



ESG Pulse Webinar – Sustainability Reporting

3 October 2024



Recording in progress

Why Sustainability Reporting is Important

Mandatory sustainability reporting requirements have been, or are in the process of being, introduced the world over. These requirements increase the overall transparency in relation to sustainability topics but also supports businesses in driving value while mobilizing capital markets to help support innovative and much-needed solutions to the many societal issues we face.

As a Business:

01 Stakeholder Pressure and Regulatory Expectations

Stakeholders, including **investors and regulators**, are expecting an increasing amount of information on sustainability topics, adding pressure for transparency.

02 Managing Risks and Opportunities

Compliance with sustainability reporting can increase an entity's awareness of the sustainability risks and opportunities facing them and hence promote action to be taken on these areas and **deliver better value**.

03 Measuring Progress

Sustainability reporting increases both the measuring and the transparency with respect to progress made against sustainability goals and targets. It can provide vital data to support your **transition planning**.

As a Jurisdiction:

01 Jurisdictional Reputation

Risk of being labelled a 'bad actor' for **failing to follow international standards and support the transition** could have widespread impact on the reputation of our jurisdictions as financial centres.

02 Market Access

More of our key markets are adopting similar reporting requirements and there is a risk that **market access may be limited** if we are not seen to also be taking action in this area. The UK SDR labels provide an early example of this issue.

03 Sustainability Ambitions

Each of our jurisdictions have set out various ambitions on becoming a centre for sustainable finance. Sustainability reporting would be a key step to realising those ambitions.

Background – Landscape Across the CDs

The Crown Dependencies have not implemented mandatory sustainability reporting requirements as of yet. However, key steps have been taken in each of our islands to drive the finance sector toward a more sustainable future.



Jersey

Sustainable Finance Consultation Paper

- Released in **early 2024**
- To discover **appetite for extensive regulatory and policy intervention** in support of sustainable finance
- Largely **positive feedback** from industry
- **Strong appetite** for government intervention
- **62%** of respondents favoured a moderate to advanced approach



Guernsey

Discussion Paper on Future of Sustainability Reporting

- Issued in **July 2024**
- Aim is to gather information & views from finance sector on **potential impact of introducing ISSB reporting**
- Includes questions to industry on adoption principles, scoping, timing, data challenges
- Also asks about wider issues such as Anti-Greenwashing
- **Closes 25 October**



Isle of Man

Sustainable Finance Roadmap

- Due to be released in **Q4 2024**
- Will consist of a **3-year plan** for the IOM to position themselves as an **IFC for sustainable finance**
- Likely outcomes of the roadmap :
 - Regulatory framework
 - Enablement for product development
 - Upskilled workforce
 - Increased assets and economic contribution
 - Enhanced peer positioning
- Currently undergoing **stakeholder consultation and market research**

Fundamentals on the ISSB

What has been released?

The general standard (IFRS S1) sets the foundation

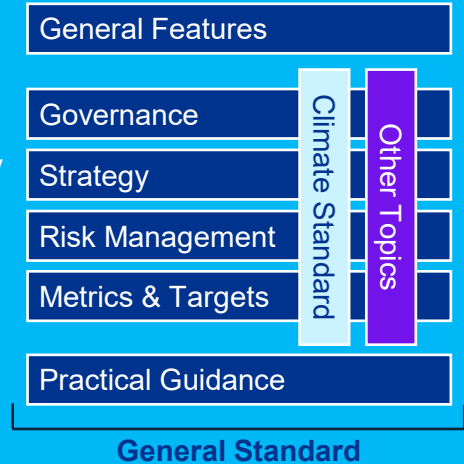
- General features of sustainability reporting, including on materiality
- Practical guidance, including on presentation of information

The climate standard (IFRS S2) provides additional detail

- Builds on the four content areas with additional guidance on climate and industry specific metrics

Future standards are expected to follow

- Providing general and industry-specific guidance on other topics e.g., biodiversity



How and when could they affect you?

Mandatory Adoption

- Effective on or after 1st Jan 2024
- Adopting standards is dependant on local jurisdictions
- Rapid adoption is expected with strong support from IOSCO
- Jurisdictions may choose to follow partial or full adoption

Voluntary Adoption

- Investors are starting to use their voice to drive transparency
- Investors have previously supported TCFD and SASB standards, therefore, may expect rapid adoption

Transition relief applies for non-climate reporting and Scope 3

What will need to be disclosed?

Material Information

- Investor based focus
- Covers a wide range of topics (not just climate)
- Relevant to the sector and industry

Material Metrics

- Based on measurement requirements specified in the climate / future standards
- Identified from other guidance – e.g., SASB
- Reflecting other metrics used by the company

Why it matters:



- Led by IFRS, the financial reporting standard setter, ISSB brings same qualities as IASB has done for financial reporting
- Aims to create a **global baseline for sustainability reporting**, delivering **consistent and decision-relevant information** to primary users of financial statements

Key Considerations

Where will the information be disclosed?

It's not that simple...

- Single location not specified.
- Allows for cross-referencing to information presented elsewhere, but only if released at the same time as financial report.
- Many countries include broad requirements for disclosure of investor-relevant information and therefore material sustainability-related information.

Will you need assurance?

- Not within ISSB's remit.
- Up to the regulator.
- Companies will need to ensure processes/controls are in place to produce robust and timely information.

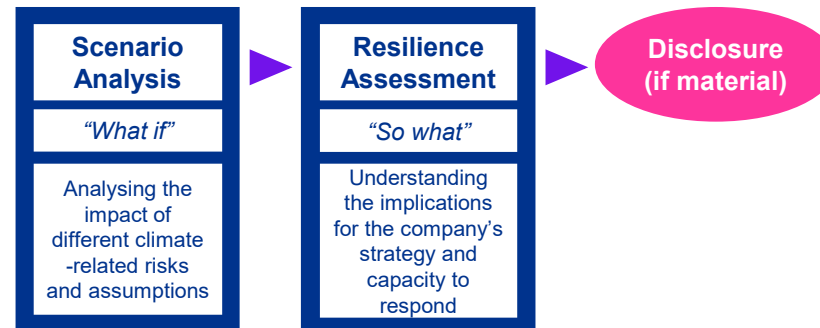
Will they require a scenario analysis?

Scenario analysis is required for climate-related topics

- When describing an assessment of climate resilience.
- Guidance will be provided for analysis that will be appropriate for different company types.
- Guidance will build on existing materials developed by TCFD.

Why is it useful?

- Helps investors assess the possible exposures.
- Discussing impacts under different scenarios can help resilience assessment.



What about topics other than climate?

General standard will require disclosure on all relevant topics

Helps companies by providing:

- A framework relevant for reporting on all sustainability – related topics.
- Reference materials for topics other than climate.
- Key principles.
- Practical details – e.g. how to update estimates.

'Climate First' relief

- Relief from providing non-climate disclosures in first reporting year.
- Will need to report on other topics from second year.

Key decisions - General requirements

Fundamental topics

Materiality

The ISSB has confirmed that it will:

- Base **materiality** on the International Accounting Standards Board description of materiality and will remove references to assess 'enterprise value';
- Provide **guidance** on how a company assesses what information is material; and
- Clarify the objective of reporting and its link to **value creation**.

Reporting topics other than climate

Step 1:
Identifying sustainability-related risks and opportunities

There is a **two-step framework** for companies to disclose material information across all sustainability-related topics, not just climate.

The ISSB confirmed that companies '**shall consider**' disclosure topics and metrics in the industry-based **SASB** standards in Steps 1 and 2.

Step 2:
Identifying disclosures (including metrics)

It also provided **guidance** on materials companies '**may consider**' for Step 2, which includes GRI standards and ESRS.

Practicalities of reporting

Applying existing concepts

The ISSB is leveraging existing accounting concepts to support companies to:

- Disclose useful information **about judgements, assumptions and estimates**;
- Identify what information is **reasonable and supportable** at the reporting date without undue cost or effort; and
- Use an exemption from providing **commercially sensitive information** about opportunities in limited circumstances.

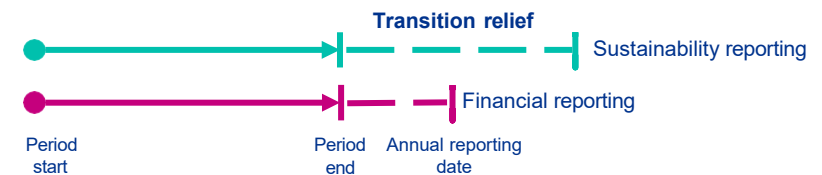
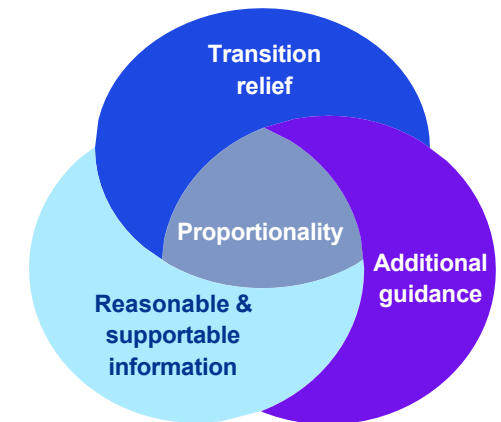
However, companies would need to revise comparatives to reflect updated estimates in some but not all circumstances.

Timing of reporting

Companies would need to report at the same time as the financial statements, with relief available in the first year of reporting.

Proportionality

The ISSB agreed ways to make the standards proportionate so that they can be applied by all types of company.



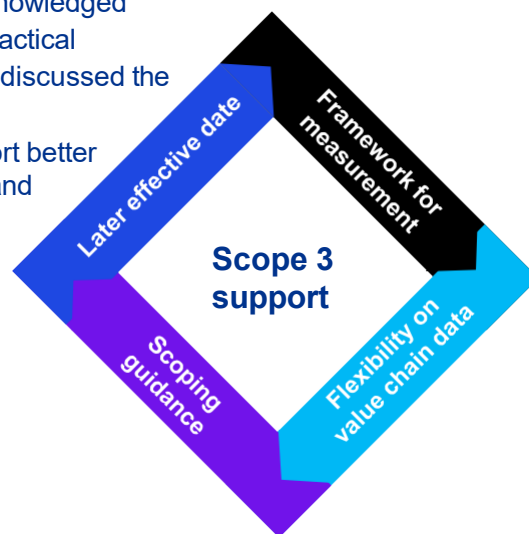
Key decisions- Climate-related requirements

Greenhouse gas emissions

The ISSB agreed to retain its requirement to report Scope 1, 2 and 3* emissions using the **GHG Protocol**.

Scope 3 emissions disclosures are fundamental for understanding a company's exposure to transition risks.

The ISSB acknowledged companies' practical concerns and discussed the following ways to support better **data quality** and **availability**.



*Certain industries will be required to disclose financed emissions

Climate resilience

Companies will be required to use **scenario analysis** when describing their assessment of climate resilience.

The ISSB is taking a **proportionate** approach to ensure that all types of companies can disclose decision-useful information for investors.

The type of analysis will depend on the company's exposure to climate-related risks and the approach would use '**reasonable and supportable**' information.

The ISSB plans to provide guidance, building on TCFD requirements and setting out a **range of approaches** to scenario analysis.



Transition plans and targets

Investors want to understand companies' readiness to transition to a lower-carbon economy. More **transparent** and **granular** disclosures can achieve this.

The ISSB has agreed additional requirements to disclose information on **transition plans** and **climate-related targets** in response to stakeholder feedback.

Industry-specific materials

The ISSB will require industry-specific disclosures, but for now it would classify the content in Appendix B of the climate standard as **illustrative examples**.

The ISSB plans to make content based on SASB **mandatory in future**, after further consultation.

Further Considerations

What if you've already adopted other frameworks?

Build and Adapt

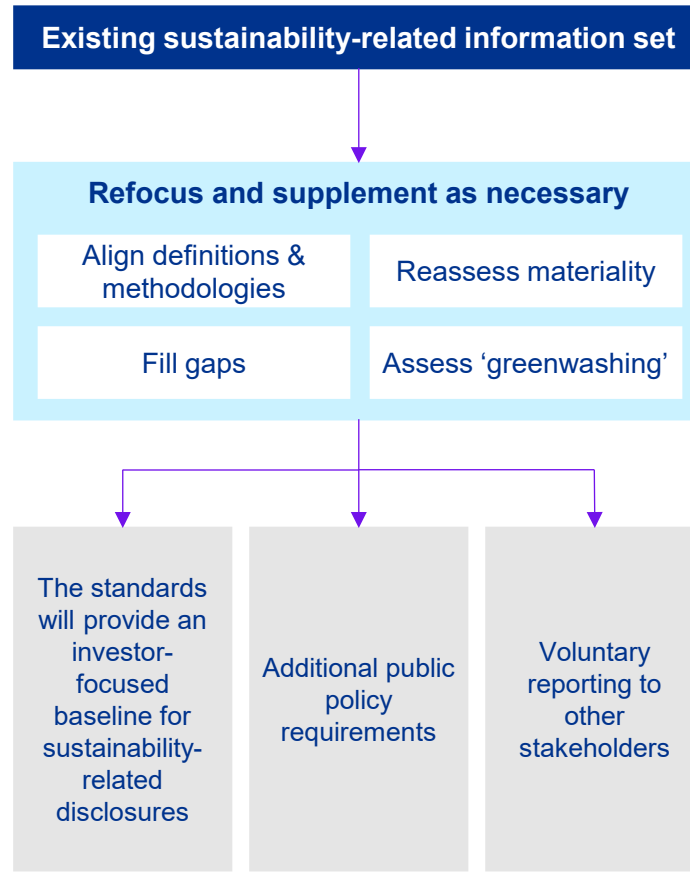
- Consider specific jurisdictional guidance.
- Map how standards differ from current frameworks.
- Focus on matters which impact the company and investors.

If previously adopted TCFD

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

If previously adopted SASB

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



What do they mean for broader sustainability reporting?

Evolution

- The standards are part of the evolution from fragmented, voluntary frameworks to authoritative standard setting.
- ISSB's formation is centred around the investor-focussed reporting frameworks.

Reporting to meet public policy and other needs

- Separate strand of reporting.
- Some jurisdiction standards are building on the global baseline and incorporating broader content.

Private Companies

- Some are under pressure from stakeholders to improve sustainability credentials and reporting.
- Thus, may be required to comply.

What are the next steps?

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..

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.

Understand the impact

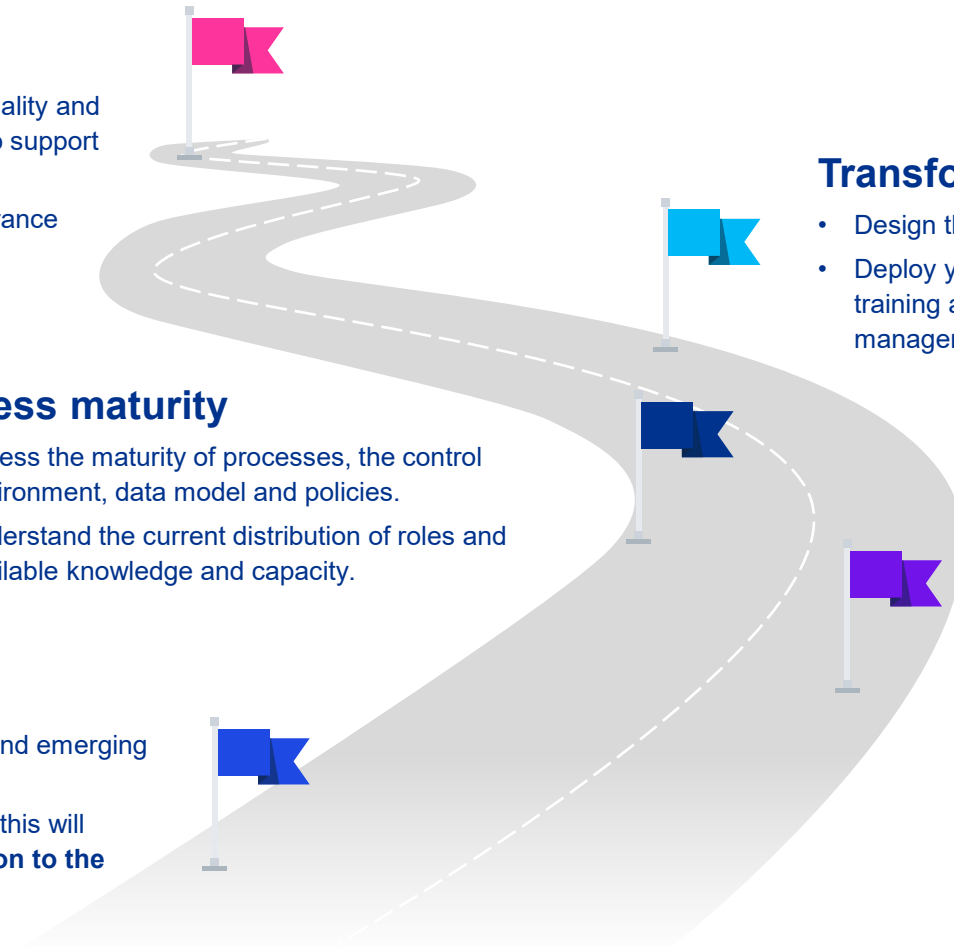
- Research and understand current and emerging requirements.
- Understand when, where, and how this will impact your company - **coming soon to the CDs!**

Transform reporting

- Design the future state of your reporting.
- Deploy your target operating model, including training as well as support for change management.

Determine what is material

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



Any Questions?

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1

Strategy & Transformation

Advice on ESG strategy and in specialist areas like climate change and human rights.

2

Reporting

Helping clients to assess their ESG readiness and prepare for ESG reporting.

3

Assurance

Providing external assurance on the ESG reporting by a business



David Postlethwaite

Associate Director, Advisory
dpostlethwaite@kpmg.com
+44 (0)1534 888891



Natalie Finlayson

Director, Advisory
nataliefinlayson@kpmg.com
+44 (0)1481 741897



Adam Creamore

Senior Manager, Audit
acreamore@kpmg.co.im
+44 (0)1624 681037



Cillian Casey

Manager, Advisory
cilliancasey@kpmg.com
+44 (0)1481 755785



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