

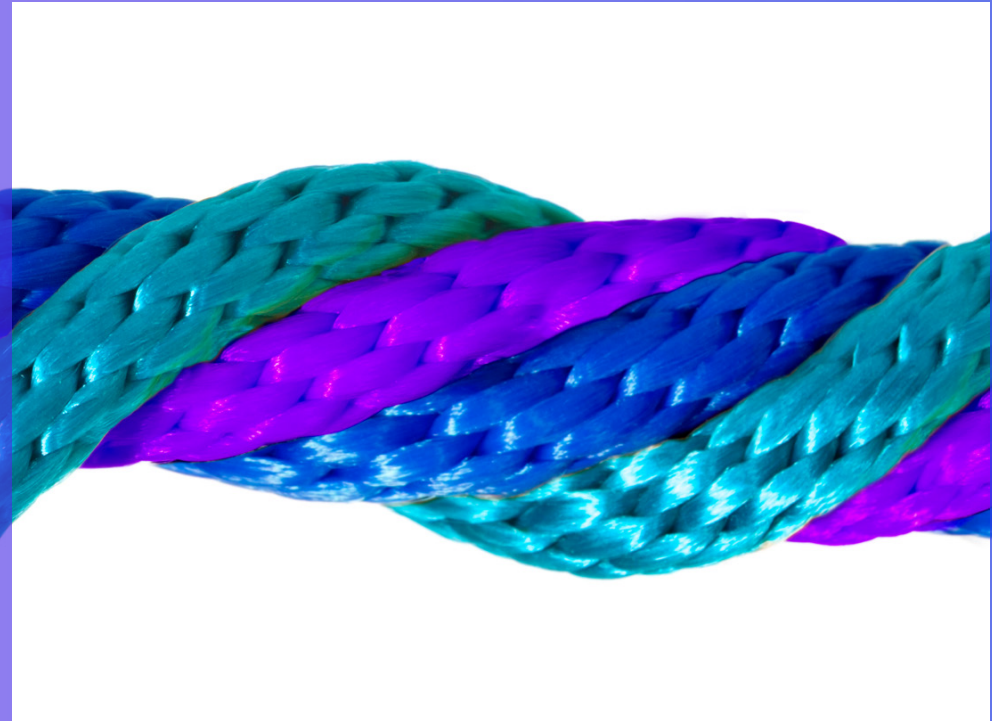


# Comparing sustainability reporting proposals

ISSB™, EFRAG and SEC

—  
[home.kpmg/ifrs](https://home.kpmg/ifrs)

June 2022



# 10 questions

to assess how the proposals compare

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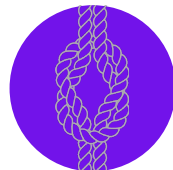
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# Comparing sustainability reporting proposals



## What's the issue?

Sustainability reporting is developing quickly, with proposed new requirements from the [ISSB Board](#), [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 the EFRAG proposals 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. Share your views with the ISSB Board, EFRAG and the SEC.
3. Identify what you will be required to report vs what you may choose to adopt.
4. Prepare for fast adoption, which may be soon after the requirements are finalised.

## Abbreviations and key terms ►

# 01 At a glance, how do they compare?

## Two ISSB proposals

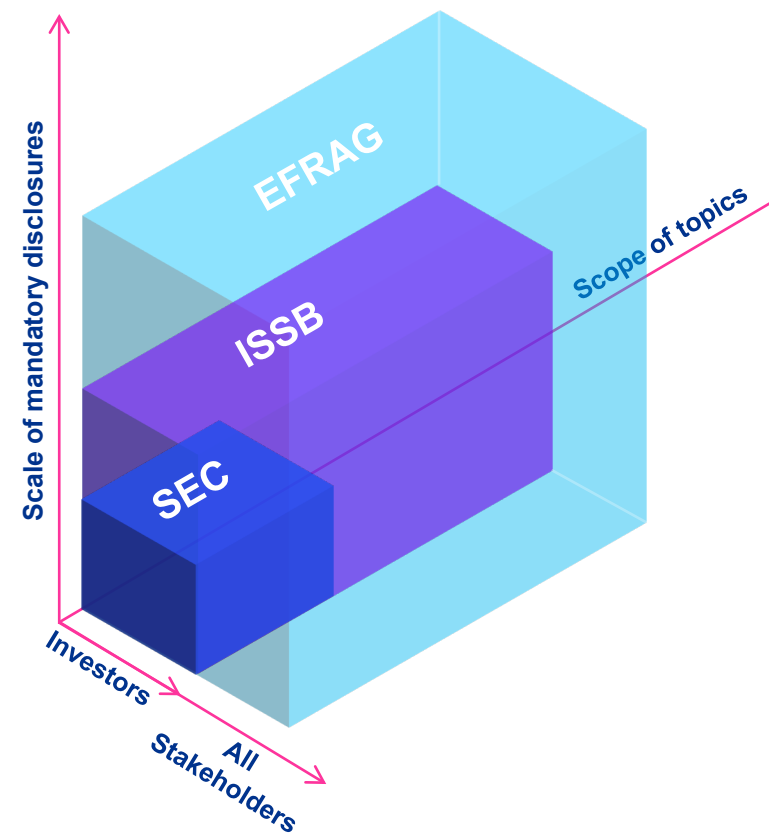
- Investor focus
- General principles, including proposed requirement to report across all significant sustainability-related risks and opportunities (not just climate)
- To date, detailed guidance on climate only<sup>1</sup>

## Thirteen EFRAG proposals

- 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 proposals 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. 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.

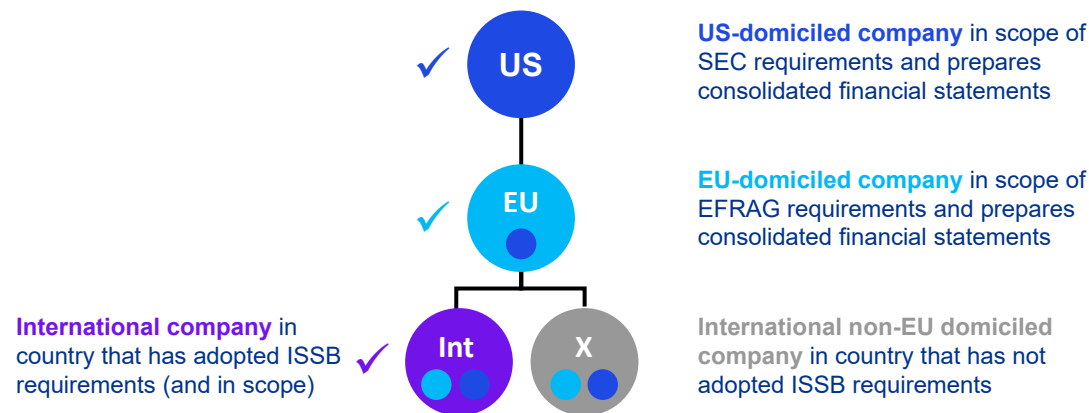
## EFRAG

- A broad range of listed and private EU companies or groups, including subsidiaries of non-EU parents that meet the criteria.<sup>1</sup>

## SEC

- Nearly all SEC registrants, including foreign private issuers.<sup>2</sup>

### A US listed and domiciled parent with global subsidiaries



✓ ✓ ✓ Company directly subject to requirements      ● ● Company indirectly subject to requirements via group reporting



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.

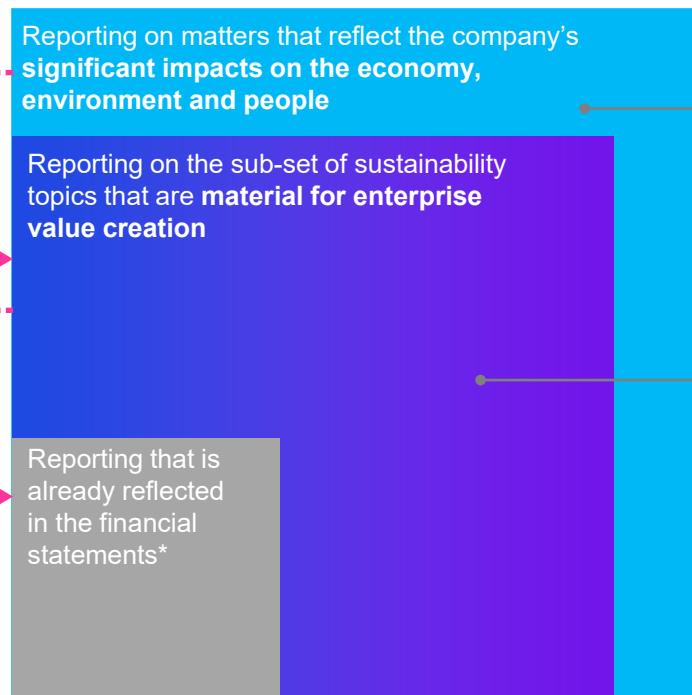
This may bring companies into the scope of multiple frameworks if they are part of sub-consolidations or consolidated groups.

<sup>1</sup> Under the EU (CSRD proposals), EFRAG standards would apply to all large and all listed EU companies other than micro-companies. Large companies would meet two of the following criteria: > 250 employees; > €40M turnover (revenue); > €20M total assets.  
<sup>2</sup> 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.

# 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.

**Dynamic materiality**  
Sustainability topics can move – either gradually or very quickly



**Wider stakeholder lens (EFRAG only)**

To various users with various objectives who want to understand the company's positive and negative contributions to sustainable development

**Investor lens (all three proposals)**

Specifically to the sub-set of those users whose primary objective is to improve economic decisions

\* Including assumptions and cash flow projections

Adapted from: [Statement of Intent to Work Together Towards Comprehensive Corporate Reporting](#), Summary of alignment discussions among leading sustainability and integrated reporting organisations CDP, CDSB, GRI, IIRC and SASB, Sept 2020; Figure 1, Dynamic materiality



**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
<b>Required in the audited financial statements?</b>	No, but permitted via cross-referencing	No	Yes, for financial impact and expenditure metrics, plus financial estimates and assumptions
<b>Required in the annual report?</b>	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)
<b>Cross-referencing permitted?</b>	Yes, to documents outside general-purpose financial reporting, subject to conditions	Yes, within the management report	Yes, within the annual report
<b>At the same time as the financial statements?</b>	Yes	Yes	Yes

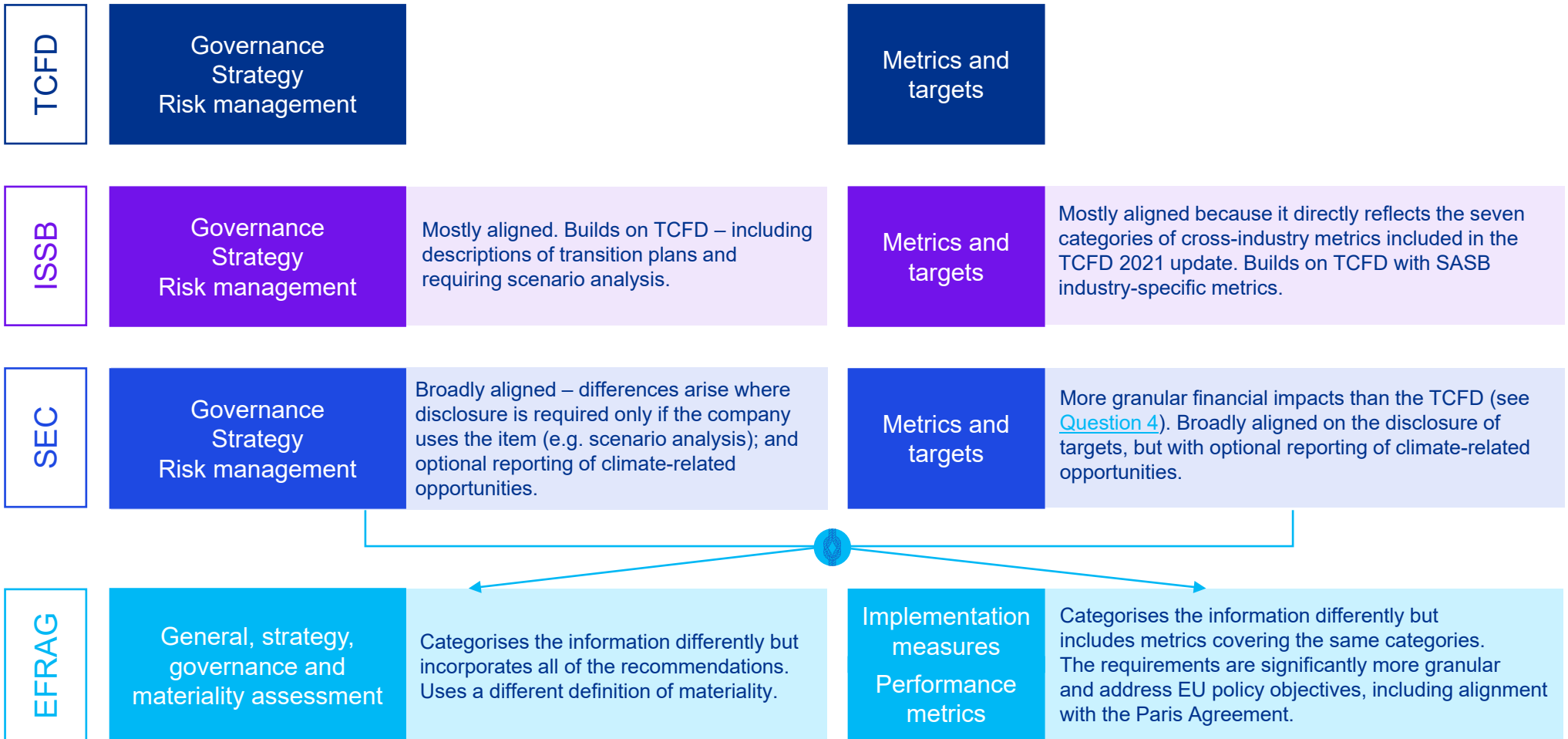
The SEC's proposed requirement to include certain disclosures within the financial statements may conflict with EFRAG's proposal to include all information in the management report without cross-referencing externally. Therefore, reporting under both frameworks may result in duplication. The ISSB's proposal on location would be compatible with both.



Under the ISSB's 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?





# 06 What industry-specific disclosures would be required?

## ISSB

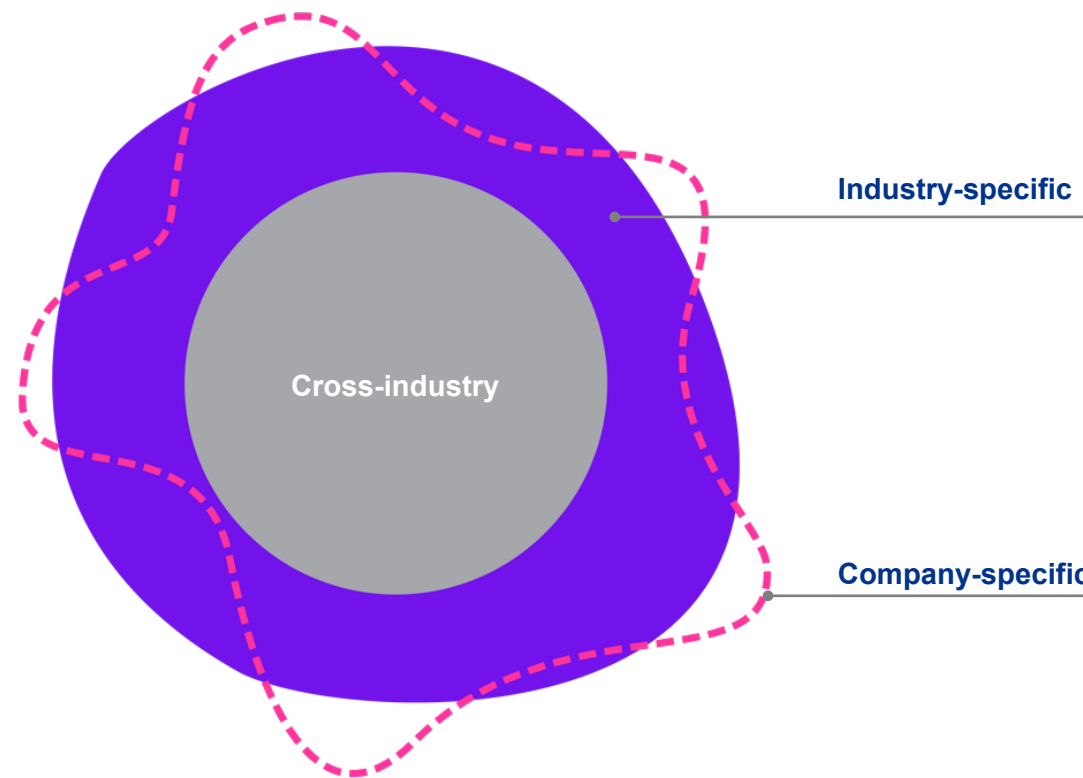
- Climate proposal includes industry-specific disclosures
- Companies would consider SASB Standards for other topics – based on 77 industry-specific SASB Standards

## EFRAG

- No industry-specific requirements have been proposed but EFRAG plans to release 40 industry-specific standards in 2023

## 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 Board is not consistent with EFRAG’s proposal 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	Yes	Yes, if material or included in targets <sup>1</sup>
Basis for organisational boundaries	Consistent with the GHG Protocol	Consistent with the financial statements, but expanded to cover the broader value chain (including associates)	Consistent with the financial statements, based on control and share of equity-method investees (associates)
Intensity metrics?	Yes, based on a unit of output for <i>each of</i> Scopes 1, 2 and 3	Yes, energy consumption. Based on net turnover for the <i>total of</i> Scopes 1, 2 and 3 in 'high climate impact sectors'	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	Yes, based on Paris Agreement	Yes, if used

<sup>1</sup> Smaller reporting companies would be exempt.

The GHG Protocol is overwhelmingly used by 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 appear to define the organisational boundary differently, with consequential practical implications for companies subject to multiple frameworks.



# 08 When would they be effective?

## ISSB

- The proposals do not include an effective date – the consultation invites feedback on when it would be feasible to apply them.

## EFRAG

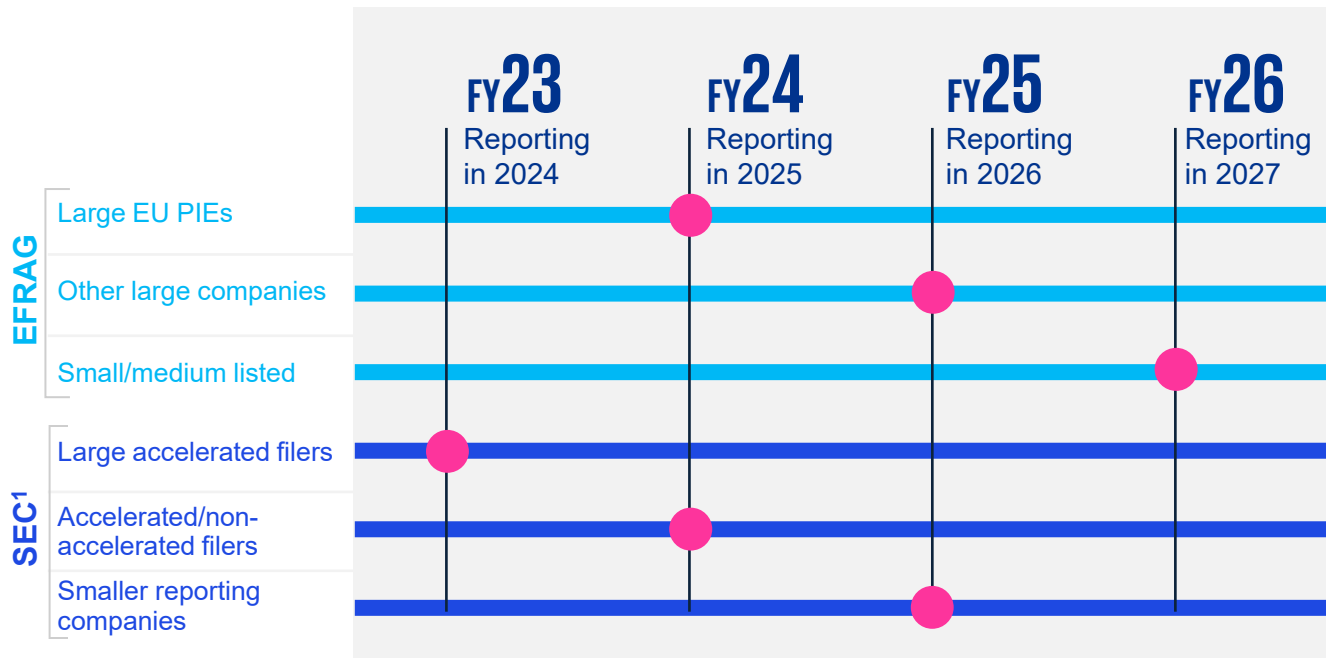
- Legislation finalising the EFRAG requirements, including effective dates, is still in draft.
- The consultation invites feedback on how to phase and prioritise the requirements.

## SEC

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



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



● First reporting year<sup>2</sup>

<sup>1</sup> Initial reporting of Scope 3 GHG emissions would lag by one year and smaller reporting companies would be exempt (see [Question 7](#)).

<sup>2</sup> This timetable is indicative, based on information available as at 31 May 2022.

# 09 What assurance would be required?

## ISSB

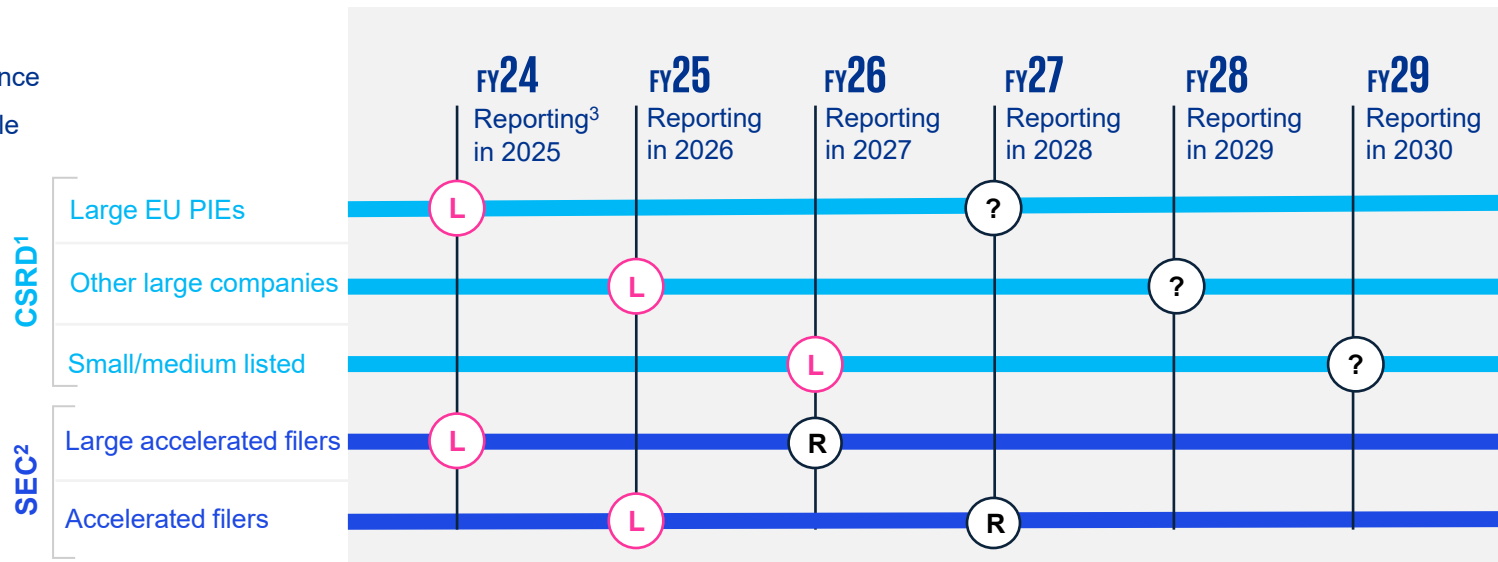
- Does not have the mandate to require assurance
- Instead, information is designed to be verifiable
- Local jurisdictions could choose to require either limited or reasonable assurance

## EFRAG

- CSRD proposals would require assurance across all topics

## SEC

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



**L** Limited assurance introduced<sup>4</sup>

**R** Reasonable assurance introduced<sup>4</sup>

**?** Reasonable assurance requirement is subject to discussions between the European legislative bodies<sup>1</sup>



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

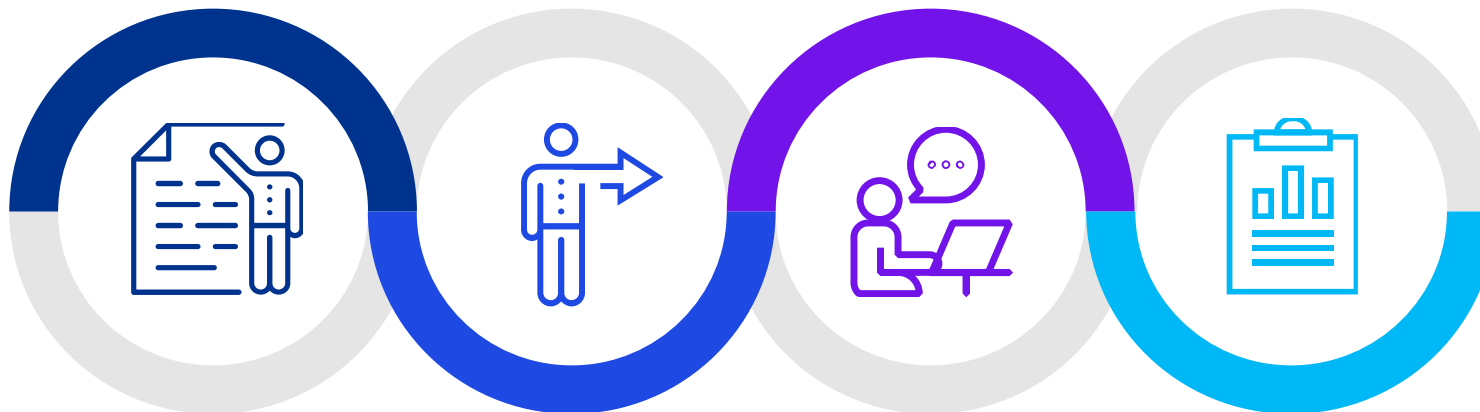
<sup>1</sup> Requirement for reasonable assurance to start between three and six years after application of the CSRD. This diagram is based on the proposals by the [European Council \(February 2022\)](#) and the [European Parliament amendment 165 & 166 \(March 2022\)](#).

<sup>2</sup> The dates shown here are based on an illustrative example included in the proposal (see [Question 8](#)).

<sup>3</sup> This timetable is indicative, based on information available as at 31 May 2022 (see [Question 8](#)).

<sup>4</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 proposed requirements, 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.

## Consider responding

The proposals are currently open for comment with these deadlines:

- SEC: 17 June 2022
- ISSB: 29 July 2022
- EFRAG: 8 August 2022



# Abbreviations and key terms

## CSRD

The EU's proposed Corporate Sustainability Reporting Directive, which would amend and significantly expand the existing EU requirements for sustainability reporting

## EFRAG

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

## Enterprise value

Focuses on the factors that drive companies' short-, medium- and long-term prospects, and the information the capital markets need to assess them

## EU

European Union

## GHG Protocol

Greenhouse Gas Protocol

## GRI

Global Reporting Initiative

## IOSCO

International Organization of Securities Commissions

## ISSB Board

International Sustainability Standards Board

## MD&A

Management Discussion and Analysis

## 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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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.

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



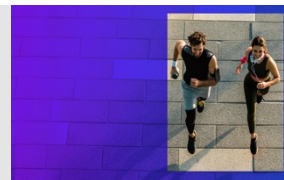
[ESG Reporting](#)

US resources for financial reporting professionals



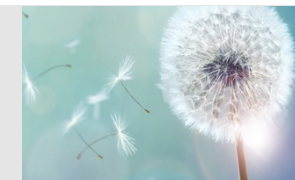
[New on the Horizon – Sustainability Reporting](#)

Detailed analysis of ISSB's general and climate-related proposals



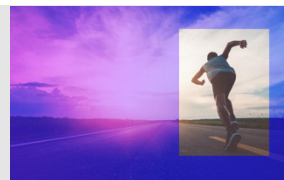
[Digesting the SEC's climate proposal](#)

What you should know now



[Get ready for IFRS Sustainability Disclosure Standards](#)

A high-level summary



[Proposals for European Sustainability Reporting Standards](#)





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