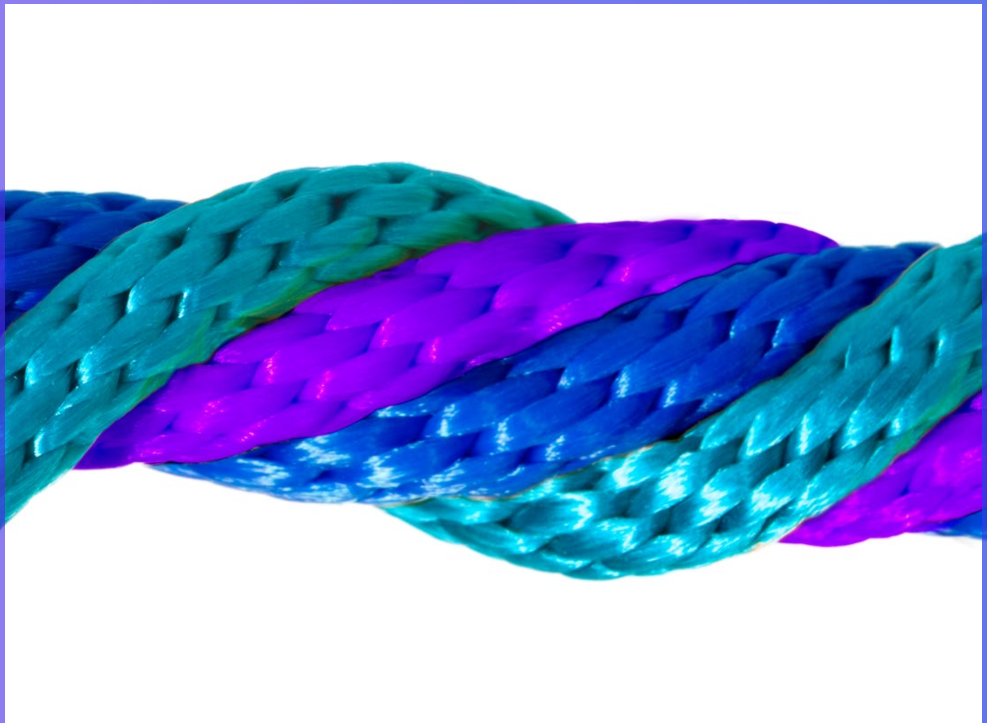
Comparing sustainability reporting requirements



ISSB, EU and US

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November 2023

10 questions

to assess how the requirements compare

01 At a glance, how do they compare?

02 Who will be in scope?

03 What materiality lens will apply?

04 Where and when will information be disclosed?

05 How do the requirements align with the TCFD?

06 What industry-specific disclosures will be required?

07 What GHG emissions reporting will be required?

08 When will they be effective?

09 What assurance will be required?

10 What do you need to do now?

Comparing sustainability reporting requirements

What's the issue?

Sustainability reporting is developing quickly, with new requirements[1] from the ISSB and EU, and proposals from the US.

There is commonality among the requirements – 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 ESRSs with their wider stakeholder focus.

What's the impact?

The requirements are ambitious and will have a significant impact on companies.

For multinationals and others needing to apply multiple frameworks, the challenges will 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 will 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 requirements 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.

[1] In this document, we use the term 'requirements' to refer collectively to:

- the final standards from the ISSB, referred to individually as IFRS® Sustainability Disclosure Standards or ISSB™ Standards;
- the final text of the first set of ESRSs from the EU, referred to as European Sustainability Reporting Standards (ESRSs); and
- the proposed requirements from the US, referred to as the proposed US SEC climate rule.

This document relates to the requirements as of **31 July 2023**.

Abbreviations and key terms ▶

01 At a glance, how do they compare?

Two ISSB™ Standards

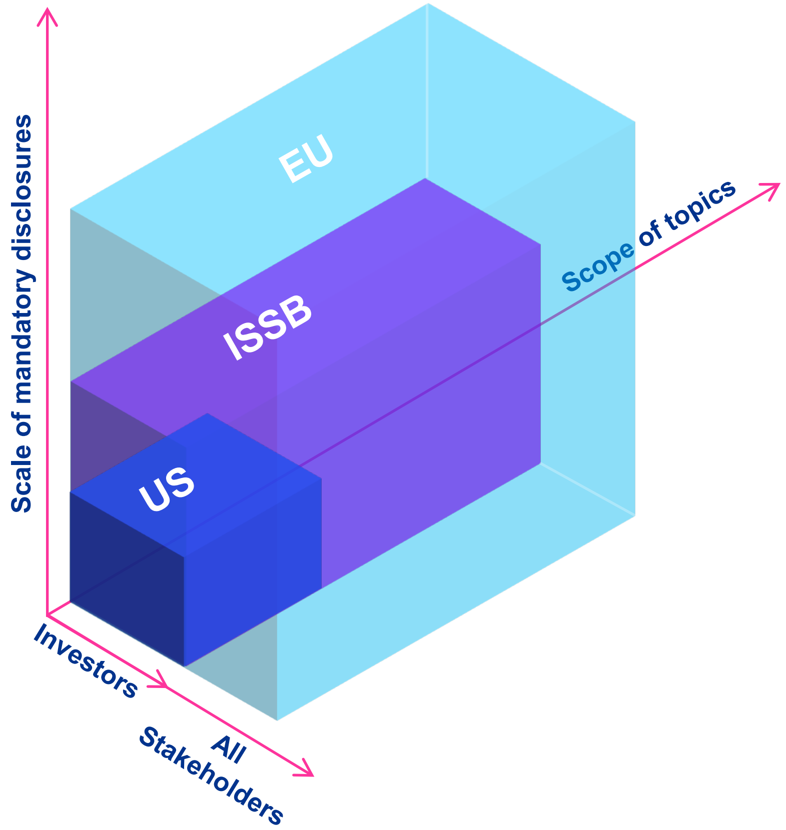
- Investor focus
- General principles, including requirement to report across all sustainability-related risks and opportunities
- Topic-specific standard on climate[1]
- Climate-first option available in the first year of reporting

Twelve EU standards

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

One US climate proposal

- Investor focus
- Detailed requirements to report on climate only
- Future proposals expected (e.g. human capital)



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

[1] Additional detailed guidance on other topics is planned for the future. In May 2023, the ISSB released a consultation on the agenda priorities to inform its two-year workplan on future topics – e.g. biodiversity.

02 Who will be in scope?

ISSB

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

EU

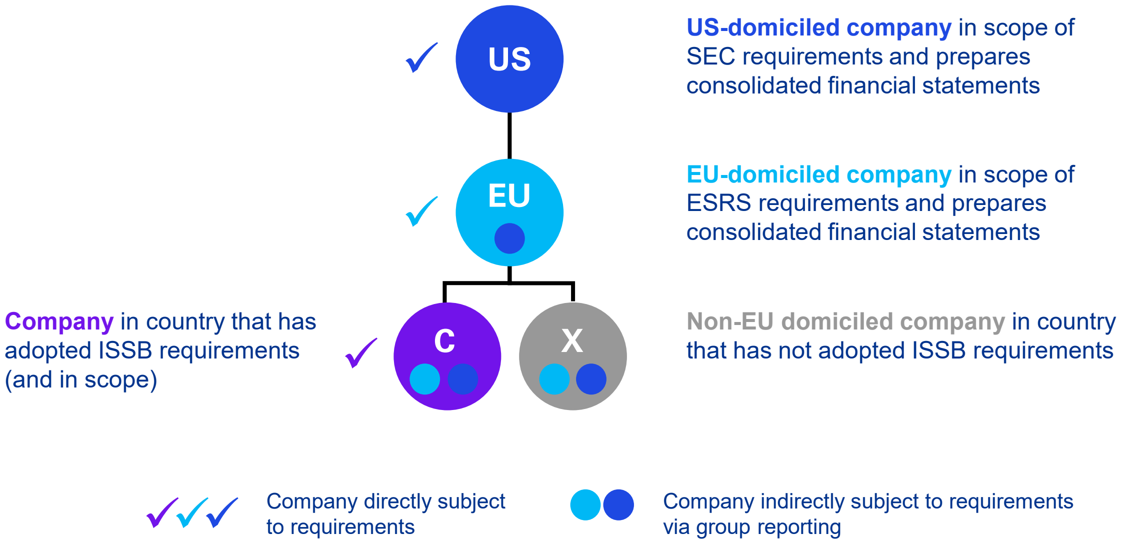
- A broad range of listed and private EU companies or groups,[1] and non-EU companies or groups with significant operations in the EU[2]

US (proposed)

- Nearly all US SEC registrants, including foreign private issuers[3]

As the starting point for disclosures, all three requirements use the same reporting entity as the financial statements. However, companies will need to carefully consider their broader value chain for at least some sustainability disclosures.

A US-listed and domiciled parent with global subsidiaries[4]



1 EU: ESRSs will apply to all large companies (including large subsidiaries of non-EU parents) and all companies listed in the EU other than micro-companies. Large companies meet two of the following criteria: > 250 employees; turnover (revenue) of €50M (formerly €40M); or total assets of €25M (formerly €20M).

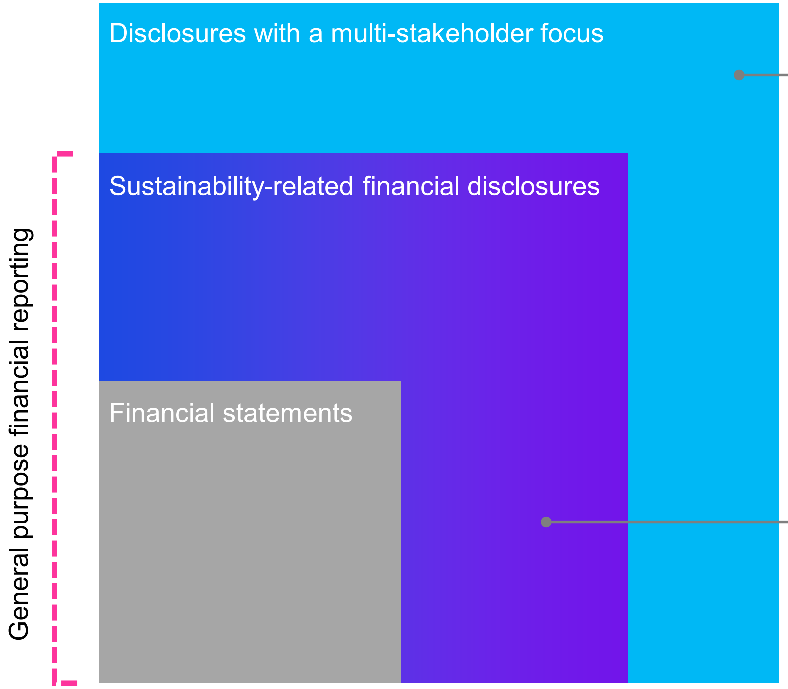
2 Non-EU: ESRSs will apply to non-EU companies or groups with an aggregated revenue within the EU of more than €150M if there is at least one branch in the EU with revenue of more than €40M or one large EU subsidiary. See this article for more information.

3 The proposed US SEC climate rule 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.

4 This example assumes that the aggregated revenue in the EU is less than €150M.

03 What materiality lens will apply?

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



Impact materiality (required by EU)

Impact materiality requires disclosures about sustainability matters that relate to a company's actual or potential positive or negative impacts on people or the environment.

Some of these disclosures may also be financially material.

The principles are consistent with reporting under GRI standards.

Financial materiality (required by all)

Information that would influence an investor's decisions – e.g. by affecting their assessment of the company's cashflow prospects.

Double materiality

The EU adopts 'double materiality' principles – aiming to report on all significant impacts by considering both the investor and wider stakeholder lenses.

04 Where and when will information be disclosed?

	ISSB	EU	US (proposed)
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 reports, 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 reliefs[1]	Yes	Yes

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

[1] The ISSB Standards include transition reliefs to support companies. Read this article for further details.

05 How do the requirements 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.
US (proposed)	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 Question 4). Broadly aligned on the disclosure of targets, but with optional reporting of climate-related opportunities.
EU	Governance Strategy Impact, risk and opportunity management	Largely aligned – differences arise because the EU uses double materiality principles (see Question 3).	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 will be required?

ISSB

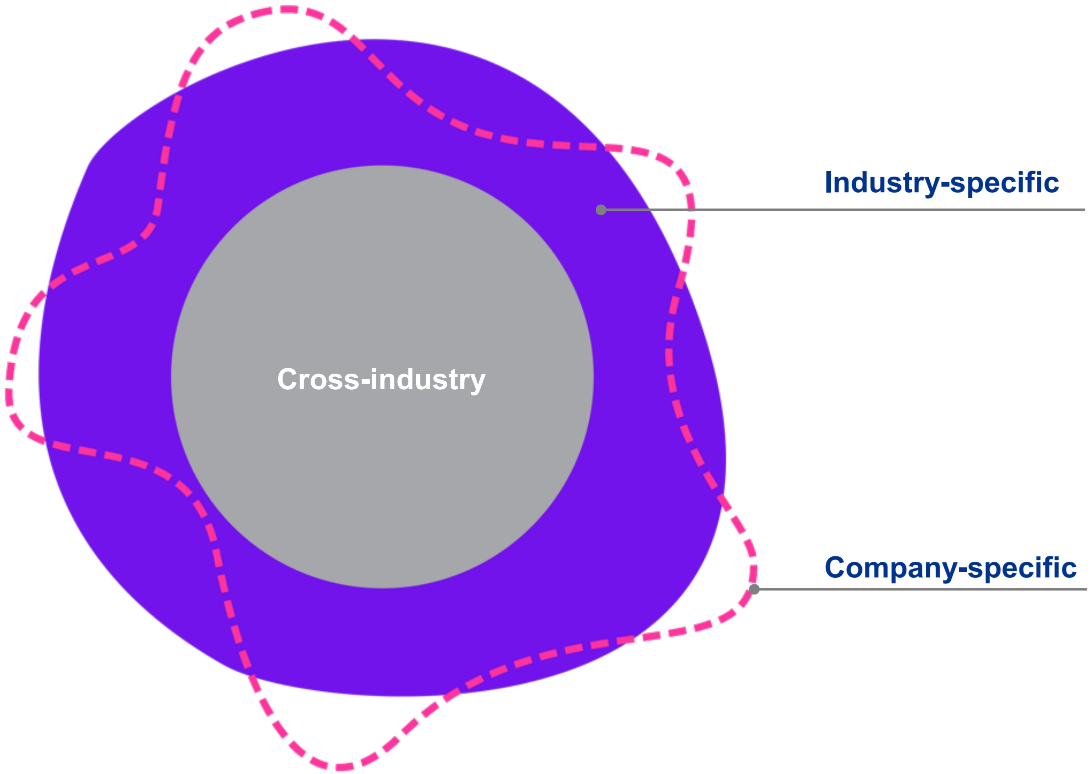
- Climate standard includes industry-specific disclosures
- Companies will need to consider SASB Standards for other topics – based on 77 industry-specific SASB Standards

EU

- No industry-specific requirements but the EU plans to release industry-specific standards in the future

US (proposed)

- 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 inconsistent with the EU's intention to use NACE codes. Multinational groups will need to map between the two systems, particularly if they operate in more than one industry.

07 What GHG emissions reporting will be required?

	ISSB	EU	US (proposed)
Scopes 1 and 2?	Yes	Yes	Yes
Scope 3?	Yes[1]	Yes	Yes, if material or included in targets[2]
Basis for organisational boundaries	GHG Protocol Standard – 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?	Not required	Yes, based on net revenue for the *total* of Scopes 1, 2 and 3 emissions	Yes, based on revenue and a unit of production for the *total* of Scopes 1 and 2, and separately for Scope 3 (if included)
Disclose targets?	Yes, if used or required	Yes, if used	Yes, if used

The GHG Protocol Standard is used by many companies to measure GHG emissions. The underlying guidance was largely developed in the early 2000s; following a consultation, a project is being undertaken to update the guidance.

Read our guide to help you understand the fundamentals of the protocol.

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

[1] The ISSB climate standard provides support for companies disclosing Scope 3 emissions to help address data availability and quality challenges. Read our article on applicable reliefs.

[2] Smaller reporting companies would be exempt.

08 When will they be effective?

ISSB

- Final standards released on 26 June 2023 with an effective date of 1 January 2024 – i.e. reporting in 2025
- However, local jurisdictions to decide when the requirements would apply
- A climate-first option will be available in the first year of reporting

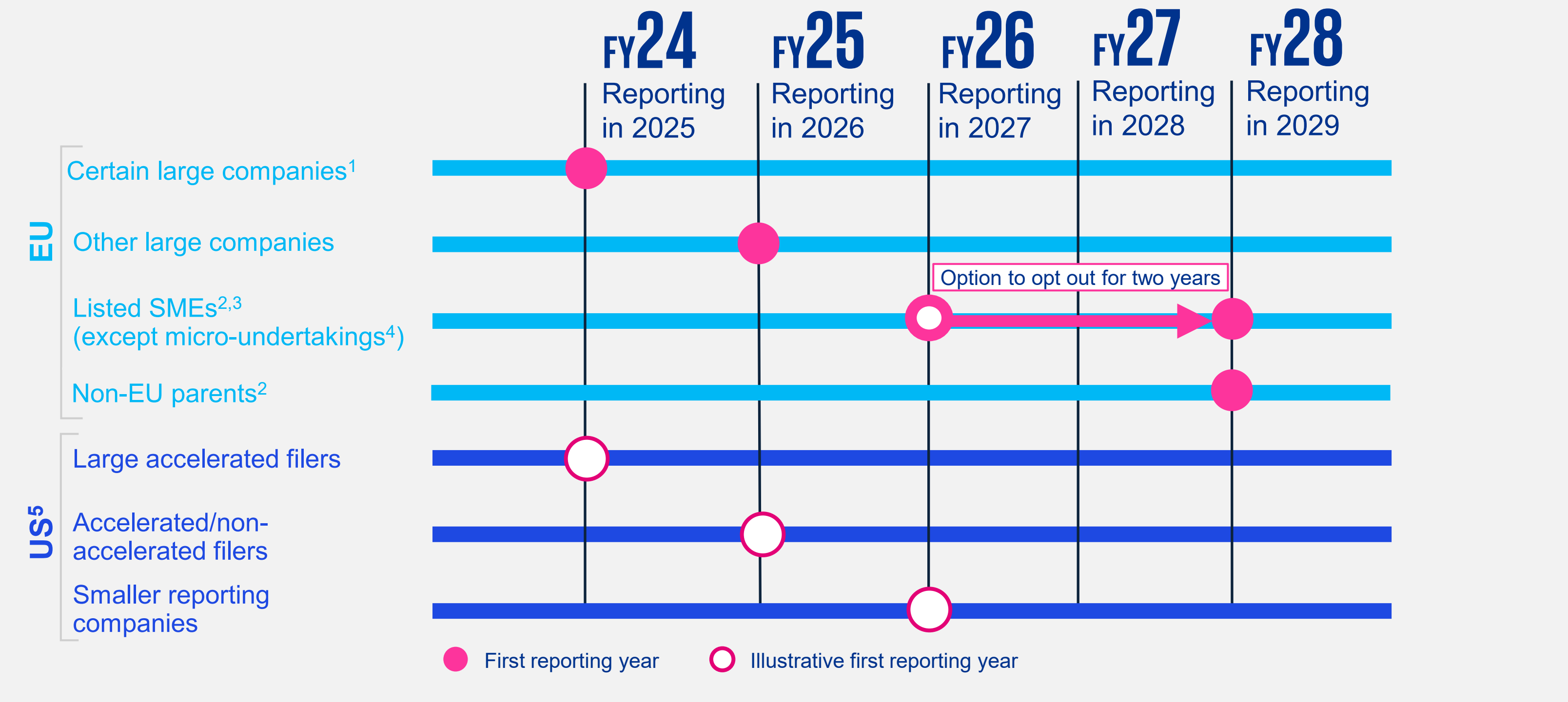
EU

- Final text released on 31 July 2023, and will first apply for years beginning on or after 1 January 2024 – i.e. reporting in 2025
- Phased introduction will start with certain large companies[1] with listed securities in the EU

US (proposed)

- 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 will be mandated by local jurisdictions. As such, the effective date may vary by location.



[1] Certain large companies with listed securities on EU-regulated markets and more than 500 employees (e.g. companies currently subject to NFRD).

[2] Separate standards will be developed for SMEs and non-EU parent companies.

[3] 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).

[4] Micro-undertakings are companies that do not exceed two of the following three criteria (including subsidiaries): 10 employees, net revenue of €0.9M (formerly €0.7M); or total assets of €0.45M (formerly €0.35M).

[5] 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 shown in the diagram is illustrative only.

09 What assurance will 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

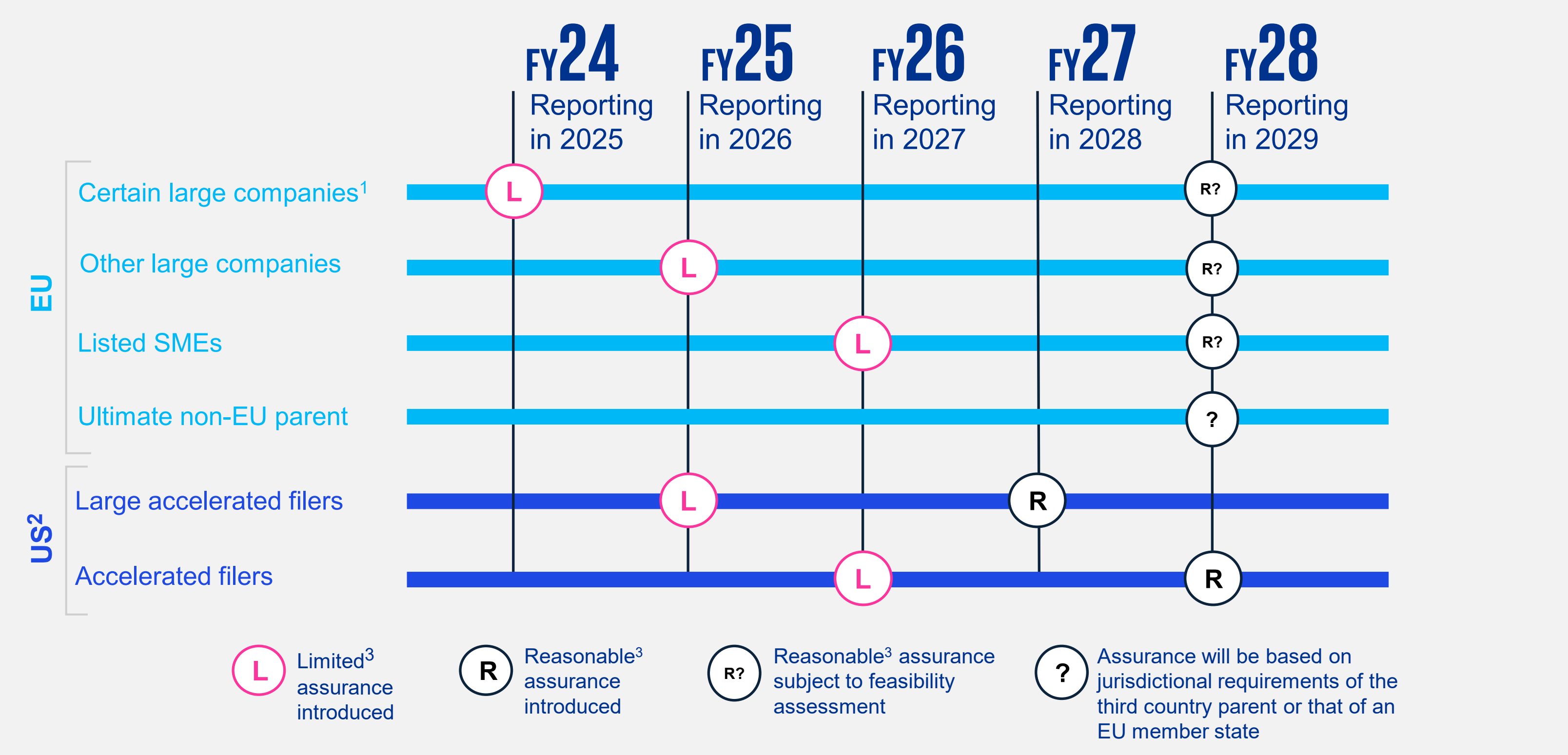
EU

- EU requires 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

US (proposed)

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

The proposed US SEC climate rule would require some disclosures in the audited financial statements (see Question 4), in addition to requiring assurance over GHG metrics.



[1] Certain large companies with listed securities on EU-regulated markets and more than 500 employees.

[2] 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.

[3] Read more about ESG Assurance in Audit. The assurance requirements will 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?

1 Understand the impact

- Understand which requirements will impact your company and wider group.
- Understand how the requirements differ from your current reporting.

2 Determine what is material

- Understand the scope and breadth of your value chain.
- Undertake a materiality assessment to determine which topics are relevant to report on under both ESRSs and ISSB Standards.
- Decide what information is material under each of the requirements

3 Assess maturity

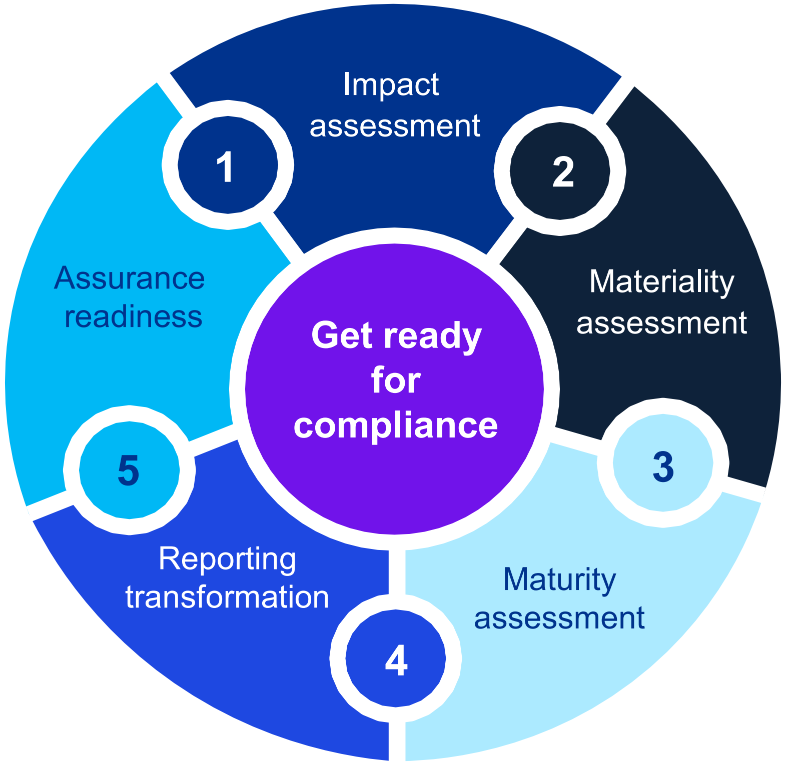
- Assess the maturity of processes, the control environment, data model and policies.
- Understand the current distribution of roles, available knowledge and capacity.

4 Transform reporting

- Design the future state of your reporting – including designing the most efficient reporting structure to meet group and individual company needs.
- Develop and deploy your target operating model, including training as well as support for change management.

5 Get ready for assurance

- Assess the control environment, data quality and availability of sufficient documentation to support assurance.
- Rectify issues ahead of the formal assurance process.



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

ESRS
European Sustainability Reporting Standards

EU
European Union

GHG Protocol Standard
The Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard

GRI
Global Reporting Initiative

ISSB
International Sustainability Standards Board

MD&A
Management Discussion and Analysis

NFRD
The EU's Non-Financial Reporting Directive

NACE
Statistical Classification of Economic Activities in the European Community

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

In this document, we use the term '**requirements**' to refer to the following.

- **ISSB** – IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.
- **EU** – Final text of the first set of ESRSs published by the European Commission on 31 July 2023.
- **US (proposed)** – SEC Release Nos. 33-11042 and 34-94478 *The Enhancement and Standardization of Climate-Related Disclosures for Investors*.

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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 requirements.

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Publication name: Comparing sustainability reporting requirements

Publication number: 137821

Publication date: November 2023