

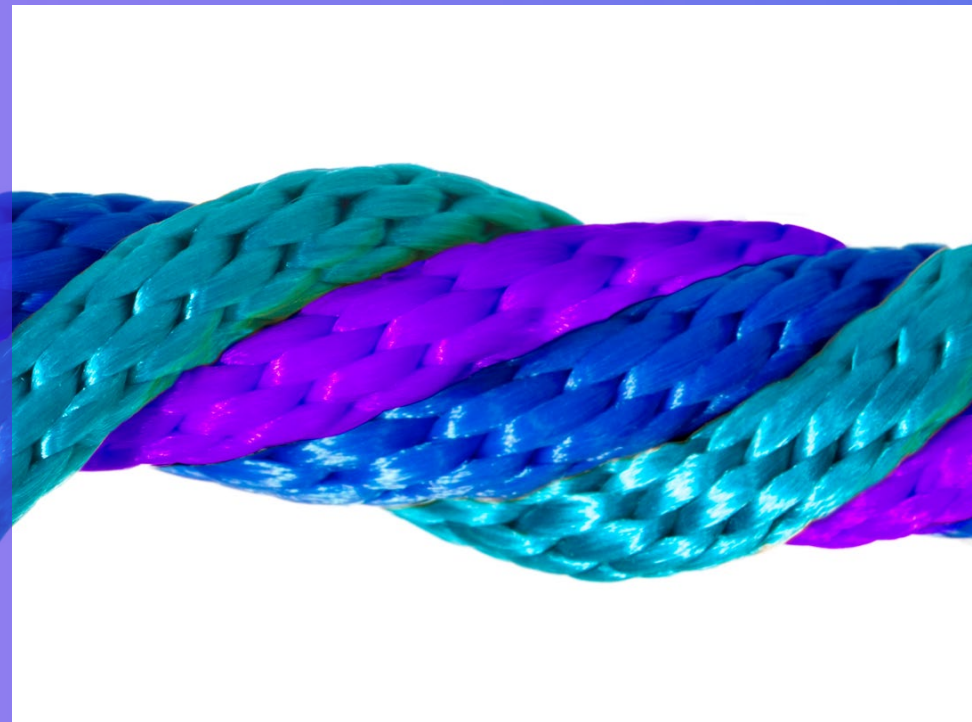


# Comparing sustainability reporting proposals

ISSB, EFRAG and SEC

—  
[KPMG.com.au](https://www.kpmg.com.au)

December 2022



# 10 questions

to assess how the proposals compare

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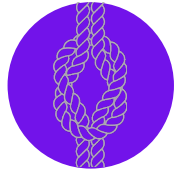
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# Comparing sustainability reporting proposals



## What's the issue?

Sustainability reporting is developing quickly, with proposed new requirements from the [ISSB](#), [EFRAG](#) and the [SEC](#).

There is commonality among the proposals – including that the TCFD framework forms a shared input.

However, there are also areas where they are not aligned, which may create practical challenges for companies trying to design coherent and consistent reporting that meets the needs of both global investors and jurisdictional requirements. In addition to points of detail, this includes the greater scope and scale of ESRs with their wider stakeholder focus.



## What's the impact?

The proposals are ambitious and would have a significant impact on companies.

For multinationals and others needing to apply multiple frameworks, the challenges would be magnified if the requirements are not compatible. A key practical consideration is aligning calculation methodologies – minimising the different data requirements.

Achieving a global baseline would support companies in applying the standards, as well as drive consistent reporting across jurisdictions – reporting that is internationally comparable, but also meets local needs.



## What's next?

1. Understand where similarities and differences exist between the proposals that may affect you.
2. Identify what you will be required to report vs what you may choose to adopt.
3. Prepare for fast adoption of all the requirements that may affect your company.



This document relates to the latest proposals<sup>1</sup> as at November 2022.

## Abbreviations and key terms ►

<sup>1</sup> In this document we use the term 'proposals' to refer to latest proposed requirements from the ISSB, EFRAG and the SEC. See '[Abbreviations and key terms](#)' for detail on the specific versions used.

# 01 At a glance, how do they compare?

## Two ISSB™ proposals

- Investor focus
- General principles, including proposed requirement to report across all sustainability-related risks and opportunities (not just climate)
- To date, proposed standard on climate only<sup>1</sup>

## Twelve EFRAG draft standards

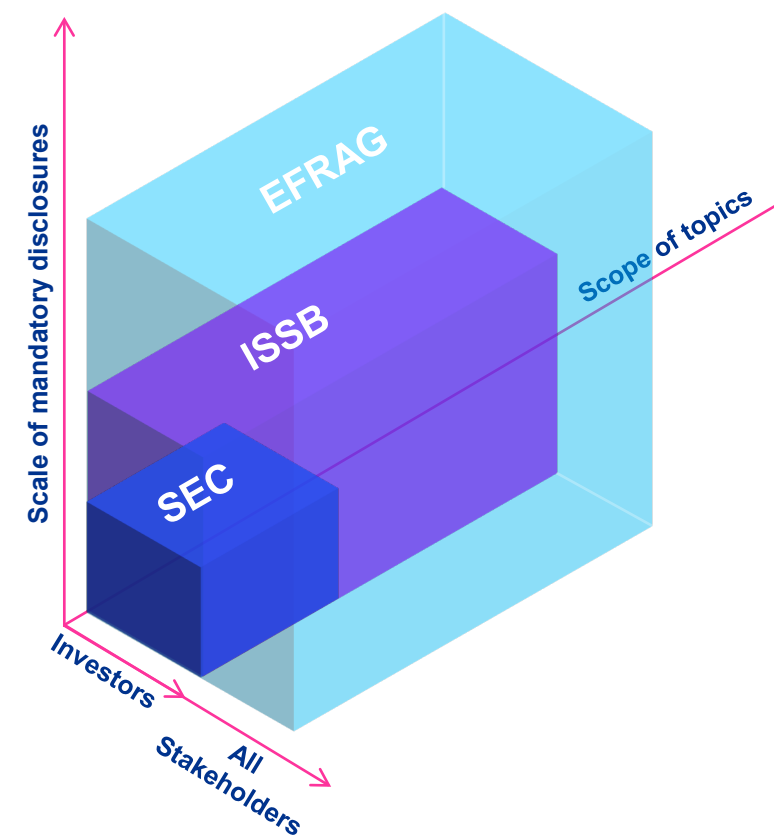
- Multi-stakeholder focus, including investors
- Core principles for disclosure
- To date, granular requirements published for sustainability impacts, risks and opportunities

## One SEC climate proposal

- Investor focus
- Detailed requirements to report on climate only



There is commonality among the proposals – including that the TCFD framework forms a shared input. However, in this talkbook we highlight areas where the proposals are not aligned. In addition to points of detail, this includes the greater scope and scale of the EFRAG draft standards with their wider stakeholder focus.



<sup>1</sup> Additional detailed guidance on other topics is planned for the future.

02

Who would be in scope?



ISSB

- As determined by individual jurisdictions – e.g. based on listing status. Some – e.g. Nigeria, Japan and the UK – have already indicated that these proposals would form a key part of future requirements. Others plan to develop national requirements based on the proposals



EFRAG

- A broad range of listed and private EU companies or groups,<sup>1</sup> and non-EU companies or groups with significant operations in the EU<sup>2</sup>



SEC

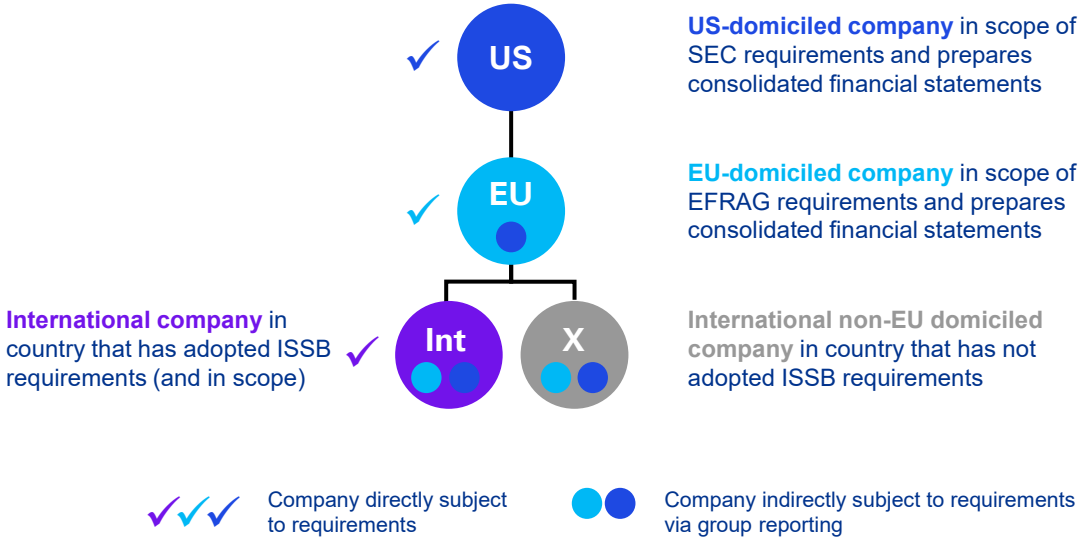
- Nearly all SEC registrants, including foreign private issuers<sup>3</sup>



All three sets of proposals would use the same reporting entity as the financial statements as the starting point for disclosures. However, companies would need to carefully consider their broader value chain for at least some sustainability disclosures.

This may bring companies into the scope of multiple frameworks if they are part of sub-consolidations or consolidated groups.

A US listed and domiciled parent with global subsidiaries<sup>4</sup>



- EU: ESRs will apply to all large companies (including large subsidiaries of non-EU parents) and all listed EU companies other than micro-companies. Large companies meet two of the following criteria: > 250 employees; > €40M turnover (revenue); > €20M total assets.
- Non-EU: ESRs will apply to non-EU companies or groups with an aggregated revenue within the EU of more than €150M if there is at least one branch in the EU with revenue of more than €40M or one large EU subsidiary. See [this article](#) for more information.
- The SEC proposal would apply to accelerated, large accelerated and non-accelerated filers; smaller reporting companies (with some relief); emerging growth companies; foreign private issuers; and companies filing registration statements, including IPOs.
- This example assumes that the aggregated revenue in the EU is less than €150M.

03

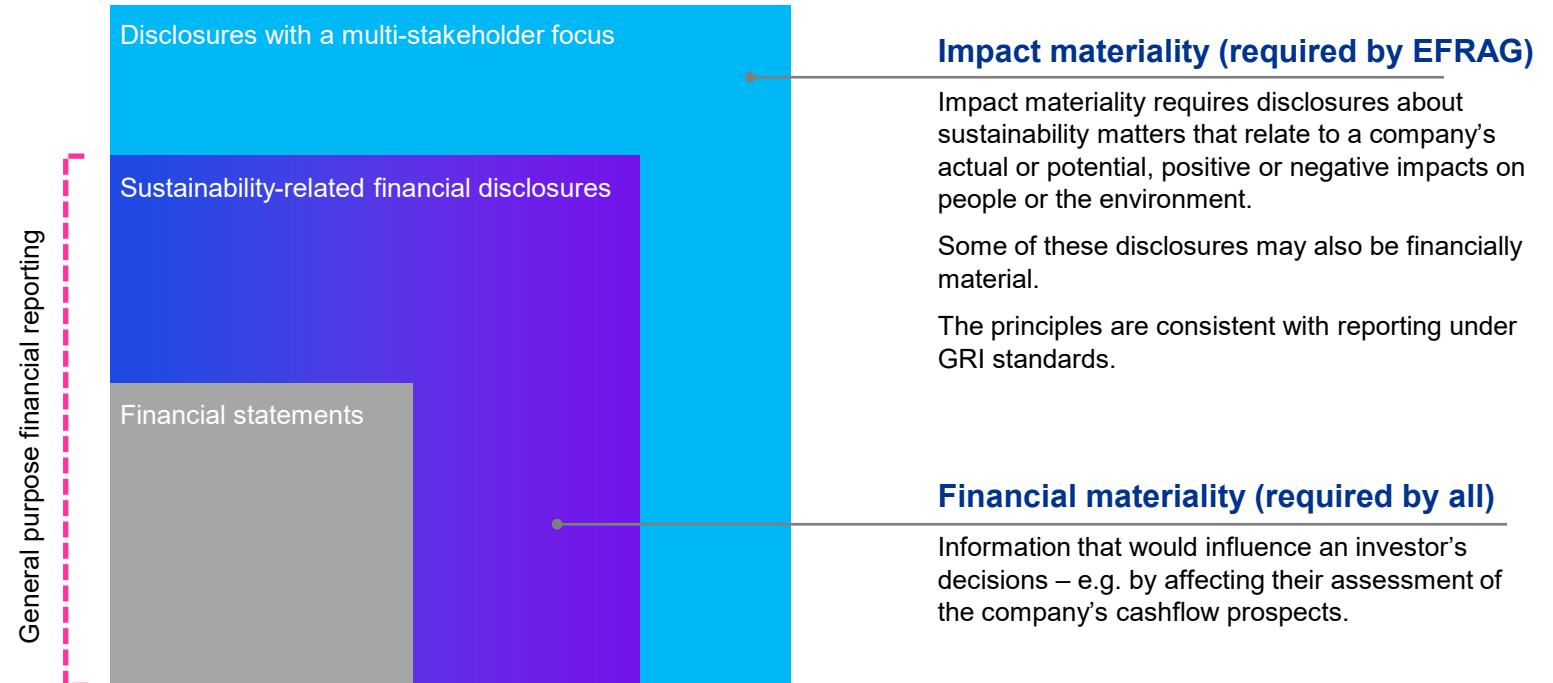
# What materiality lens would apply?

The needs of users of sustainability reporting information may differ. Materiality provides the filter that helps companies focus on what matters to users.



## Double materiality

EFRAG adopts ‘double materiality’ principles – aiming to report on all significant impacts by considering both the investor and wider stakeholder lenses.




04

Where and when would the information be disclosed?

	ISSB	EFRAG	SEC
Required in the audited financial statements?	No, but permitted via cross-referencing	No	Yes, for financial impact and expenditure metrics, plus financial estimates and assumptions
Required in the annual report?	Yes, with flexible location requirements	Yes, in the management report	Yes, in a separate section or by reference from another section (e.g. MD&A)
Cross-referencing permitted?	Yes, to documents outside general-purpose financial reporting, subject to conditions	Yes to a limited extent, within specific locations and subject to conditions	Yes, within the annual report
At the same time as the financial statements?	Yes, subject to short term transition relief	Yes	Yes

Under the ISSB proposals, information included outside the annual report via cross-referencing to other documents – e.g. in a separate sustainability report – would need to be prepared on the same terms as the annual report, including being released at the same time.



05

# How do the proposals align with the TCFD?

TCFD	Governance Strategy Risk management		Metrics and targets	
ISSB	Governance Strategy Risk management	Most aligned. Builds on TCFD – including descriptions of transition plans and requiring scenario analysis.	Metrics and targets	Most aligned because it directly reflects the seven categories of cross-industry metrics included in the TCFD 2021 update. Builds on TCFD with industry-specific metrics.
SEC	Governance Strategy Risk management	Broadly aligned – differences arise where disclosure is required only if the company uses the item (e.g. scenario analysis); and optional reporting of climate-related opportunities.	Metrics and targets	More granular financial impacts than the TCFD (see <a href="#">Question 4</a> ). Broadly aligned on the disclosure of targets, but with optional reporting of climate-related opportunities.
EFRAG	Governance Strategy Impact, risk and opportunity management	Largely aligned – differences arise because EFRAG uses double materiality principles (see <a href="#">Question 4</a> ).	Metrics and targets	Split between policies, actions, metrics and targets. The requirements are significantly more prescriptive and address EU policy objectives, including alignment with the Paris Agreement.



06

# What industry-specific disclosures would be required?



## ISSB

- Climate proposal includes industry-specific disclosures
- Companies would consider SASB Standards for other topics – based on 77 industry-specific SASB Standards



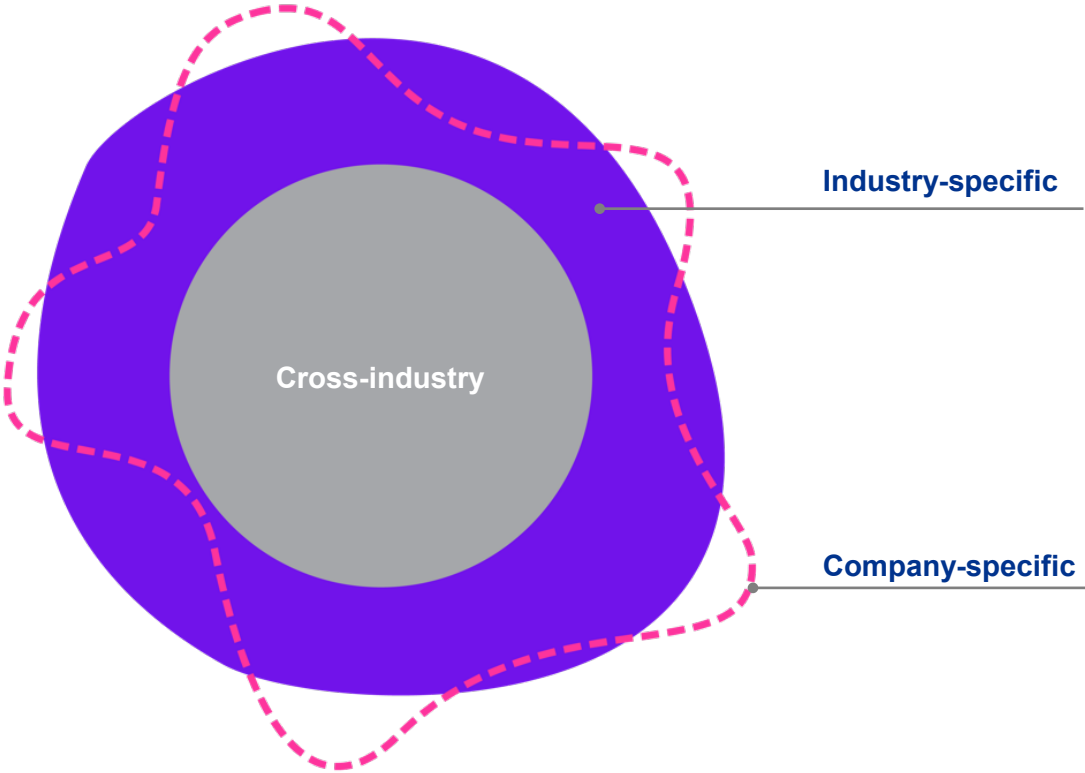
## EFRAG

- No industry-specific requirements have been proposed but EFRAG plans to release 41 industry-specific standards between 2023 and 2025



## SEC

- No industry-specific disclosures would be required other than industry-appropriate GHG emissions intensity metric (see [Question 7](#))



The SICs® industry classification system used by the ISSB is not consistent with EFRAG’s intention to use NACE codes. Multinational groups would need to map between the two systems, particularly if they operate in more than one industry.

07

# What GHG emissions reporting would be required?

	ISSB	EFRAG	SEC
Scopes 1 and 2?	Yes	Yes	Yes
Scope 3?	Yes <sup>1</sup>	Yes	Yes, if material or included in targets <sup>2</sup>
Basis for organisational boundaries	GHG Protocol options – operational or financial control, or equity share	Operational control	Based on control and share of equity-method investees (associates) – consistent with the financial statements
Intensity metrics?	Yes, based on a unit of output for <i>each of</i> Scopes 1, 2 and 3	Yes, based on net revenue for the <i>total of</i> Scopes 1, 2 and 3 emissions	Yes, based on revenue and a unit of production for the <i>total of</i> Scopes 1 and 2, and separately for Scope 3 (if included)
Disclose targets?	Yes, if used	Yes, based on Paris Agreement	Yes, if used

The GHG Protocol is used by the majority of companies to measure [GHG emissions](#). The underlying guidance was largely developed in the early 2000s and has not been regularly updated. In March 2022, the GHG Protocol [announced](#) a project to assess and update its guidance.



The three sets of proposals have different requirements for the organisational boundary, with consequential practical implications for companies subject to multiple frameworks.



<sup>1</sup> The ISSB plans to provide support for companies disclosing Scope 3 emissions to help address data availability and quality challenges.

<sup>2</sup> Smaller reporting companies would be exempt.

# 08

## When would they be effective?

### ISSB

- The proposals do not yet include an effective date; the ISSB is considering this. However, it would be for local jurisdictions to decide when the requirements would apply

### EFRAG

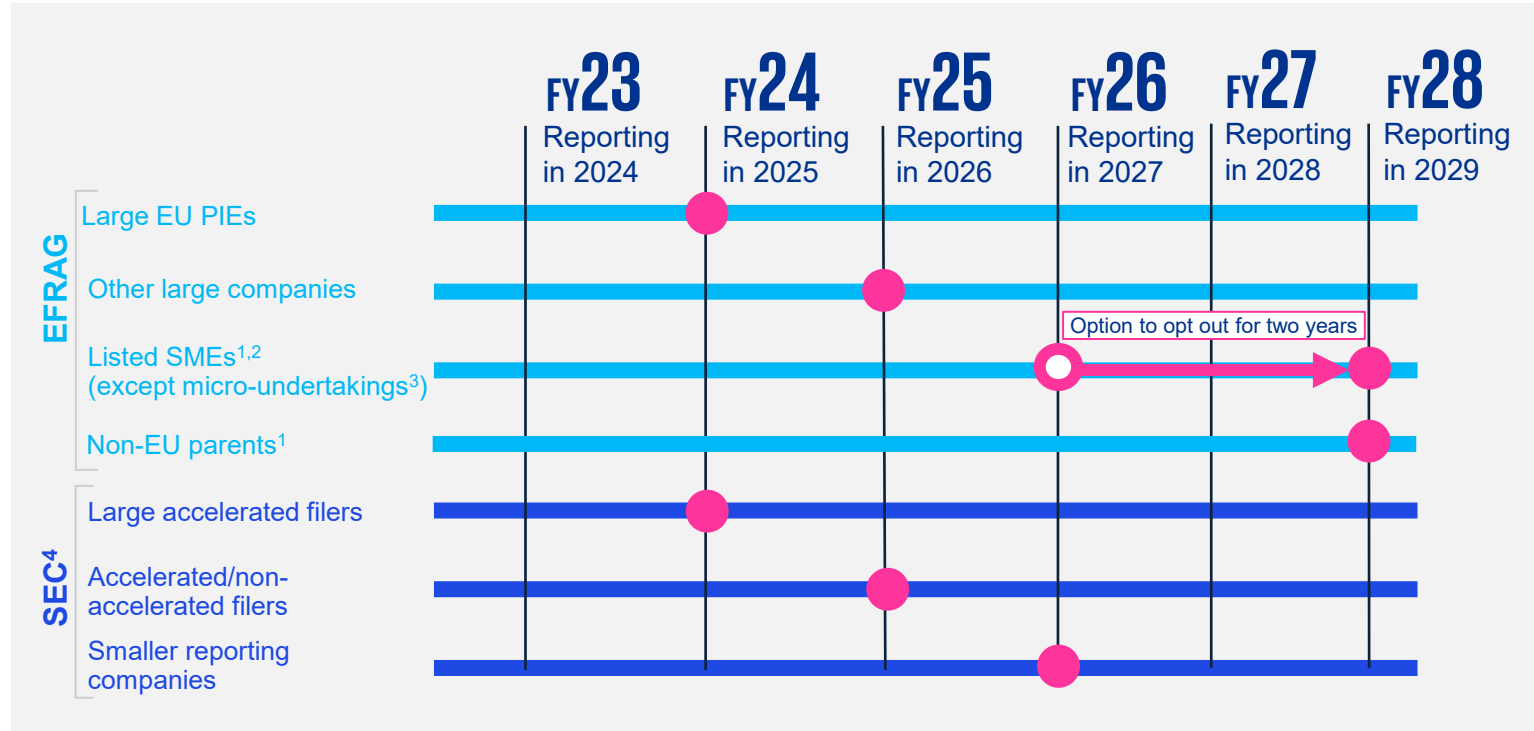
- The draft standards would first apply for years beginning on or after 1 January 2024 (i.e. reporting in 2025). Phased introduction would start with companies already subject to the NFRD (i.e. large EU PIEs)

### SEC

- The effective date will remain open until adoption of the final rules; the dates shown here are an illustrative example



Adoption of IFRS® Sustainability Disclosure Standards would be mandated by local jurisdictions. As such, the effective date may vary by location.



<sup>1</sup> Separate standards will be developed for SMEs and non-EU parent companies (to be adopted by 30 June 2024).  
<sup>2</sup> Small and non-complex institutions and captive insurers are treated like listed SMEs (opt-out option until 2028 does not apply unless they also meet the definition of SME).  
<sup>3</sup> Micro-undertakings are companies that do not exceed two of the following three criteria (including subsidiaries): 10 employees, net revenue of €0.7M or total assets of €0.35M.  
<sup>4</sup> Initial reporting of Scope 3 GHG emissions would lag by one year and smaller reporting companies would be exempt (see [Question 7](#)). The earliest reporting period of FY24 is illustrative only.

09

# What assurance would be required?

ISSB

- Does not have the mandate to require assurance
- Instead, information is designed to be verifiable
- Local jurisdictions could choose to require either limited or reasonable assurance

EFRAG

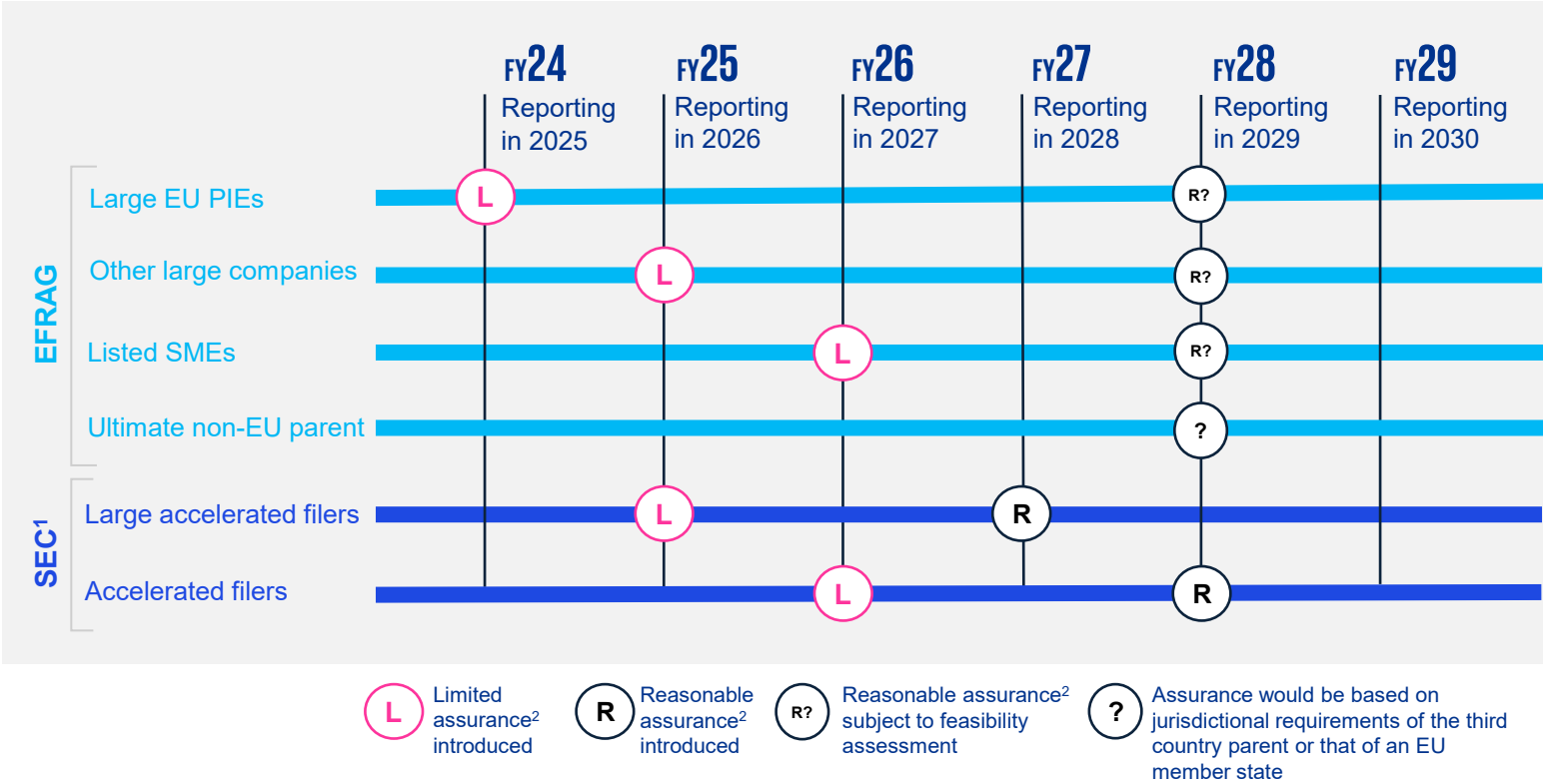
- EU would require limited assurance initially, moving to reasonable assurance over time
- Limited assurance standards to be adopted no later than 1 October 2026
- Reasonable assurance standards to be adopted after feasibility assessment no later than 1 October 2028

SEC

- SEC proposals would require assurance only on Scope 1 and Scope 2 GHG emissions



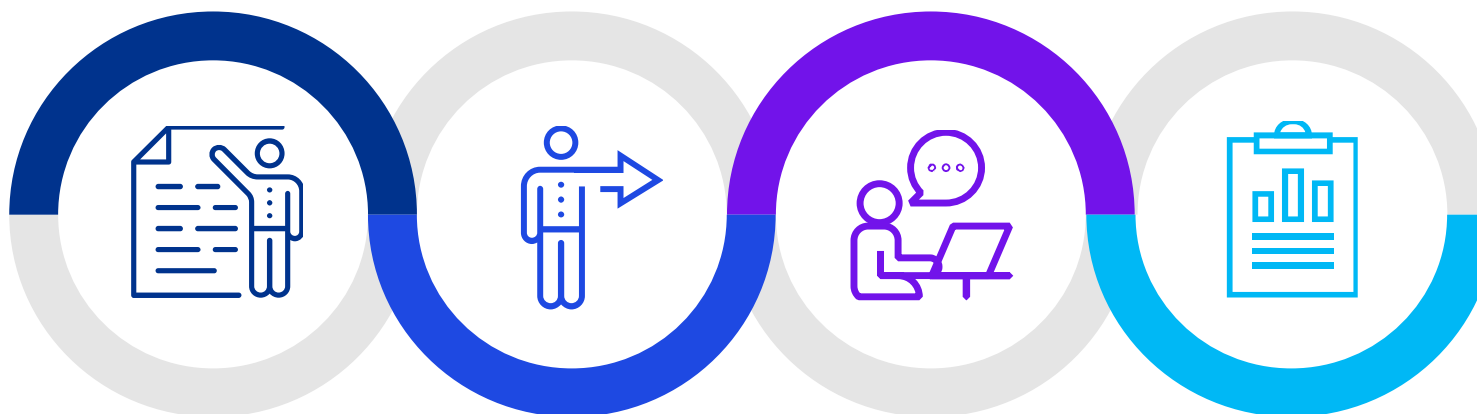
The SEC would require some disclosures in the audited financial statements (see [Question 4](#)), in addition to requiring assurance over GHG metrics.



<sup>1</sup> The dates shown here are illustrative only. They reflect the one year lag between the reporting dates (see [Question 8](#)) and assurance requirements that were included in the proposal.

<sup>2</sup> Read more about [ESG Assurance in Audit](#). The assurance requirements would have no bearing on a company's responsibility to report accurate information from the first reporting year – e.g. limited assurance does not mean limited reporting (see [Question 8](#)).

# 10 What do you need to do now?



## Educate your organisation

... on the proposals, including the people, processes and technologies needed to accomplish what would be required across the frameworks.

## Determine how ready you are

... by considering the impact of applying multiple frameworks across subsidiaries that would be subject to differing frameworks and how to apply the requirements at the most efficient level.

## Develop your reporting readiness

... by taking stock of the differences between frameworks and how the various proposals would impact your disclosures and the need to enhance documentation, processes, systems, controls and data quality of key disclosures.

## Use data, technology and analytics

... to foster better outcomes. Data can provide insights into market opportunities, leading practices and target operating models. It can enable climate ambitions and enhance quality levels.

## Read KPMG responses to:

- [SEC](#)
- [ISSB](#)
- [EFRAG](#)
- [AASB](#)<sup>1</sup>



<sup>1</sup> The Australian Accounting Standards Board (AASB) is actively considering the release of the ISSB standards in Australia, and sought feedback on the ISSB Exposure Drafts to inform the AASB as to the appropriateness of and support for its proposed approach to sustainability-related financial reporting in Australia.

# Abbreviations and key terms

## CSRD

The EU's Corporate Sustainability Reporting Directive will amend and significantly expand EU requirements for sustainability reporting

## EFRAG

European Financial Reporting Advisory Group, which is responsible for developing European Sustainability Reporting Standards

## ESRS

The suite of European Sustainability Reporting Standards being developed by EFRAG on behalf of the European Commission

## EU

European Union

## GHG Protocol

Greenhouse Gas Protocol

## GRI

Global Reporting Initiative

## ISSB

International Sustainability Standards Board

In this document we use the term '**proposals**' to refer to the following:

- ISSB – Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and Exposure Draft on IFRS S2 Climate-related Disclosures, plus the ISSB's discussions and planned actions from its' meetings in September to November 2022;
- EFRAG – Draft ESRs published by EFRAG on 23 November 2022 and submitted to the European Commission for adoption; and
- SEC – SEC Release Nos. 33-11042 and 34-94478 The Enhancement and Standardization of Climate-Related Disclosures for Investors.

## MD&A

Management Discussion and Analysis

## NFRD

The EU's Non-Financial Reporting Directive

## NACE

Statistical Classification of Economic Activities in the European Community

## PIE

Public Interest Entity

## SASB Standards

Sustainability Accounting Standards Board Standards

## SEC

US Securities and Exchange Commission

## SICS

Sustainable Industry Classification System

## TCFD

Task Force on Climate-related Financial Disclosures

# Keeping in touch



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# Find out more

Whether you are new to sustainability reporting or a current user, you can find digestible summaries of recent developments and more detailed guidance on the current proposals.

To find out more about these and other potential impacts go to our Australian Sustainability & climate change financial reporting resource centre.

The site is evergreen, so please take a look and bookmark it today.

We believe that ESG makes businesses better.

[Get ready for global sustainability disclosure standards](#)

What you should know



[Digesting the SEC's climate proposal](#)

What you should know now



[Tracking the development of IFRS Sustainability Disclosure Standards](#)



[Proposals for European Sustainability Reporting Standards](#)



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