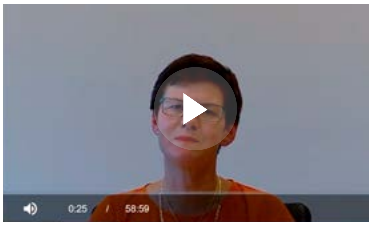
A new era in sustainability reporting

Board Leadership Centre Event -
May 2022

With new sustainability and climate standards soon to be released, boards need to make sure their companies have clear ESG strategies and are on track to report in this space.



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"Investors in capital markets are screaming out for more transparency over climate and sustainability matters…Equally, there's a strong appetite from business for a consistent way to tell their sustainability story, eliminating the need to report against a multitude of metrics to different vested and interested parties."

ALISON KITCHEN
National Chairman, KPMG Australia

Two new standards from the International Sustainability Standards Board (ISSB) focusing on sustainability and climate change are now open for consultation. This is leading to a lot of questions from company board members wondering what these standards will mean for reporting in Australia once approved. To explore what to expect, Alison Kitchen, National Chairman, KPMG Australia, spoke with Adrian King, Partner in Charge Climate and Sustainability Services, about the details in a KPMG Board Leadership Centre virtual event.

"Investors in capital markets are screaming out for more transparency over climate and sustainability matters… Equally, there's a strong appetite from business for a consistent way to tell their sustainability story, eliminating the need to report against a multitude of metrics to different vested and interested parties," said Kitchen.

Kitchen explained that the two new proposed standards – IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, and IFRS S2 Climate-related Disclosures – are the next step towards equal prominence for sustainability and financial reporting. Their goal is to provide a global baseline for sustainability reporting that local jurisdictions can adopt and build on.

Here are some key insights from the discussion.

The need for consistent standards

Environmental, Social and Governance (ESG) related risks have increased dramatically, with the World Economic Forum reporting that environmental and social risks are among the top eight risks to the global economy over the next 10 years. As a result, King said a number of global and Australian institutions have issued sustainability or climate change standards, targeting different audiences and with different objectives. Four notable standards include:

- Task Force on Climate Related Financial Disclosures (TCFD)
- Sustainability Accounting Standards Board (SASB)
- Climate Disclosure Standards Board (CDSB)
- Integrated Reporting Framework (IRF).

There are also a number of related indices, ratings, investor surveys, industry standards and product standards with lots of overlap in content.

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The goal of the two new standards is to build a set of "consistent, complete, comparable and verifiable sustainability information," he said. He explained that these standards will help companies build their sustainability strategies, boards assess progress, and investors make recommendations and decisions. They will also have the advantage of being authoritative, as they will facilitate and enable mandates and regulation.

"It will particularly improve and reduce the amount of 'greenwash' that is actually out there at the moment," he said.

The two new standards draw on and replace the existing standards outlined earlier, which means many aspects have been tried and tested before being formed.

"Last but not least, probably the most important one is that this is being supported by IOSCO (International Organization of Securities Commissions). IOSCO are the global stock exchange regulator. And they are calling very loudly for global, consistent and rigorous sustainability information."

Core principles

King explained that the new standards are being developed by the ISSB, the same body that governs accounting standards. "... they've committed to using the same processes and due diligence and consultation processes that they use for accounting standards to achieve the same level of rigour".

The first of the two standards is an overarching sustainability standard, while the second is a more specific climate change standard. More topic-based standards will be released over time, King explained.

"THESE STANDARDS ARE VERY MUCH BEING PROPOSED AS THE BUILDING BLOCKS, AS MINIMUM STANDARDS, AS BASELINE SUSTAINABILITY INFORMATION TO BE REPORTED."

He said the climate standards look very similar to the TCFD guidelines, adopting the TCFD's four pillars of focus – governance, strategy, risk management and metrics. The requirement will be to describe the processes that you use to identify sustainability and climate change risks, how you will respond to those risks, how you are monitoring and measuring those risks, and the metrics that you are using.

There is one notable difference to the TCFD, King said, with the TCFD offering 11 pieces of guidance to describe what to do across the four pillars, and the new standards offering 50 specific disclosures. Another change will be in metrics, with the TCFD's seven cross-sector metrics for reporting included, with the addition of the SASB industry-specific standards.

"You can expect five or six industry specific standards to be added to those seven consistent standards for everybody… for 68 different industries. So pretty much every industry is already well covered."

King emphasised that these are disclosure standards, not performance standards, but the act of reporting on these factors will show a level of performance and places for improvement.

"CERTAINLY, ENSURING THAT YOU'RE COMFORTABLE WITH WHAT WOULD BE COMMUNICATED IS ONE OF THE KEY RECOMMENDATIONS AT THIS POINT."

Steps to prepare

The exposure drafts were issued in March 2022 with a four-month public consultation process. He said the ISSB is expecting to issue a final standard by the end of 2022.

"This is lightning speed for any standard setters," he said.

While it may be a couple of years before they become mandatory in Australia, King advised that company directors should start to prepare. One way to do this is to make sure you understand your current ESG or climate change strategies, and ensure they are connected to the main business strategy.

"Once you're comfortable you've got your ESG strategy, and if necessary, a sub-strategy on climate change, the second thing to do then is really start understanding the current maturity of your reporting. If you're already reporting with one of those four main underlying standards, then you are in good shape."

For companies less mature in this space, boards should start challenging management to gain the resources they need to get up to speed.

"...only then I would suggest starting to look at the gaps between what you're currently doing and the ISSB."

King said firms that operate in different jurisdictions should start to understand any additional requirements that are emerging, particularly in the EU, US and UK where climate disclosure and reporting is moving forward quickly. He also suggested boards make sure they have access to the right expertise for guidance. Setting up a sub-committee to focus specifically on sustainability and climate could be a good solution.

Soon to be mandatory

While there is not yet a specific date, King said these standards are likely to become mandatory in Australia within a couple of years.

"The reason I'm pretty confident is because every sign is that the US will make them mandatory, the EU will make them mandatory, and the UK will make them mandatory. We can't be seen at a disadvantage in our companies on that basis."

Kitchen asked if reporting on the standards is likely to require auditing in future, to which King responded that this is being proposed in the EU and UK, so again, it is likely Australia will follow.

The strong message from Kitchen and King was to get organised for the new standards sooner rather than later.

"...get on with the delving down and the improvement of your ESG strategies as necessary now, because when these do become mandatory, if you're not already reporting them, you don't want to be worrying about the nuts and bolts. You want to be just worrying about the communication of those," said King.

He added there is a benefit of this transparency for your organisation's reputation.

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June 2022 897121384BLC