reporting, disclose any material changes to the disclosures provided in the annual report or registration statement

Annual report or registration statement

Financial statements

Separate section (climate-related disclosure) or incorporate by reference from another section



*Expect to impact non-US entities in supply chain

Comparatives	Current fiscal year	Prior fiscal year(s)
Financial statements	✓	✓ **
GHG emissions	✓	✓ **

** If reasonably available

What financial statement disclosures are proposed?

Financial metrics

1) Separately for each line item in the financial statements – and separately for physical risks and transition risks – disclose total negative impacts and total positive impacts.
2) Separately for the physical risks and transition risks driving the disclosure in (1), disclose expenditure incurred and expensed vs capitalized.
3) Disclose contextual information that explains the metrics in (1) and (2), including significant inputs and assumptions, and policy decisions in calculating the metric.

Bright-line materiality for financial metrics

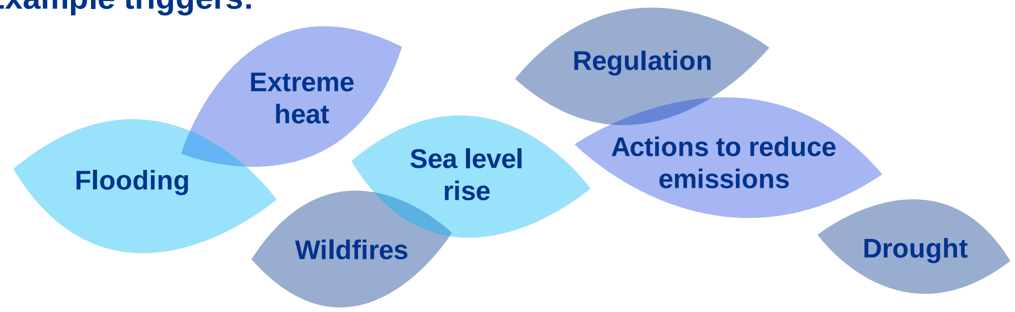
— Disclose if the total amount of all impacts exceeds 1% of the related line items of the consolidated income statement, balance sheet or cash flow statement.

— Impact would be measured in absolute value – positives and negatives would not be offset.

Financial estimates and assumptions

— Disclose exposures to risks and uncertainties associated with climate-related risks that impacted the development of the estimates and assumptions used in preparing the financial statements.

Example triggers:



1. By line item in each basic statement

	Physical risks		Transition risks	
	Total negative impacts $	Total positive impacts $	Total negative impacts $	Total positive impacts $
Revenue	X	X	X	X
Cost of revenue	X	X	X	X
Impairment	X	X	X	X
PP&E	X	X	X	X

2. Corresponding to the risks driving the disclosure in (1)

	Physical risks	Transition risks
	Expenditures incurred $	Expenditures incurred $
Capitalized	X	X
Expensed	X	X

Optional: Same information as (1) and (2) for opportunities

What GHG emissions disclosures are proposed?

Scopes 1 and 2 with assurance; Scope 3 in many cases

— Definitions are based on the GHG Protocol.

— Disclose Scope 1 and Scope 2 GHG emissions

- Assurance required for larger companies, but phased (see Q8).

— Disclose Scope 3 GHG emissions if material or included in an emissions reduction target or goal.

- By significant category of upstream activity (e.g. purchased goods and services, business travel) and downstream activity (e.g. transportation of products sold, investments).

— Disclose in both absolute and intensity (e.g. per unit of production) terms, excluding any purchased or generated offsets.

— Disclose methodology, significant inputs and significant assumptions used in calculations.

	Scope 1	Scope 2	Scope 3 Category	 Category
CO^2				
CH^4				
N_2O				
NF_3				
HFC				
PFC				
SF_6				
Totals	XX	XX	XX	XX
		Total Scope 3:	XX	
Intensity				
Per $ revenue	YY (revenue)		YY (revenue)	
Per unit of production	YY (production)		YY (production)	

Each disclosed as CO_2e

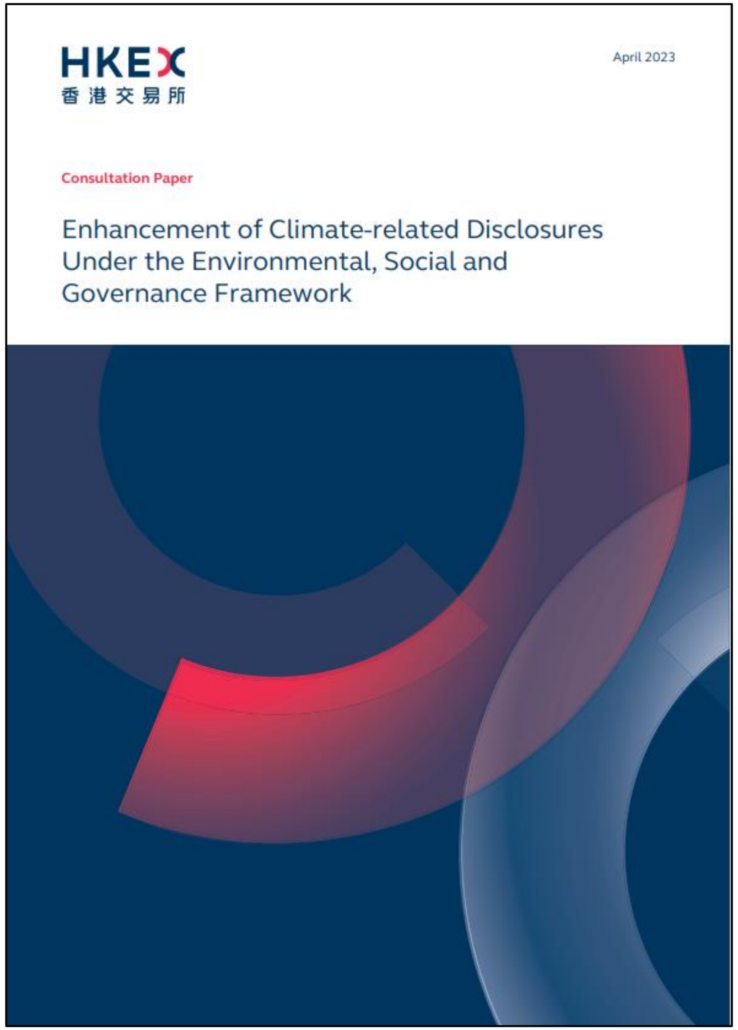
Disclosure relief

— Annual GHG emissions could be estimated based on actual data for the first three fiscal quarters and an estimate of Q4. Once Q4 data is available, material differences would be disclosed in a subsequent filing.

— Smaller reporting companies would be exempt from Scope 3 disclosures.

— Other registrants would have a safe harbor from certain forms of liability in connection with Scope 3 disclosures.

Consultation on climate-related disclosures under ESG framework


HKEX
香港交易所
April 2023
Consultation Paper
Enhancement of Climate-related Disclosures Under the Environmental, Social and Governance Framework

14 April 2023
Consultation Paper

14 July 2023
Deadline for Market Feedback

- **Mandatory climate-related disclosures in ESG report**
- **Align with the ISSB Climate Standard**
- **Build on the principles of TCFD recommendations**
- **Effective date: 1 January 2024**
- **Provide interim provisions for certain disclosures**

Interim provisions on climate-related disclosures

Available for the following disclosures:

Strategy

- Financial effects of climate-related risks and opportunities

Metrics and Targets

- Greenhouse gas emissions – Scope 3 emissions
- Other cross-industry metrics

Interim provisions

- Qualitative disclosures allowed
- Disclose information that enable readers to understand relevant items
- Disclose the work plan, progress and timetable for full disclosure

Interim period

- For the first two reporting years following 1 January 2024

Webinar dates and topics for 2023

- 22 February – Capital Market and HKEX Listing Rules Update
- **28 April – Sustainability Reporting Developments**
- 2 June– Interim updates
- 11 August – IASB projects
- 13 October – TBC
- 14 December – Year-end updates

For more details and access to our webinar series:

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

Resources

GHG emissions reporting

[GHG webcast registration link
3 May 12pm – 1:30pm US ET]

HKEX's Consultation Paper

Enhancement of Climate-related Disclosures Under the Environmental, Social and Governance Framework

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