Board Governance Forum: Climate reporting in the financial statements

14 November 2024

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[Global ESG due diligence + study 2024]

KPMG Global ESG due diligence study 2024

600 active dealmakers

35 geographies

50 In-depth client interviews

4 out of **5** dealmakers globally indicate that ESG considerations are on their M&A agenda.

55% of survey respondents are willing to pay a premium of between **1-10%** for assets with high ESG maturity.

The **2** key drivers of conducting ESG due diligence:

1. The monetary value of identifying ESG risks and opportunities early

   (**58%** of respondents agree)

2. The ability to better respond to regulatory requirements

   (**44%** of respondents agree)

Source: KPMG Global due diligence study 2024

45% of surveyed investors have encountered a significant deal implication as a result of a material ESG due diligence finding (with more than half of these experiencing a 'deal stopper').

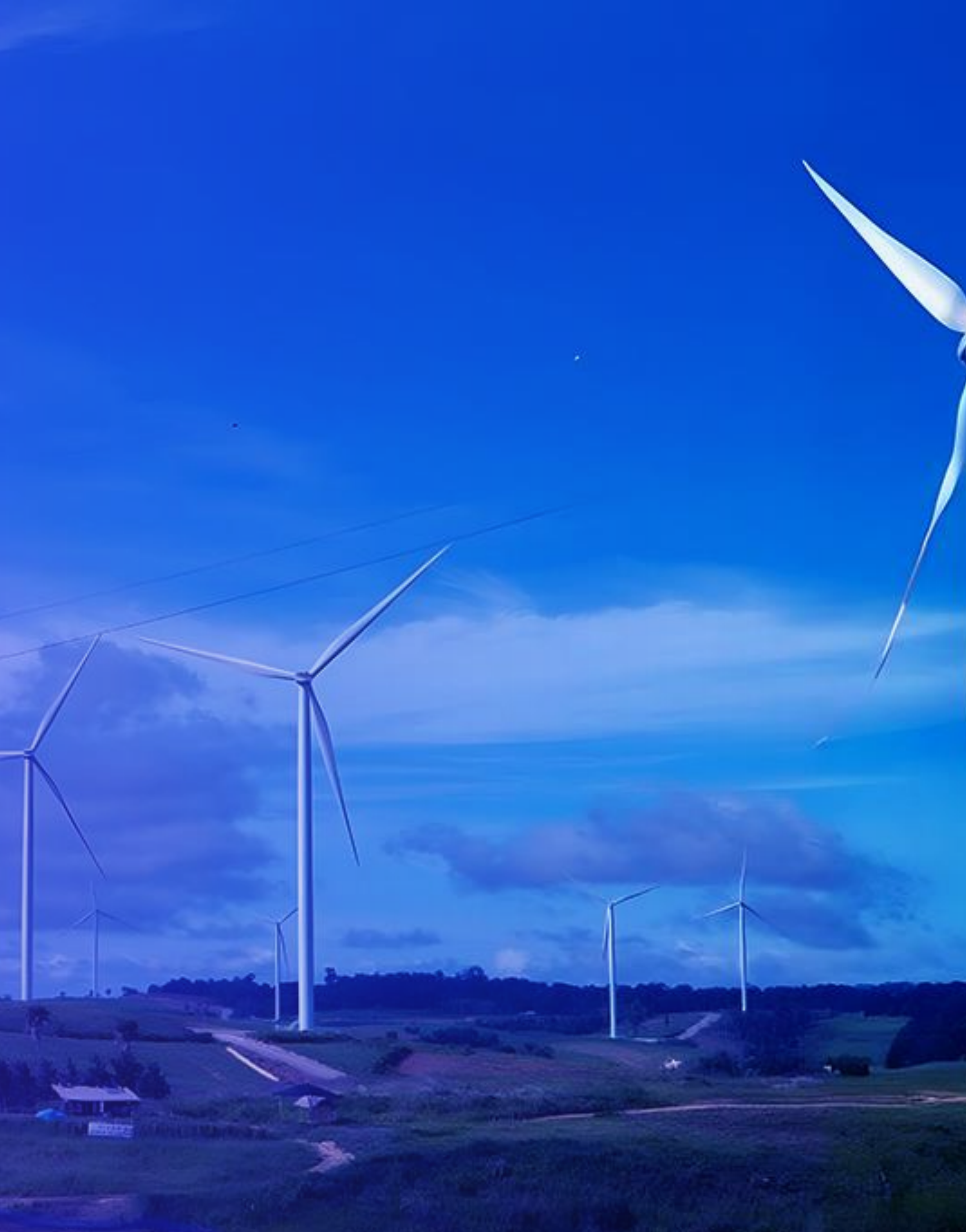
Financial investors are more likely than corporate investors to focus on ESG risks and opportunities to protect and create value of the investee.

Are you clear on climate reporting in the financial statements?

Read more…

[Clear on climate reporting]

Sustainability-related disclosures and their connection to disclosures in the financial statements and MD&A

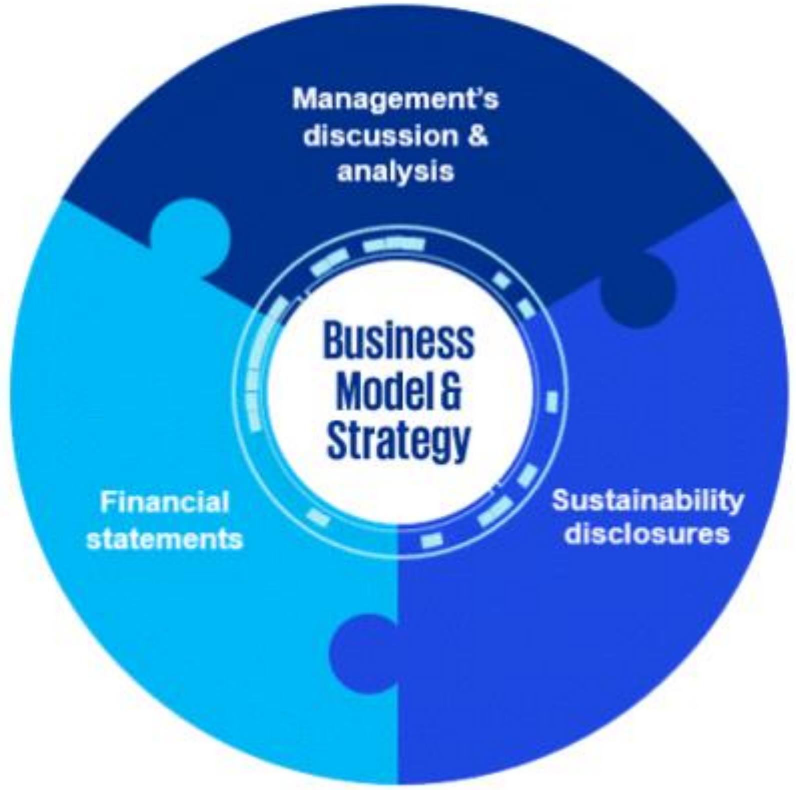


Connected information and reporting

A company's annual report contains three key areas that provide insights into the business model and strategy: the financial statements; the sustainability disclosures; and management's discussion and analysis (MD&A).

Companies may face direct challenge from investors, regulators and other report users if those insights are not connected. Climate-related matters and other uncertainties are under particular scrutiny.

To achieve connectivity, it is important that companies are both compliant with relevant standards and are connecting the dots between financial and non-financial information.



Connected standard setting

To help companies provide connected information the world needs connected standard setting.

Corporate reporting has developed piecemeal around three separate pillars. Today, two 'sister' boards within the IFRS® Foundation – one focused on accounting, one focused on sustainability disclosures – set the standards. Their joint meetings are an opportunity to help solidify the direction for connected standard setting. They have a strong base to work from because the standards share a common investor-focused objective. They focus on the complementary nature of their standards.

The value of the financial statements is enhanced by the longer-term insight provided by sustainability disclosures. Equally, the value of the sustainability disclosures is enhanced by having the foundation of the financial statements and the broader context provided by the MD&A.

The disclosure requirements help investors to recognize the same business through the window of each report and to see the relationships and interconnectivity of financial and sustainability disclosures.

IASB (International Accounting Standards Board)

ISSB (International Sustainability Standards Board)

KPMG

Connecting sustainability and financial reporting

Going forward, connected financial and sustainability reporting will be **a requirement**, rather than a feature, of good-practice reporting.

The ISSB refers to the information disclosed as ‘sustainability-related financial disclosures’ – demonstrating that disclosures need to be **connected** with information in the financial statements, not a disconnected exercise.

Finance and sustainability teams will need to work closely together to ensure the information disclosed is **complementary** and based on the same facts and circumstances.

Although the sustainability-related information may differ in nature from information presented in the financial statements, it need to be consistent to the extent possible. This is required regardless of whether financial statements are prepared under IFRS Accounting Standards or other generally accepted accounting principles.

Companies will need **process** and **controls in place** so that they can provide **sustainability-related information** of the **same quality**, and at the **same time**, as their financial statements.

Get ready for ISSB sustainability disclosures

What's the issue?

- The first IFRS® Sustainability Disclosure Standards 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.

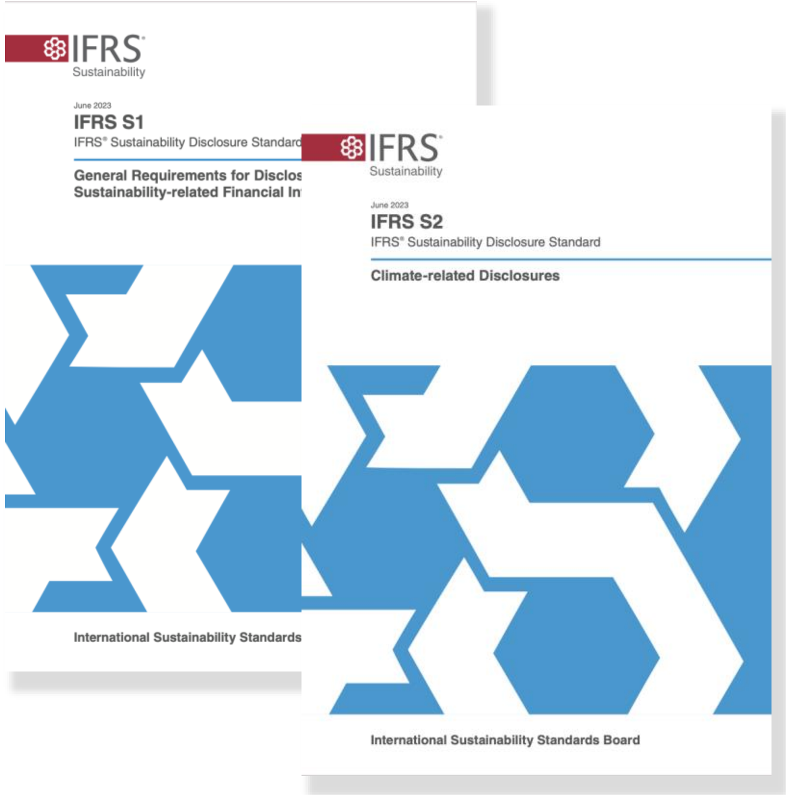
What's the impact?

- 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.

Access the ISSB sustainability disclosure standards



Supporting Materials:

- Basis for Conclusions on IFRS S1
  Summarizes the ISSB's considerations in developing the requirements in IFRS S1
- Basis for Conclusions on IFRS S2
  Summarizes the ISSB's considerations in developing the requirements in IFRS S2
- Effects Analysis on IFRS S1 and IFRS S2
  Describes the likely benefits and costs of IFRS S1 and IFRS S2
- Project Summary of IFRS S1 and IFRS S2
  Provides an overview of the project to develop IFRS S1 and IFRS S2
- Feedback Statement for IFRS S1 and IFRS S2
  Summarizes feedback on the proposals that preceded IFRS S1 and IFRS S2 and the ISSB's response

Source: ISSB issues inaugural global sustainability disclosure standards, 26 June 2024, https://bit.ly/IAI-IFRS-S1-S2

Development of sustainability reporting standards in Indonesia

DSK conducted **a limited FGD with stakeholders to gather input regarding **sustainability standards** that align with national interests and the need to manage risks and opportunities related to sustainability aspects.

27 Nov 2023
IAI formed DPSK and DSK*

March 2024
Limited Focus Group Discussion (FGD) Sustainability Reporting with Stakeholders

April 2024
Public Consultation on the Strategic Plan for Sustainability Standards

May 2024 onwards
A comparative study to other countries

June 2024
Establishment of Sustainability Working Team (*Tim Kerja Keberlanjutan*)

TBA
DSK publishes a strategic plan for sustainability standards

TBA
DSK prepares sustainability standards

TBA
DSK publishes the Exposure Draft of sustainability standards

Glossary:
- IAI: *Ikatan Akuntan Indonesia* (Institute of Indonesia Chartered Accountants)
- DPSK: *Dewan Pemantau Standar Keberlanjutan* (Sustainability Standards Monitoring Board)
- DSK: *Dewan Standar Keberlanjutan* (Sustainability Standards Board)

Suggested next steps

With regulatory expectations on the horizon, we suggest you to begin with defining and establishing your sustainability reporting strategy. Highlighted below are suggested activities we recommend you to take to better plan for the forthcoming sustainability reporting expectations.

Gap assessment

- Understand when applicable regulations/standards become mandatory, and if you will choose to apply them voluntarily
- Identify differences between all relevant regulations and standards, and current ESG report content

Understand materiality

- Perform a materiality assessment and quantify risks where possible
- Understand material topics across subsidiaries
- Analyze information and identify material topics at the group level
- Assess data availability for each topic

Establish governance

- Determine decisions that will be made by group versus subsidiaries
- Set-up a governance structure, defining roles & responsibilities at both the group and subsidiary level

Align on KPI definitions

- Identify relevant ESG KPIs
- Define and document KPIs
- Obtain alignment at the group level across KPI definitions
- Establish a strategy to calculate and track KPIs at the group level

Develop a roadmap

- Develop a roadmap working towards IFRS S1 and S2 requirements (incl. data/operational gap assessment, etc.) and any other local reporting requirements
- Align on priorities, timelines and resources
- Iterate roadmap as needed

Digital hub on implementing the new sustainability disclosure standards

ISSB Resource Centre

Tracking the development of IFRS Sustainability Disclosure Standards.

ISSB priorities

Understanding the future focus

First Impressions – IFRS S1 and IFRS S2

Insights and illustrative examples

Get ready for IFRS Sustainability Disclosure Standards

A high-level summary

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