KPMG

# Get ready to implement ISSB's IFRS S2 Climate Standard


Financial Reporting Webinar Series

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Monday, 11 September 2023

# Determining what to disclose

## Reporting entity

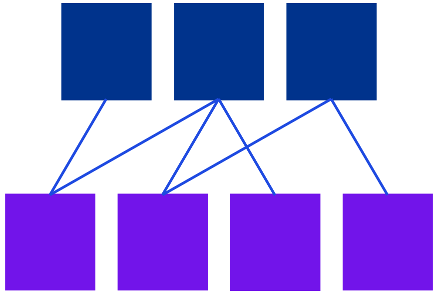
Resources

Reporting entity

Relationships

## Topics to be covered

Disclosure topics



Sustainability-related risks and opportunities

## Information to be reported

Material sustainability-related financial information

Governance

Strategy

Risk management

Metrics and targets

Climate standard

Future standards on other topics

## Part of general purpose financial reporting

Sustainability reporting

Financial statements

# ISSB's guidance on identifying material information

**Identifying material information (including metrics) about sustainability-related risks and opportunities**

Does a specific IFRS Sustainability Disclosure Standard apply (e.g. the climate standard)

Yes → Apply the specific IFRS Sustainability Disclosure Standard, and disclose additional material information, if necessary

No

*Companies "shall" consider*

Metrics associated with the disclosure topics in the industry-specific SASB Standards

*Companies "may" consider*

- CDSB Framework Application Guidance for Water- and Biodiversity-related Disclosures
- Other investor-focused frameworks
- Industry or local practice
- European Sustainability Reporting Standards
- GRI Standards

**Disclose all material information about identified sustainability-related risks and opportunities**

# Example on current and anticipated financial effects

Company X manufactures products that will be affected by new regulations specifying minimum energy-efficiency criteria. To meet the criteria, some of X's key products will need to be redesigned and require new production facilities to manufacture. A proposed extension to the regulations expected to be clarified next year could require similar changes for X's other products.

X discloses its current and anticipated financial effects by providing information about:

| | |
|---|---|
| Current financial effect | ▪ An explanation of how X is expected to be affected by the regulation, identifying the fact that current production facilities need to be redesigned;<br>▪ The impairment loss relating to those facilities recorded in the financial statements; and<br>▪ An explanation of the assumptions X has made about potential extensions to the regulation, linking to IAS 1 disclosures about the sensitivity of X's impairment judgements to those assumptions. |
| Anticipated financial effect | • An explanation of X's investment plans to address the regulations; and<br>• An indication of the level of investment required and how it could be funded; and<br>• An explanation of the uncertainties to X's prospects from changes to its established product range, including an indication of the proportion of X's sales attributable to products that it expects to require redesign. |

# Example: SSE plc – potential financial impact of climate-related risks

## Physical climate risks from a changed climate

| Risks | 2050 (EBIT £bn) | | 2080 (EBIT £bn) | |
|---|---|---|---|---|
| | 1.5°C | 4°C | 1.5°C | 4°C |
| 1. Variable renewable generation risk[1] | (0.10) – (0.14) | (0.13) – (0.17) | (0.15) – (0.20) | (0.20) – (0.27) |
| 2. Storm, wind and heat damage to networks assets risk[2] | (0.07) – (0.09) | (0.07) – (0.10) | (0.13) - (0.18) | (0.15) - (0.20) |

The potential financial impact of all scenarios is stated in GBP billion (£bn) based on one-year annualised earnings before interest and tax (EBIT) and presented as a range to reflect sensitivities applied to each climate scenario. Storm, wind and heat damage to networks assets risk is stated in GBP billion (£bn) based on one year annualised storm costs. External climate models have inherent limitations, with a lack of data on extreme climate events, and lower confidence levels on certain climate variables such as wind. SSE's assessments account for uncertainties by extracting average wind speed data to assess the impact.

## Transition risks arising from policy and market change

| Risks | 2030 (EBIT £bn) | | 2050 (EBIT £bn) | |
|---|---|---|---|---|
| | 1.5°C | 2.5°C | 1.5°C | 2.5°C |
| 3. Accelerated gas closure risk[1] | (0.34) – (0.51) | (0.17) – (0.26) | | |
| 4. Wind capture market risk[2] | (0.11) – (0.15) | (0.03) – (0.04) | (0.38) – (0.52) | (0.10) – (0.14) |

The potential financial impact for the accelerated gas closure risk is stated in GBP billion (£bn) based projected Net Present Value for each gas-fired power station and the wind capture market risk is stated in GBP billion (£bn) based on one-year annualised earnings before interest and tax (EBIT). All scenarios are presented as a range to reflect sensitivities applied to each climate scenario. Further adjustments for price changes based on increased system capacity were made for risk 4.

Source: SSE plc Annual Report 2023 https://www.sse.com/media/pf3fsfak/sse-plc-annual-report.pdf

- SSE describes the potential financial impact of 1.5ºC and 4ºC scenarios from physical and transition risks on annualised EBIT.
- SSE also discloses inherent limitations with lack of data on extreme climate events and variable such as wind.

Source: SSE plc Annual Report 2023
https://www.sse.com/media/pf3fsfak/sse-plc-annual-report.pdf

# Example: SSE plc – potential financial impact of climate-related opportunities

## Potential financial impact of assessed climate opportunities

| Opportunities | 2030 ( EBIT £bn) | | 2050 (EBIT £bn) | |
|---|---|---|---|---|
| | 1.5°C | 2.5°C | 1.5°C | 2.5°C |
| 1. Accelerated wind investment[1] | 0.48 – 0.66 | 0.35 – 0.47 | 1.09 – 1.50 | 0.63 – 0.86 |
| 2. Accelerated transmission growth[2] | 0.46 – 0.62 | 0.21 – 0.28 | 1.10 – 1.50 | 0.82 – 1.11 |
| 3. Valuable flexible hydro[1] | 0.00 – 0.01 | 0.00 – 0.01 | 0.15 – 0.20 | 0.13 – 0.17 |
| 4. Valuable flexible thermal[1] | 0.14 – 0.20 | | 0.66 – 0.99 | 0.05 – 0.07 |
| 5. Driving distribution transformation[3] | 0.09 – 0.12 | 0.04 – 0.06 | 0.31 – 0.42 | 0.28 – 0.37 |

The potential financial impact of all scenarios is stated in GBP billion (£bn) based on one-year annualised earnings before interest and tax (EBIT) and presented as a range to reflect sensitivities applied to each climate scenario. For each opportunity, the annualised EBIT is adjusted for the capacity or other growth assumptions from the noted scenarios. Further adjustments for price changes based on increased system capacity were made for opportunities 1 and 3.

SSE discloses potential financial impact from climate-related opportunities on annualised EBIT

## Climate opportunity impacts

With five relevant material climate opportunities identified, each is defined with its impact on strategy described below:

### 1. Accelerated wind investment

**Context**

UK and international binding net zero targets supported by renewable capacity growth plans and targets provide an opportunity to invest in the growth of SSE's installed onshore and offshore wind generation capacity.

Key assumptions included the wind capacity projections from the IEA Net Zero Emissions by 2050 and STEPS scenarios, SSE's current and pipeline wind investment projections and internal wind capture price factors.

**Impact to SSE**

As part of the scenario analysis, SSE assessed its current and pipeline wind portfolio to understand the potential opportunity of accelerated wind investment to the business in 2030 and 2050. The 1.5°C scenario indicated a significantly greater opportunity in 2030, with a range of £0.48bn to £0.66bn and an opportunity of more than double that in 2050 with a range of £1.09bn to £1.50bn, when compared to a warmer 2.5°C scenario for the same time horizons.

**Strategic alignment**

Under the NZAP Plus, SSE anticipates that around 5GW of additional net capacity will be added across the five-year plan, with net installed capacity exceeding 9GW by March 2027. This investment strategy aligns to the opportunities arising from a 1.5°C scenario.

SSE provides explanation on the assumptions used analysing the climate-related opportunity – including current projected investments

Source: SSE plc Annual Report 2023
https://www.sse.com/media/pf3fsfak/sse-plc-annual-report.pdf

# Framework to consider alternative disclosure

**Quantitative financial effects**

Are they separately identifiable?

No → Provide an alternative disclosure

Yes

Is the measurement uncertainty so high that quantitative information would not be useful?

Yes → Provide an alternative disclosure

No

Does the company have the skills, capabilities or resources to provide information about anticipated effects?

No → Provide an alternative disclosure

Yes

Disclose quantitative information about the sustainability-related risk or opportunity

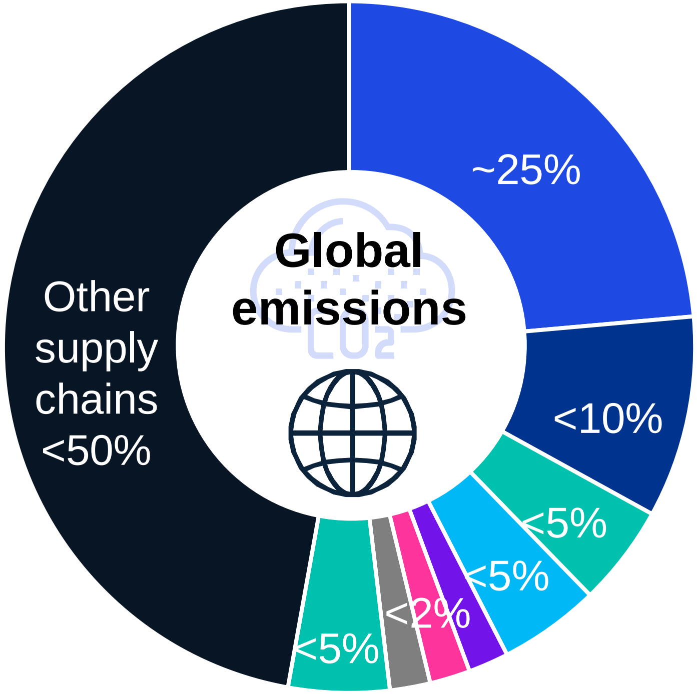
# Example: anticipated effects not quantifiable

Company Y depends on a raw material whose cost and availability are affected by incoming pollution related regulations.

Y discloses its anticipated financial effects by providing information about:

| | |
|---|---|
| **Anticipated financial effects** | ▪ An explanation that quantitative information about the anticipated financial effects attributable to the regulations cannot be provided because the effect of the regulations cannot be separately identified from other market factors;<br>▪ Qualitative information about (i) how suppliers are responding to the regulation, and (ii) the capacity of Y's market to absorb any cost increases; and<br>▪ Quantitative information about the historical volume of raw material purchased by Y so that readers can assess Y's exposure to potential cost changes. |

# Eight supply chains are responsible for more than 50% of global emissions




| | | | | |
|---|---|---|---|---|
| Food | Agriculture | Freight | Manufacturing | |
| Construction | Cement, steel, plastics,… | Freight | Manufacturing | |
| Fashion | Synthetics, textiles, garments,… | Freight | Manufacturing | |
| FMCG | Chemicals, plastics,… | Freight | Manufacturing | |
| Electronics | Mined metals,… | Freight | Manufacturing | |
| Auto | Steel, aluminum, batteries,… | Freight | Manufacturing | |
| Prof. services | Business travel | Offices | | |
| Other freight | Heavy trucking | Shipping | Rail | Aviation |

**Note:** Only selected value chain steps are shown here; value chain steps not shown at scales; FMCG = fast-moving consumer goods

Source: WEF_Net_Zero_Challenge_The_Supply_Chain_Opportunity_2021.pdf (weforum.org)

# Eight levers to abate supply-chain emissions

| Lever | | Average costs | Maturity |
|---|---|---|---|
| Circularity/recycling | Less virgin material production | < €10/t $CO_2$e | |
| Material and process efficiency | Less material usage and energy consumption | < €10/t $CO_2$e | |
| Renewable power | Power from renewable sources (e.g. solar, wind) | < €10/t $CO_2$e | |
| Renewable heat | Heat from renewable sources (e.g. biomass, power) | €10-100/t $CO_2$e | |
| New processes | New production processes (e.g. $H_2$-DRI for steel) | €10-100/t $CO_2$e | |
| Nature-based solutions | Avoiding deforestation, more sustainable agriculture | €10-100/t $CO_2$e | |
| Fuel switch | Transport: switch to green fuels, batteries, hydrogen | > €100/t $CO_2$e | |
| Carbon capture | Capture carbon and recycle or store it underground | > €100/t $CO_2$e | |

Ready in 5-10 years

Ready today

Source: BCG

Source: WEF_Net_Zero_Challenge_The_Supply_Chain_Opportunity_2021.pdf (weforum.org)

# Aspects of supplier GHG emissions to consider collecting

1&2

### Total annual scope 1 and 2 emissions

- Scope 1 and 2 emissions broken down by sources (i.e. fuel types)
  - Any emission sources excluded from the quantities reported
- Scope 1 and 2 emissions intensity (per selected unit or currency)
- Scope 1 and 2 emissions allocated/apportioned to the customer [7]
- A description of methodologies followed in calculating scope 1 and 2

3

### Total scope 3 emissions

- Scope 3 emissions broken down by category
  - Any emission sources excluded from the quantities reported across categories
- Scope 3 emissions intensity (per selected unit or currency)
- Scope 3 emissions allocated/apportioned to the customer [8]
- A description of methodologies followed in calculating scope 3 categories

### Any product-level Life-Cycle Assessment (LCA) data, if available

%

### Which portion of emissions have been third-party verified, if any

Source: SBTi- Supplier-Engagement-Guidance.pdf (sciencebasedtargets.org)

# What do you need to do now?

## Understand the regulatory horizon

- For each jurisdiction in which you operate, understand the current and emerging requirements
- Understand when, where and how these standards will impact your company

## Determine what is material

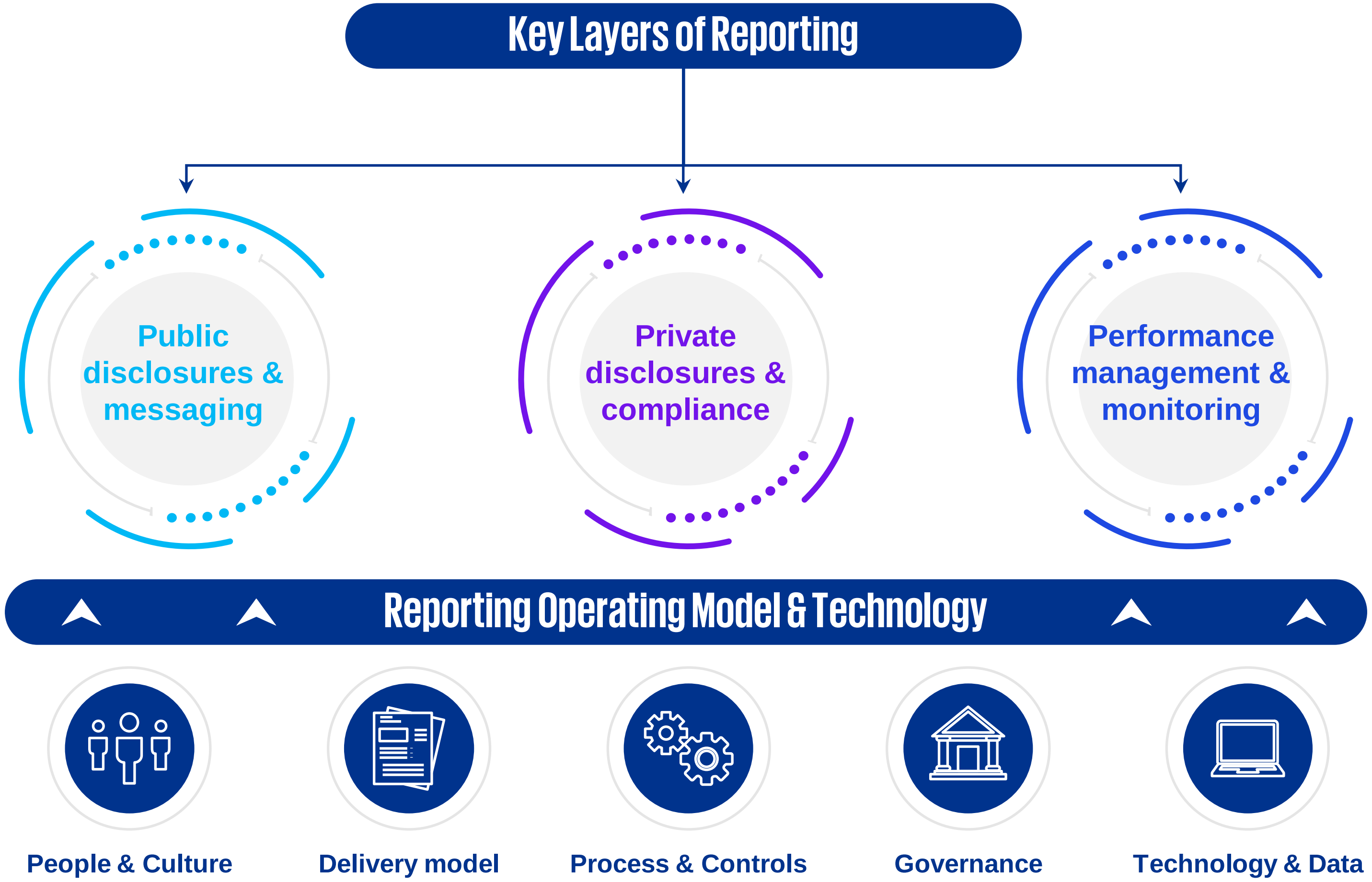
- Determine which topics are relevant to report on
- Decide which information is material about these topics

## Identify gaps and draft a high-level roadmap

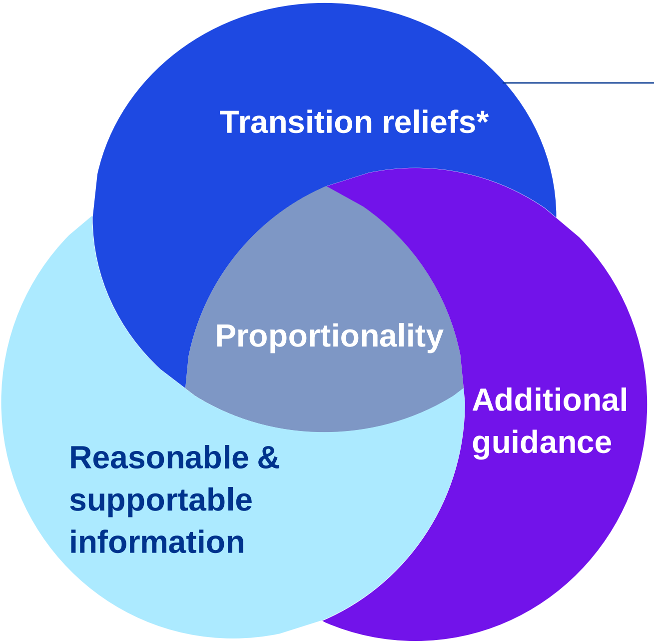
- Compare your current reporting with forthcoming requirements and industry peers
- Identify quick wins based on immediate need to comply or short term ambition
- Initiate a longer-term project plan to achieve medium and long term goals

# Non-Financial Reporting Transformation

As regulations proliferate, stakeholder scrutiny increases and audit/assurance mandates start to become effective companies are increasingly re-assessing the maturity of their non-financial reporting systems and revisiting their target operating models for non-financial reporting and reconsidering their needs in the context of all three layers of ESG Reporting.



# Summary of ISSB transition reliefs




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

**Comparative information** – allowing companies an additional year to report the related comparative information

**Greenhouse gas (GHG) disclosures** – providing relief in the first year of reporting from:
- disclosing Scope 3 GHG emissions
- Using the GHG Protocol standards for companies that currently use other methodologies**

**Timing of reporting** – allowing companies to report sustainability-related financial disclosures **after** their financial statements in the first year of reporting

***Reliefs would be limited to the first year of reporting and subject to jurisdictional requirements.**
**** Additional relief is available to companies that are required to use alternative methodologies by their jurisdiction.**

# Webinar dates and topics for 2023

- 22 February – Capital Market and HKEX Listing Rules Update
- 28 April – Sustainability Reporting Developments
- 2 June – Interim Reporting Reminders and IASB Developments
- 11 August – Abolition of MPF-LSP Offsetting and Its Accounting Considerations
- 11 September – Get Ready to Implement ISSB's IFRS S2 Climate Standard
- 23 November – 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

## Sustainability reporting


## GHG emissions reporting


## Net-zero Challenge

# With you today

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