



# Get ready for ISSB™ sustainability disclosures



Understanding the standards

—  
June 2023



# Get ready for ISSB sustainability disclosures



## What's the issue?

- The first IFRS® Sustainability Disclosure Standards<sup>1</sup> mark the next step towards equal prominence for sustainability and financial reporting.
- They are based on existing frameworks and standards, including TCFD and SASB.
- The aim is to create a global baseline for investor-focused sustainability reporting that local jurisdictions can build on.



## What's the impact?

- Companies will report on all relevant sustainability topics (not just on climate) under a consistent global framework and focus on how these topics impact a company's prospects.
- Reporting will be connected to the financial statements. Therefore, companies will need processes and controls in place so that they can provide sustainability-related information of the same quality, and at the same time, as their financial information.



## What's next?

- The standards are effective from 1 January 2024.
- Individual jurisdictions will decide whether and when to adopt but a rapid route to full adoption is expected in a number of jurisdictions.
- Some public and private companies may choose to adopt them voluntarily – e.g. in response to investor or societal pressure.

## Abbreviations and key terms

<sup>1</sup> In this document we use 'the standards' to refer to the first IFRS Sustainability Disclosure standards – IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, both published 26 June 2023.

# 10 questions to start getting ready



01

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# 01 What has been released?

## ▶ The general standard sets the foundation

- General features of sustainability reporting, including on materiality.
- A content structure across the four areas of governance, strategy, risk management, and metrics and targets.
- Practical guidance, including on presentation of information.

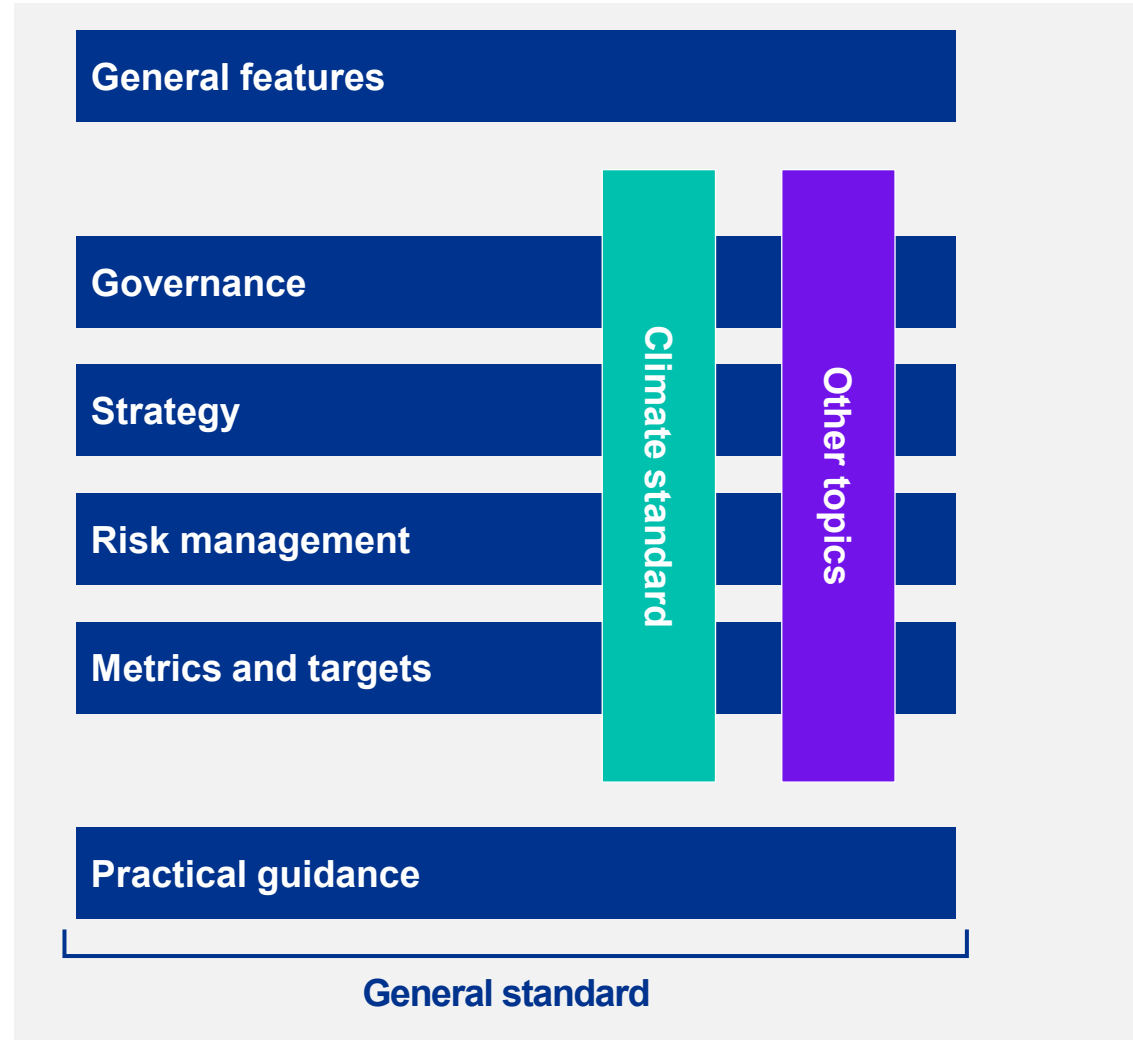
## ▶ The climate standard provides additional detail

It builds on the four content areas with additional guidance, particularly in relation to:

- disclosure of risks, climate transition plans, GHG emissions and scenario analysis; and
- general and industry-specific metrics.

## ▶ Future standards are expected to follow

- Additional standards are expected in the future, providing general and industry-specific guidance on other topics – e.g. biodiversity.



## 02 What will need to be disclosed?

### ► Material information

- Providing a complete and balanced explanation of sustainability-related risks and opportunities.
- Covering governance, strategy, risk management and metrics and targets.
- Focusing on the needs of investors and creditors.
- Reflecting consistent, comparable and connected disclosures.
- Presented across time horizons: short, medium and long term.
- Relevant to the sector and industry.

### ► Material metrics

- Based on measurement requirements specified in the climate standard or future standards.
- Identified from other guidance – e.g. SASB (see Question 8).
- Reflecting other metrics used by the company.

### Transition reliefs

Companies are not required to:

- provide comparative information for any period before the date of initial application; or
- disclose Scope 3 emissions metrics or information on topics other than climate until the second period of reporting.



Disclosures focus on matters that are critical to the way a company operates

### The general disclosure requirements standard sets out a framework

#### Governance

Processes, controls and procedures that a company uses to monitor sustainability-related risks and opportunities.

#### Strategy

Sustainability-related matters that could enhance the business model and strategy over the short, medium and long term.

#### Risk management

How sustainability-related risks are identified, assessed and managed.

#### Metrics and targets

Information to explain the company's performance on sustainability-related matters over time.



### Additional standards that build on this framework and include industry-specific requirements

Climate-related disclosures

Future standards (see Question 7)

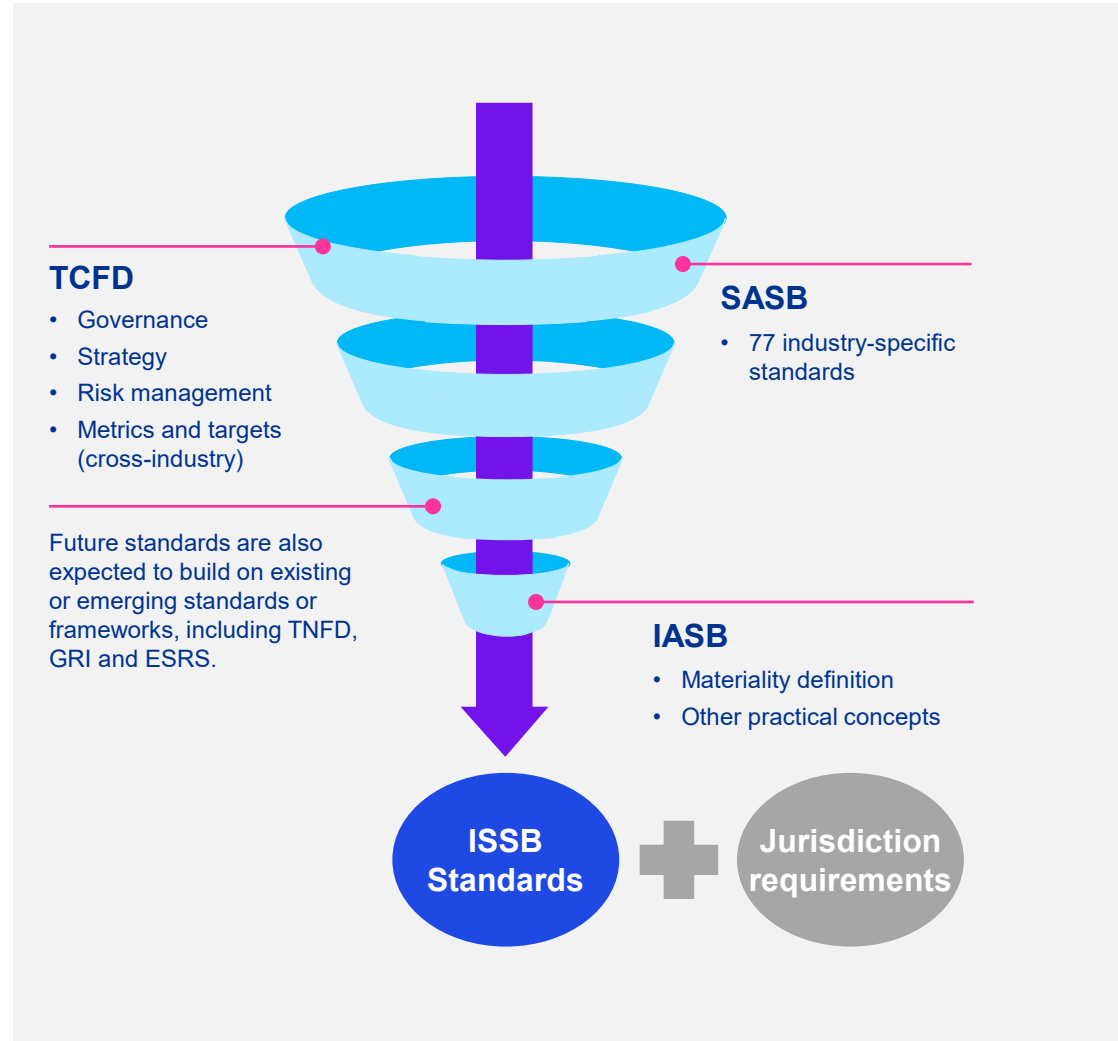
## 03 What are the standards based on?

### ► Consolidating the latest thinking of existing frameworks and standards

- Follow the four pillars of the TCFD's recommended disclosures: governance, strategy, risk management, and metrics and targets.
- Enhanced by climate-related, industry-specific metrics derived from the SASB's 77 industry-specific standards.
- Incorporate concepts and principles used in IFRS Accounting Standards from the IASB.
- Additional input from other frameworks and stakeholders, including CDSB and Integrated Reporting.

### ► Bringing financial reporting concepts to sustainability reporting

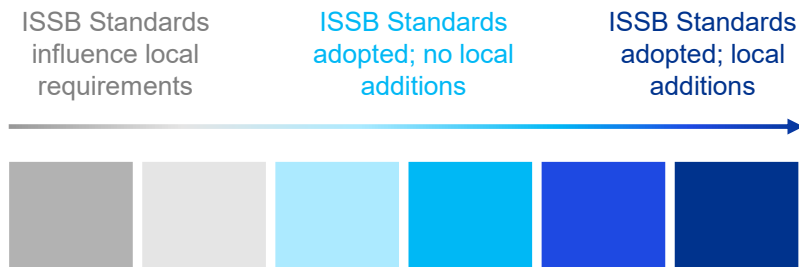
- Built using a similar approach to IFRS Accounting Standards.



# 04 How and when could they affect you?

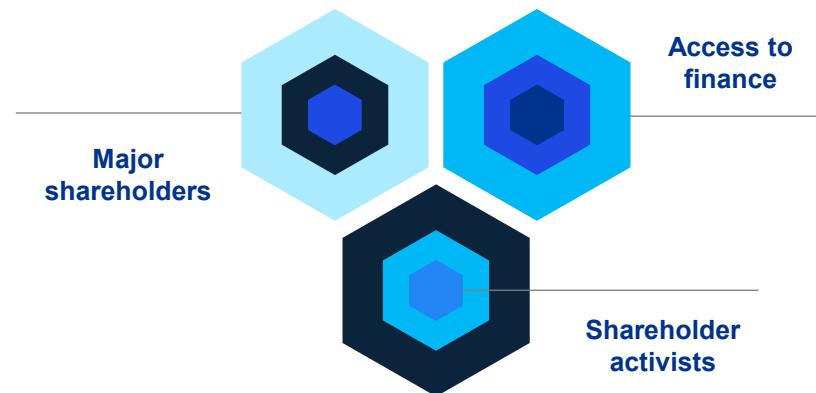
## ► Mandatory adoption

- The standards are effective for annual reporting periods beginning on or after 1 January 2024. Early application is permitted.
- However, adopting the standards is dependent on local jurisdictions, so the first application date might be different for companies around the world.
- With strong support from IOSCO, a rapid route to adoption is expected in a number of jurisdictions.
- In some jurisdictions, the standards will provide a baseline either to influence or to be incorporated into local requirements. Others are likely to adopt the standards in their entirety.



## ► Voluntary adoption

- Companies may choose to adopt the standards voluntarily.
- Investors are increasingly willing to use their voting power to drive transparency over sustainability-related matters, including transition plans and their impact.
- Investors have generally supported the adoption of TCFD and SASB Standards in the past. Therefore, they may be expecting companies to adopt the standards quickly.
- The ISSB brings the same focus, comparability and rigour to sustainability reporting as the IASB has done for financial reporting.



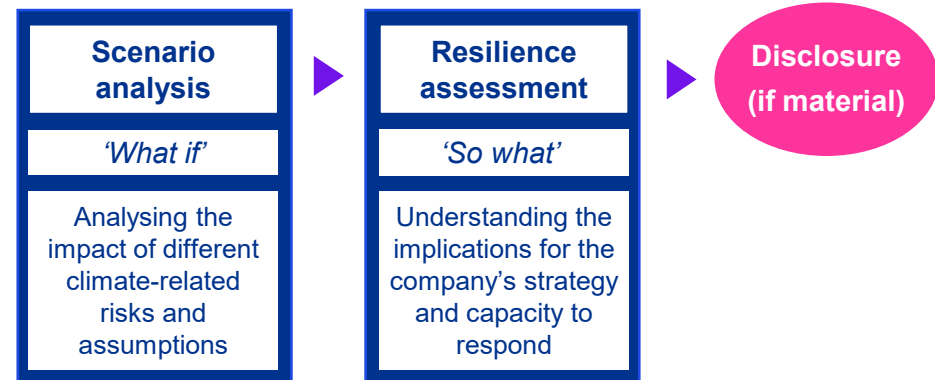
# 05 Will they require scenario analysis?

## ► Scenario analysis is required

- Companies will need to use scenario analysis when describing their assessment of climate resilience.
- The ISSB will provide guidance on the analysis that will be appropriate for different types of companies.
- This guidance will build on existing materials developed by the TCFD.

## ► What is a climate scenario?

- A set of assumptions around how the world may react to achieving different degrees of global warming – e.g. the carbon prices and other factors needed to limit global warming to 1.5°C.
- Scenarios may differ from the assumptions underlying the financial statements. However, management needs to consider carefully whether the extent of the linkage between scenario analyses and these assumptions is appropriate.



### Why is the disclosure useful?

- It can help investors assess the possible exposures from a range of hypothetical circumstances.
- For companies, discussing impacts under different scenarios can help explain their assessment of resilience.



# 06 Where will the information be disclosed?

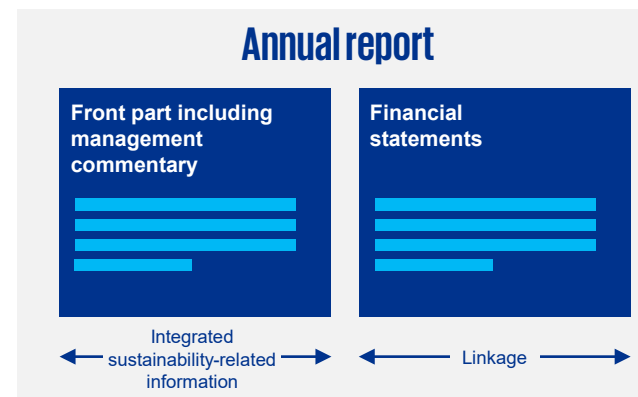
## ► It depends

- The standards do not specify a single location.
- The standards allow for cross-referencing to information presented elsewhere, but only if it is released at the same time as the general-purpose financial report.
- Many countries already include broad requirements for the disclosure of investor-relevant information<sup>1</sup> and therefore material sustainability-related information.

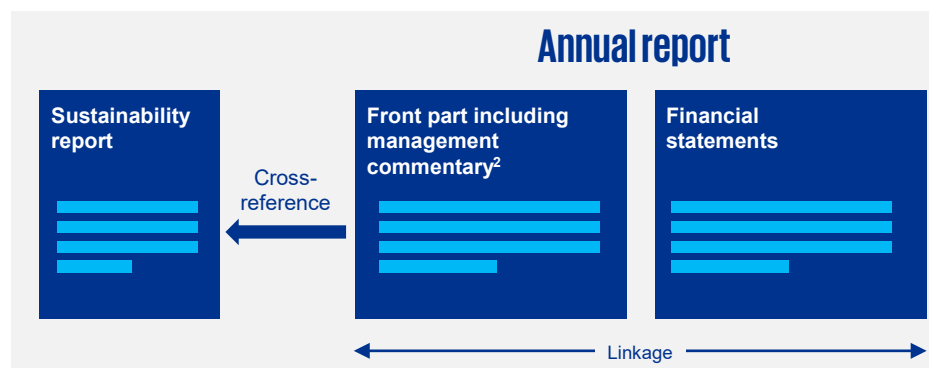
## ► Will you need to get assurance?

- Assurance requirements are not within the ISSB's remit.
- Regulators may choose to require assurance.
- Regardless of local assurance requirements, companies will need to ensure they have the processes and controls in place to produce robust and timely information.

**Example 1:**  
Integration of information in management commentary.



**Example 2:** Separate report providing sustainability-related information, cross-referenced to and available at the same time and on the same terms as management commentary.



<sup>1</sup> For example, the management commentary or MD&A may be the most appropriate place to provide information.

<sup>2</sup> Ensuring material information is not excluded from management commentary or MD&A.

## 07

# What about topics other than climate?

## ► The general standard will require disclosure on all relevant topics

This standard helps companies by providing:

- a framework of disclosures relevant for reporting on all sustainability-related topics;
- suggested reference materials for topics other than climate;
- key principles, including materiality and connected reporting; and
- practical details – e.g. how to update estimates or report comparatives.

## ► ‘Climate first’ relief

- The standards introduce a relief from providing disclosures on topics other than climate in the first year of reporting.
- Companies still need to get ready to report on other topics from the second year.

<sup>1</sup> The standards differentiate between sources that companies “shall consider” and those that they “may consider”. For further information see [our article](#).

<sup>2</sup> For example, the CDSB Framework application guidance for water- and biodiversity-related disclosures.

Apply the general disclosure requirements and applicable future IFRS Sustainability Disclosure Standards

Governance

Strategy

Risk management

Metrics and targets



Companies “shall consider”<sup>1</sup>

Disclosure topics and metrics in SASB Standards

Companies “may consider”<sup>1</sup>

CDSB Framework<sup>2</sup>

Other investor-focused frameworks

Industry or local practice

ESRS and GRI



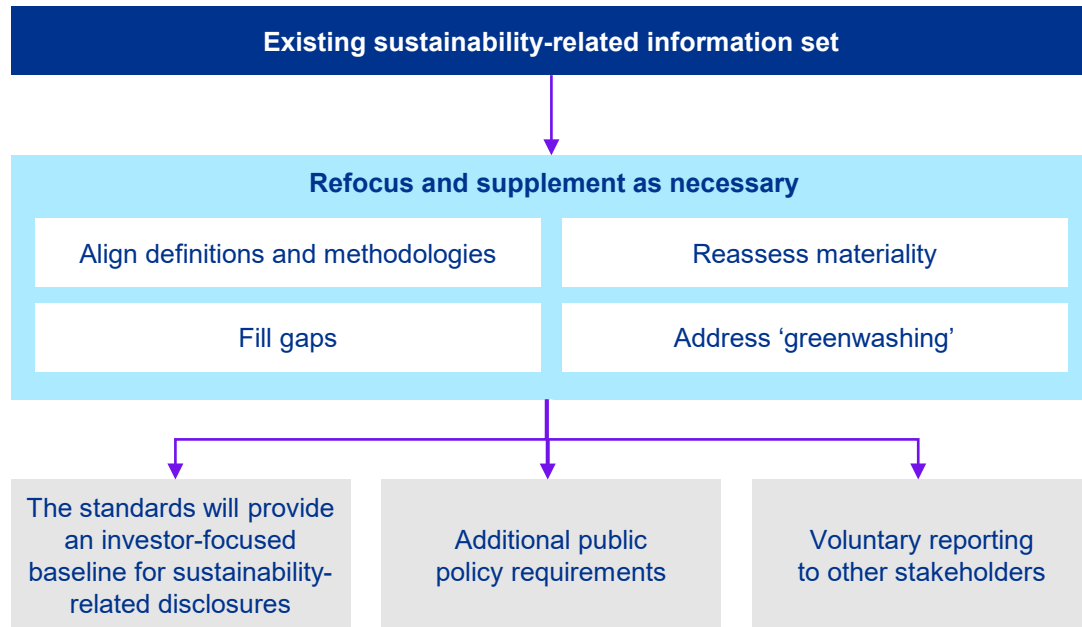
### Public consultation:

- The ISSB has an [ongoing public consultation](#) on what to cover in future standards.
- The comment period is open until 1 September 2023.

# 08 What if you've already adopted other frameworks?

## ► Build and adapt

- Consider specific jurisdictional guidance, including any recommendation to adopt or converge with ISSB Standards.
- Map how the standards differ from current frameworks used.
- Focus on matters that affect the company's prospects and consider what will impact an investor's assessment of those prospects.
- Consider where additional data is needed.



## ► Items to consider if previously adopted TCFD

- Identify and present material information on topics other than climate and focus on sector and industry metrics.
- For climate-related reporting specifically, prepare for more granular disclosures, and align the bases of calculation and presentation to the climate standard.

## ► Items to consider if previously adopted SASB Standards

- Focus on strategic and process-related requirements related to governance, strategy and risk management.
- Use data collection processes for industry-specific metrics.

# 09 What do they mean for broader sustainability reporting?

## ► Evolution

- The standards are part of the evolution from fragmented, voluntary frameworks to authoritative standard setting.
- The formation of the ISSB provides a natural focal point for the consolidation of investor- and creditor-focused reporting frameworks.

## ► Reporting to meet public policy and other needs

- This is likely to continue as a separate strand of reporting.
- Some jurisdictional standards are building on the global baseline and incorporating broader content – e.g. in the EU.
- Some jurisdictions are developing 'green taxonomy' requirements for the classification of revenue and expenditure based on whether the activity meets certain sustainability-related criteria.

## ► Private companies

- Some private companies are under pressure from investors, lenders, customers and others to improve their sustainability-related credentials and reporting.
- Therefore, they may be called on to comply with the standards. This could be as part of or in addition to local jurisdictional requirements.



# 10 What do you need to do now?

## 1 Understand the impact

- Research and understand current and emerging requirements.
- Understand when, where and how this will impact your company.

## 2 Determine what is material

- Determine which topics are relevant to report on.
- Decide what information is material about those topics.

## 3 Assess maturity

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

## 4 Transform reporting

- Design the future state of your reporting.
- 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

## CDSB

Climate Disclosure Standards Board – an initiative of CDP (formerly the Carbon Disclosure Project)

## ESRS

European Sustainability Reporting Standards

## GHG

Greenhouse gases

## GRI

Global Reporting Initiative

## IASB

International Accounting Standards Board

## IOSCO

International Organization of Securities Commissions

## ISSB

International Sustainability Standards Board

## ISSB Standards

IFRS® Sustainability Disclosure Standards

## MD&A

Management discussion and analysis (also known as management commentary)

## SASB

Sustainability Accounting Standards Board

## TCFD

Task Force on Climate-related Financial Disclosures

## TNFD

Task Force on Nature-related Financial Disclosures

# Keeping in touch



**Mark Vaessen**  
Partner  
KPMG in the Netherlands  
vaessen.mark@kpmg.nl



**Julie Santoro**  
Partner  
KPMG in the US  
jsantoro@kpmg.com



**Tomokazu Sekiguchi**  
Partner  
KPMG in Japan  
tomokazu.sekiguchi@jp.kpmg.com



**Helena Watson**  
Director  
KPMG International Standards Group  
helena.watson@kpmgifrg.com

## With thanks to our additional contributors

Gordon Crerar

Arlene Joseph

Gina Desai

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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.

### ISSB | Sustainability reporting resource centre

Tracking the development of IFRS Sustainability Disclosure Standards



### ESRSs | Sustainability reporting resource centre

Practical guidance on the ESRSs



### ISSB priorities

Understanding the future focus



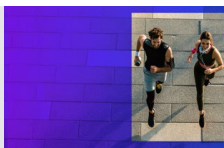
### ESG reporting

US resources for financial reporting professionals



### New on the Horizon – Sustainability Reporting

Detailed analysis of ISSB general and climate-related proposals



### Comparing sustainability reporting proposals

Comparing proposals from the ISSB, EU and US





## [kpmg.com/ifrs](https://kpmg.com/ifrs)

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