



Embracing the ISSB Standard Connecting sustainability and financial reporting

KPMG Phoomchai Business Advisory Ltd.

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01 Introduction to ISSB standard



ISSB Formation

- In COP26, International Sustainability Standards Board (ISSB) was established.



ISSB FOCUS

Develop standard for **global baseline of sustainability disclosure and a digital taxonomy** to enable electronic tagging of disclosure

Focus on **meeting the information needs of investors**

Will enable companies to **provide comprehensive sustainability information** for the global capital markets

Building block approach: **facilitate the addition of requirements** that are jurisdiction-specific or aimed at a broader group of stakeholders.

Source: <https://www.ifrs.org/projects/work-plan/climate-related-disclosures/webinars-on-the-issbs-exposure-drafts/>

ISSB – An Integration of Reporting Standards

Task Force on Climate-related Financial Disclosures

The Financial Stability Board's **TCFD** contributes 'a framework to help public companies and other organisations disclose climate-related risks and opportunities'

Value Reporting Foundation

Formed by the merger of the SASB and <IR>

Sustainability Accounting Standards Board

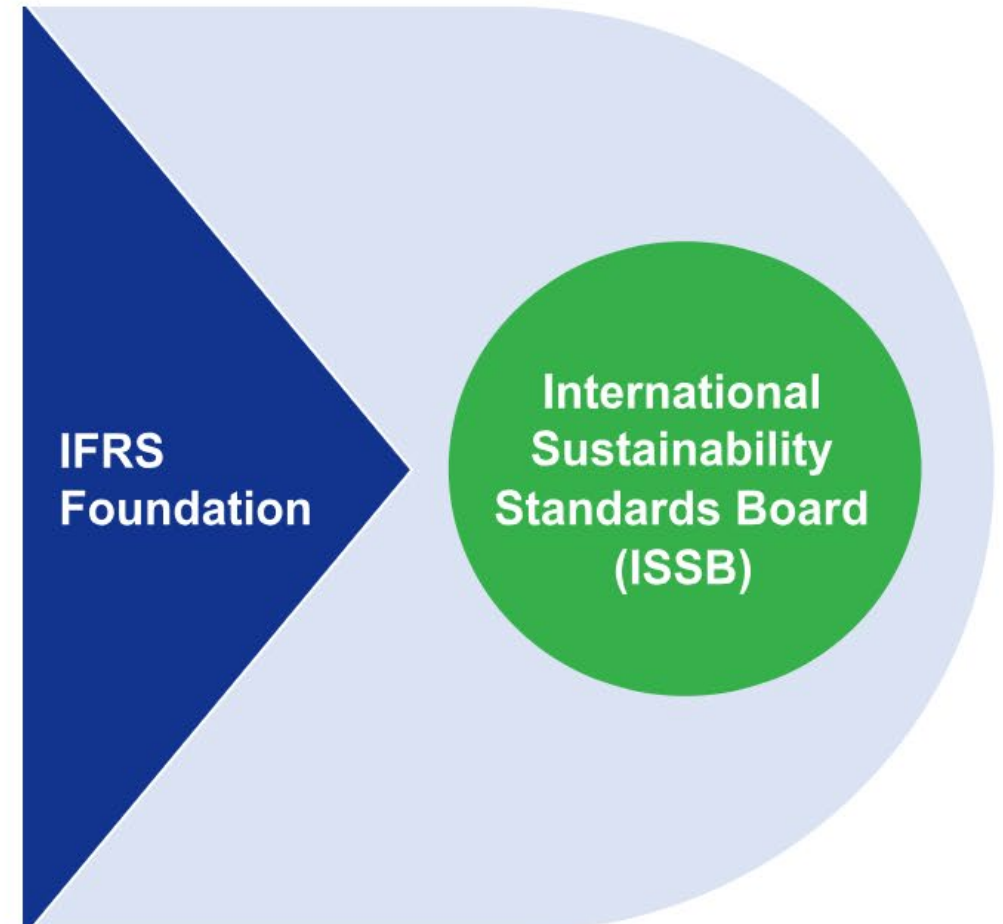
SASB contributes 'a complete set of globally applicable industry standards'

Integrated Reporting Framework

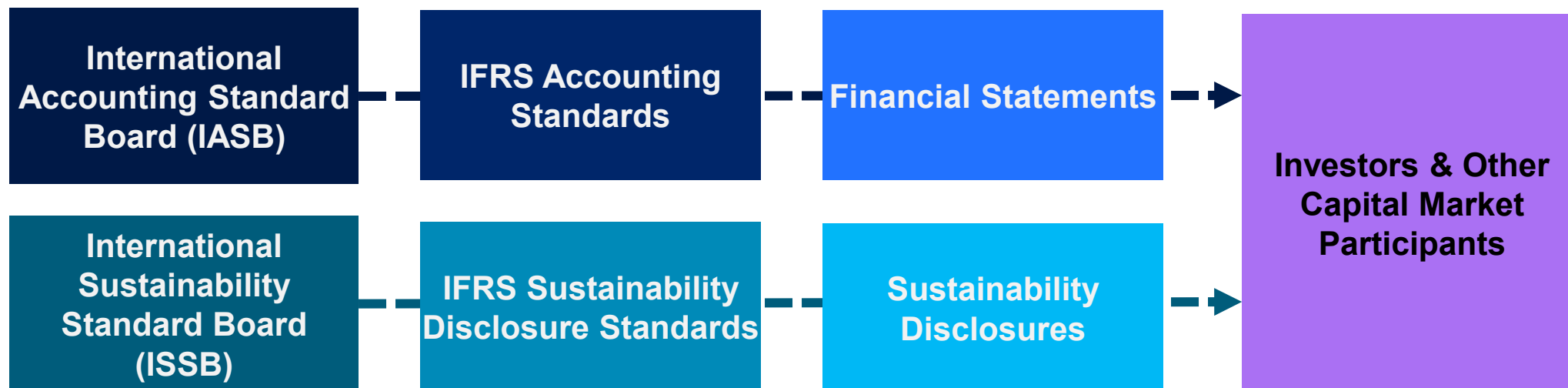
<IR> aim is to 'improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital'

Climate Disclosure Standards Board

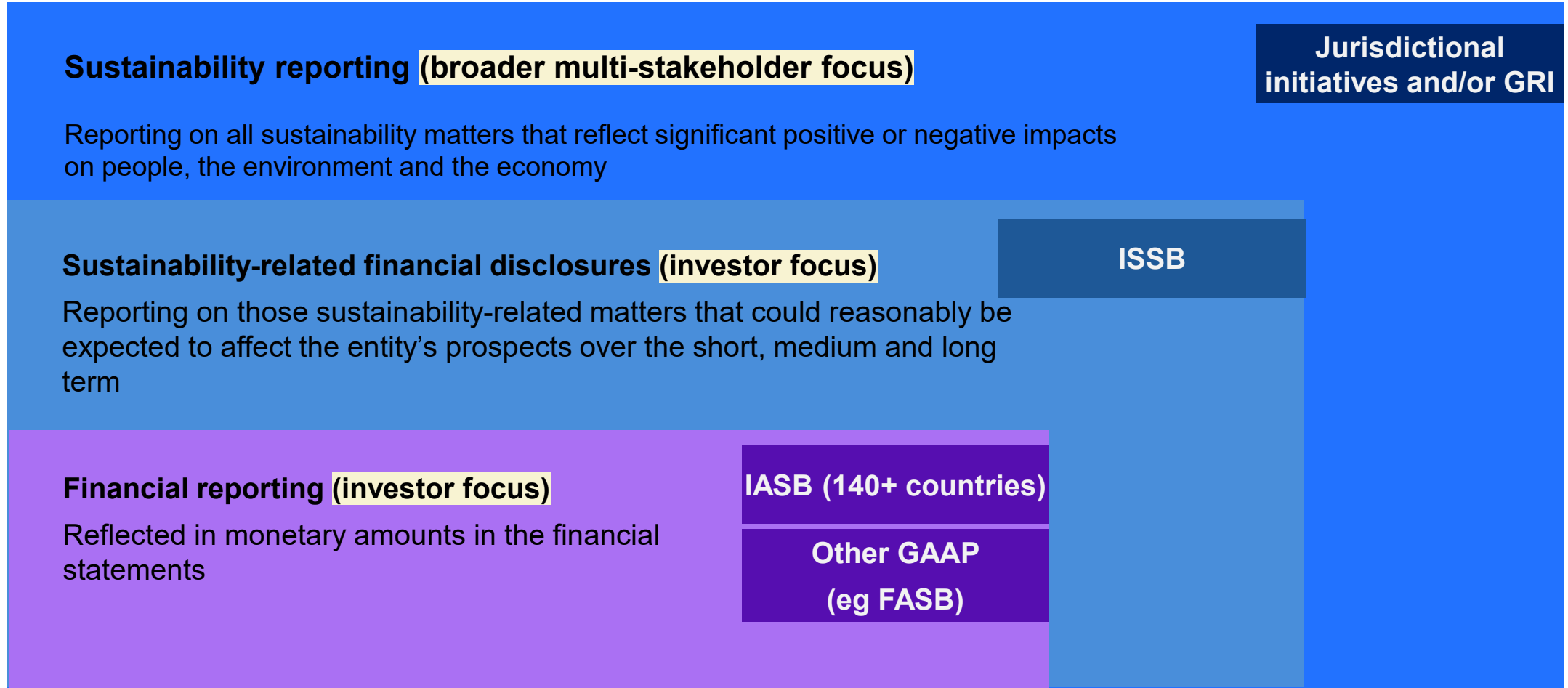
CDSB contributes 'climate change related information of value to investors in mainstream financial reports'



IFRS - Accounting Standards & Sustainability Disclosure Standards Compatibility



Building Blocks Approach



Source: <https://www.ifrs.org/projects/work-plan/climate-related-disclosures/webinars-on-the-issbs-exposure-drafts/>

ISSB - Reporting Contents

ISSB aims to become a **comprehensive global baseline of sustainability disclosures**

General Requirements for Disclosure (S1)

- **General feature of reporting, including materiality**
- Four core content areas of reporting, including governance, strategy, risk management, and metric and target
- Practical guidance, including fair presentation of information



Climate-related disclosure (S2)

It builds on four contents area with additional guidance as below

- Disclosure of **risks, climate transition plan, and scenario analysis.**
- **General and industry-specific metric**



Future proposal (Other topics)

Additional standards for specific topics are expected to develop in the future.



Timeline



Four potential projects: biodiversity, ecosystems and ecosystem services; human capital; human rights; and integration in reporting.

02 Global trend on adoption and implementation of ISSB Standard

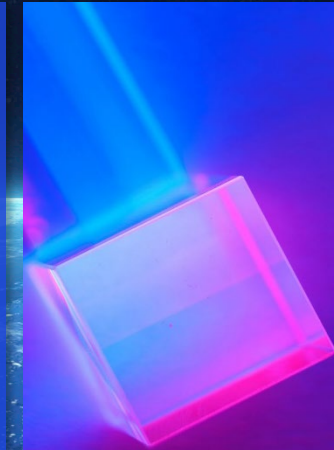


Global trend on adoption and implementation of ISSB Standard



The International Organization of Securities Commissions (IOSCO) is now calling on regulators around the world to consider adopting the ISSB standards in their local jurisdictions “in a way that promotes consistent and comparable climate-related and other sustainability-related disclosures for investors.”

*Advisor’s Edge
July 25, 2023*



The UK’s Financial Conduct Authority (FCA) published a statement on the same day reiterating its previous commitment to update its climate-related disclosure rules to reference the ISSB standards.

*The Banker
July 6, 2023*

The IFRS Foundation’s ISSB has set up an office in Beijing. It comes just before the ISSB’s launch of climate and sustainability corporate disclosure frameworks for global adoption by the end of this month.

*South China Morning Post
June 20, 2023*

The head of the Principles for Responsible Investment (PRI) has urged politicians and regulators to make ISSB disclosures mandatory in the next two years.

*Responsible Investor
June 26, 2023*

The ISSB standards have been developed in an international forum* and certain countries are expected to be early adopters, including;



**Source: The Banker Jul 6, 2023*



Global Trend on Adoption and Implementation of ISSB Standard

“It is now up to individual countries and jurisdictions to decide if and when they will adopt the ISSB standards. Reporting could start as early as 2025. So far, major countries that have indicated they are setting up mechanisms to consider using the ISSB standards are Australia, Canada, Japan, Hong Kong, Malaysia, New Zealand, Nigeria, Singapore and the U.K.” — Wall Street Journal

“It was market demand that led the ISSB to be established to bring to an end of the alphabet soup in the market and make sure that we had a system of reporting that really provided the information investors need to be confident to understand sustainability risks and opportunities,” — Sue Lloyd, Vice Chair of the International Sustainability Standards Board

Adoption Timeline

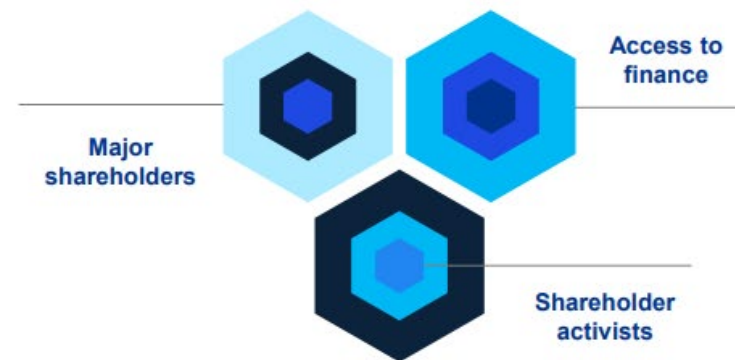
Mandatory Adoption

- 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. Other are likely to adopt the standards in their entirety



Voluntary Adoption

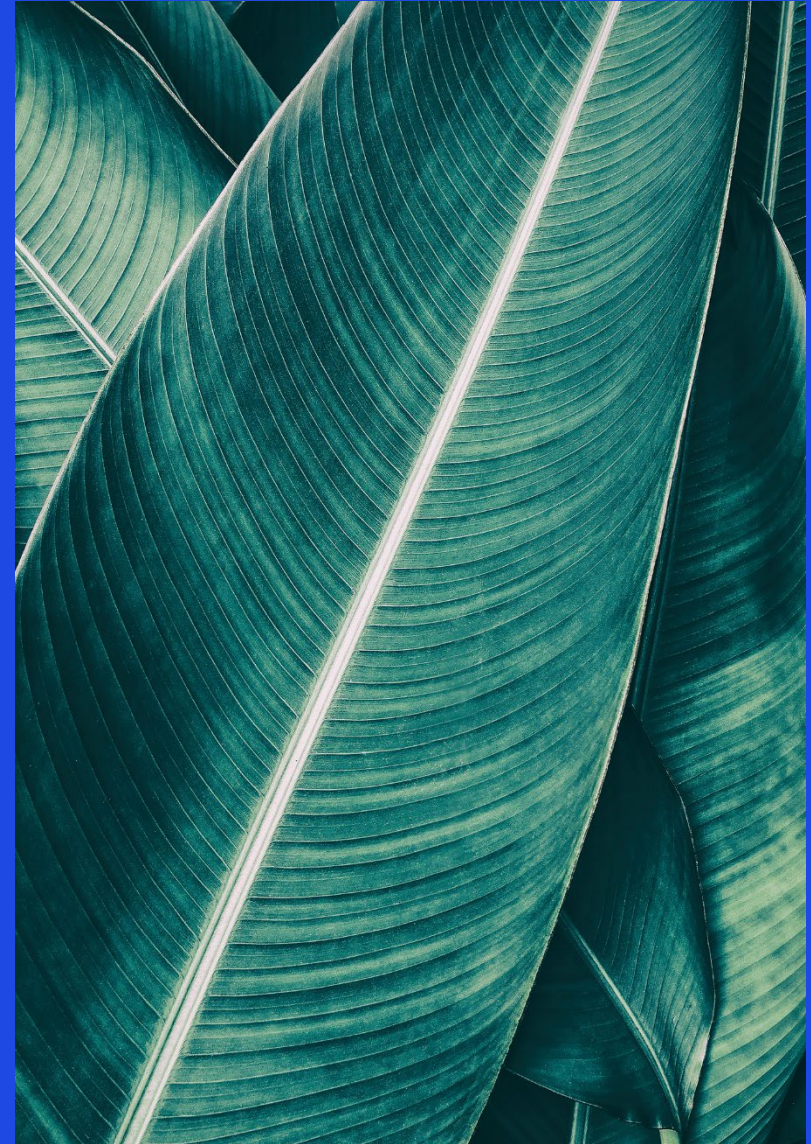
- Companies may **choose to adopt the standards voluntarily**
- Investors are increasingly willing to use their voting power to **drive transparency over sustainability-related matters**, including transition plans and their impact
- Investors have generally supported the adoption of **TCFD** and **SASB**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



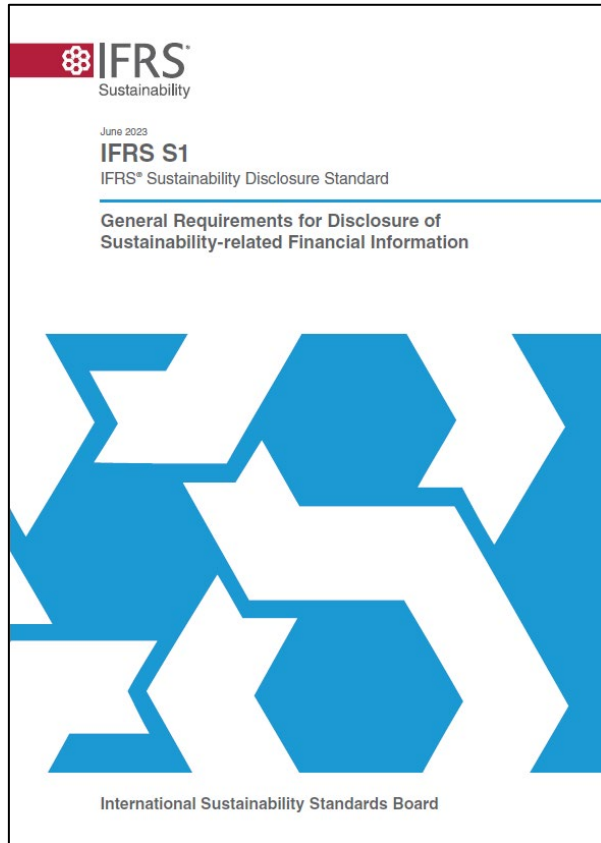
Source: [Get ready for ISSB sustainability disclosures - June 2023 \(kpmg.com\)](https://www.kpmg.com/au/en/issues-and-insights/articlespublications/get-ready-for-issb-sustainability-disclosures-june-2023)

03 Overview of IFRS S1

General Requirement for Disclosure of Sustainability- related Financial Information



IFRS S1 - Objective



The objective of IFRS S1 is to require an entity to disclose information about its “**sustainability-related risks and opportunities**” that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity

- Disclosure of **material information about sustainability-related risks and opportunities** to meet investor information needs
- All sustainability-related risks and opportunities that could reasonably be expected to affect the **Company’s prospects** – its cash flows, access to finance or cost of capital over the short, medium or long term
- Company’s ability to deliver financial value for investors is linked to

Stakeholders



Society



Economy



Natural Environment



IFRS S1 Conceptual foundations

01

Fair presentation

- Present **fairly all sustainability-related risks and opportunities** that could reasonably be expected to affect an entity's prospects
- Disclose information that is **comparable, verifiable, timely and understandable**

03

Reporting entity

- An entity's **sustainability-related financial disclosures** shall be for the **same** reporting entity as the **related financial statements**

02

Materiality

- **Disclose material information** about the **sustainability-related risks and opportunities** that could reasonably be expected to **affect the entity's prospects**
- Information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports

04

Connected information

Understand the connection between:

- **Underlying business issues**
- **Related information about underlying business issues within sustainability-related financial disclosures**
- **Across the financial statements, sustainability-related financial disclosures and other general purpose financial reporting**

Data and assumption used in preparing the sustainability-related financial disclosures shall be consistent

IFRS S1 - General Requirements for Disclosure

IFRS S1 : Requires companies to provide **material information on all significant sustainability-related risks and opportunities**

For IFRS S1, there are 4 core contents that an entity shall provide disclosures about, which are:

- Governance
- Strategy
- Risk Management
- Metrics and Targets



1. Governance

- The governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities



2. Strategy

- The entity's strategy for managing sustainability-related risks and opportunities



4. Metrics and Targets

- the entity's performance in relation, including progress towards any targets the entity has set or is required to meet by law or regulation.



3. Risk management

- The processes the entity uses to identify, assess, prioritize and monitor sustainability-related risks and opportunities;
- Assess the entity's overall risk profile and overall risk management process

IFRS S1 Core Content – Governance

The objective of sustainability-related financial disclosures on **governance** is to enable users of general purpose financial reports to **understand the governance processes, controls, and procedures** an entity uses to **monitor, manage, and oversee** sustainability-related risks and opportunities

An entity shall disclose information about

A

The governance body(s) (which can include a board, committee, or equivalent body in charge with governance) or **individual(s) responsible for oversight sustainability-related risks and opportunities**. Thus, an entity shall identify that body(s) and individual(s) and disclose information about:

1. How the responsibilities of sustainability-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies
2. How the body(s) or individual(s) determines whether appropriate skills or competencies are available or will be developed for overseeing strategies on sustainability-related risks and opportunities
3. How and how often the body(s) or individual(s) is informed about sustainability-related risks and opportunities
4. How the body(s) or individual(s) takes into account sustainability-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies including the consideration on trade-offs associated with those risks and opportunities
5. How the body(s) or individual(s) oversees the setting of targets related to sustainability-related risks and opportunities, and monitors progress towards those targets, including whether and how related performance metrics are included in remuneration policies

B

Management's role in the governance processes, controls, and procedures used to **monitor, manage, and oversee sustainability-related risks and opportunities**, including information about:

1. Whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee
2. Whether management uses controls and procedures to support the oversight of sustainability-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions



IFRS S1 Core Content – Strategy

The objective of sustainability-related financial disclosures on strategy is to enable users of general purpose financial reports to **understand an entity’s strategy for managing sustainability-related risks and opportunities**

**Sustainability-
related Risks and
Opportunities**

**Business Model
and Value Chain**

**Strategy and
Decision Making**

**Financial
Position,
Performance, and
Cash Flow**

Resilience

Strategy - Sustainability-related Risks and Opportunities

An entity shall disclose information that enables users of general purpose financial reports to understand the **sustainability-related risks and opportunities** that could reasonably be expected to affect the entity's prospects

Specifically, an entity shall:



Describe sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects



Specify the time horizon—short, medium, or long term—over which the effect of each of those sustainability-related risks and opportunities could reasonably be expected to occur



Explain how the entity defines 'short term', 'medium term', and 'long term' and how these definitions are linked to the planning horizons used by the entity for strategic decision-making



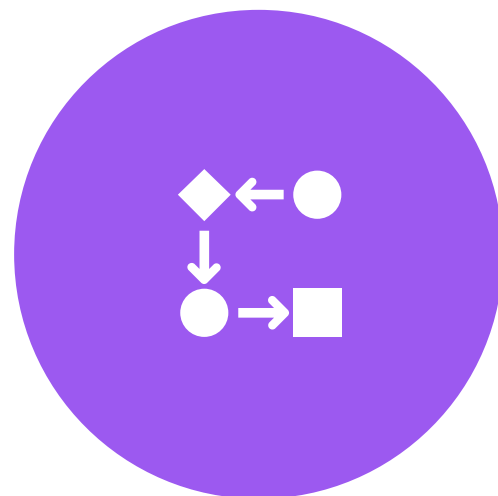
Short-, medium-, and long-term time horizons can vary between entities and depend on many factors, including **industry-specific characteristics**, such as cash flow, investment and business cycles, the planning horizons typically used in an entity's industry for strategic decision-making and capital allocation plans, and the time horizons over which users of general purpose financial reports conduct their assessments of entities in that industry

Strategy - Business Model and Value Chain

The objective of sustainability-related financial disclosures on **strategy** is to enable users of general purpose financial reports to **understand the current and anticipated effects** of sustainability-related risks and opportunities on the entity's business model and value chain

Specifically, an entity shall disclose:

A description of **the current and anticipated effects** of sustainability-related risks and opportunities on the entity's **business model and value chain**



A description of **where in the entity's business model and value chain** sustainability-related risks and opportunities **are concentrated** (for example, geographical areas, facilities and types of assets)

Strategy - Strategy and Decision Making

An entity shall disclose information that enables users of general purpose financial reports to understand the sustainability-related risks and opportunities on its **strategy and decision-making**

Specifically, an entity shall disclose information about:

01

How the entity has responded to, and plans to respond to, sustainability-related risks and opportunities in its strategy and decision-making.

02

The progress against plans the entity has disclosed in previous reporting periods, including quantitative and qualitative information.

03

Trade-offs between sustainability-related risks and opportunities that the entity considered.

Source : <https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf?bypass=on>
Source : <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2023/07/isg-first-impressions-sustainability-reporting-general-and-climate-related-requirements.pdf>

Strategy - Financial Position, Performance, and Cash Flow

An entity shall disclose information that enables users of general purpose financial reports to understand:

- (a) The **effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows** for the reporting period (current financial effects)
- (b) The **anticipated effects of sustainability-related risks and opportunities** on the entity's financial position, financial performance and cash flows **over the short, medium and long term**, taking into consideration **how sustainability-related risks and opportunities are included in the entity's financial planning** (anticipated financial effects)

In doing so, an entity shall consider the following information regarding financial position, performance, and cash flow disclosure

1. Quantitative and qualitative information
2. Anticipated financial effects of a sustainability-related risk or opportunity
3. Additional qualitative information needed if unable to provide quantitative information due to level of measurement uncertainty involved



Strategy - Resilience

An entity shall disclose information that enables users of general purpose financial reports to understand **its capacity to adjust to the uncertainties** arising from sustainability-related risks. An entity shall disclose a **qualitative** and, if applicable, **quantitative assessment of the resilience of its strategy and business model** in relation to its sustainability-related risks, including information about **how the assessment was carried out and its time horizon**. When providing quantitative information, an entity may disclose a single amount of a range.

Other IFRS Sustainability Disclosure Standards may **specify the type of information** an entity is required to disclose about its **resilience to specific sustainability-related risks** and how to prepare those disclosures, including **whether a scenario analysis is required**.



Scenario analysis represents a process for management to identify and assess uncertain outcomes in a range of hypothetical situations, based on its view of the risks and opportunities affecting the business.

IFRS S1 Core Content – Risk Management

The objective of sustainability-related financial disclosures on strategy is to enable users of general purpose financial reports to **understand the company's processes** to identify, assess, prioritize and monitor sustainability-related risks and opportunities. This enables investors to **assess the company's overall risk profile and risk management processes**, as well as how these processes are **integrated** into the company's overall risk management processes.

An entity shall disclose information about:

Processes and related policies used to identify, assess, prioritize and monitor sustainability-risks and opportunities, including

- The inputs and parameters used
- Whether and how the entity uses scenario analysis
- How the entity assesses the nature, likelihood and magnitude of those risks
- Whether and how the entity prioritizes sustainability-related risks relative to other types of risks, including sustainability-related risk monitoring and whether the entity has changed the process compared with the previous reporting period

The process the entity uses to identify, assess, prioritize and monitor sustainability-related risks and opportunities

The extent to which and **how the processes** for identifying, assessing, prioritizing and monitoring sustainability-related risks and opportunities **are integrated into and inform the entity's overall risk management process**

IFRS S1 Core Content – Metrics and Targets

The objective of sustainability-related financial disclosures on strategy is to enable users of general purpose financial reports to **understand an entity’s performance** in relation to its sustainability-related risks and opportunities, including **progress towards any targets** the entity has set, and any targets it is required to meet by law or regulation

Companies disclose metrics (where material) for each identified sustainability-related risk and opportunity that could reasonably be expected to affect a company’s prospects. Those metrics may be:

- Used to measure and monitor sustainability-related risks and opportunities and measure performance towards their targets
- Otherwise required by IFRS Sustainability Disclosure Standards, even if not used by management in monitoring performance

**Companies need to include metrics that are characteristics of their specific business model or the industry (or industries) that they operate in. When metrics disclosed are from a source other than IFRS Sustainability Disclosure Standards, companies need to identify the source and the metric taken*

A company provides detailed descriptions of its own sustainability-related targets, linked to the metrics it uses to measure and monitor them. It also needs to disclose targets that it is required to meet by law or regulation.

**There is no prescribed format to present this information. However, clear connectivity of disclosures between strategy and the related metrics and targets is important.*

IFRS S1 – General Requirements

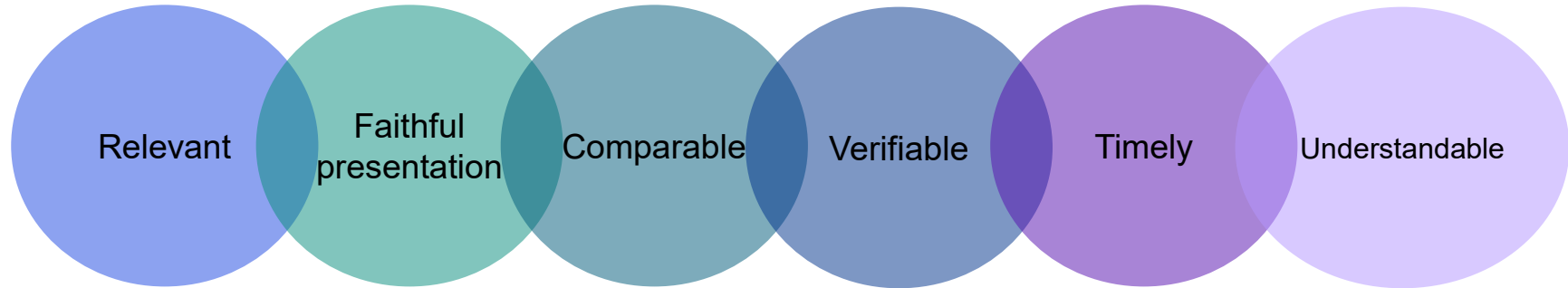
	Description	
Sources of guidance	<p>To identify relevant risks and opportunities, a company uses ISSB Standards and shall consider SASB Standards. A company may also consider</p> <ul style="list-style-type: none"> • CDSB Framework Application Guidance • Industry practice • Material of investor-focused standard setters 	<p>To identify what information to disclose, a company uses ISSB Standards, and for matters other than climate, shall consider SASB Standards. A company may also consider</p> <ul style="list-style-type: none"> • CDSB Framework Application Guidance • Industry practice • Material of investor-focused standard setters • GRI Standards • European Sustainability Reporting Standards
Location of disclosures	Does not specify a location for disclosure within a general purpose financial reports and allows for additional information , to facilitate application in different jurisdictions	
Timing of reporting	Financial statements and sustainability disclosures published at the same time and shall cover the same reporting period as the related financial statements	
Comparative information	Asks for a comparative information for the preceding period for amount disclosed. This might relate to metrics and targets or to current and anticipated financial effects. Also asks for comparatives on narrative and descriptive information if useful to investors.	
Statement of compliance	An entity shall not describe sustainability-related financial disclosures as complying with IFRS Sustainability Disclosure Standards unless they comply with all the requirements of IFRS Sustainability Disclosure Standards.	

Presentation

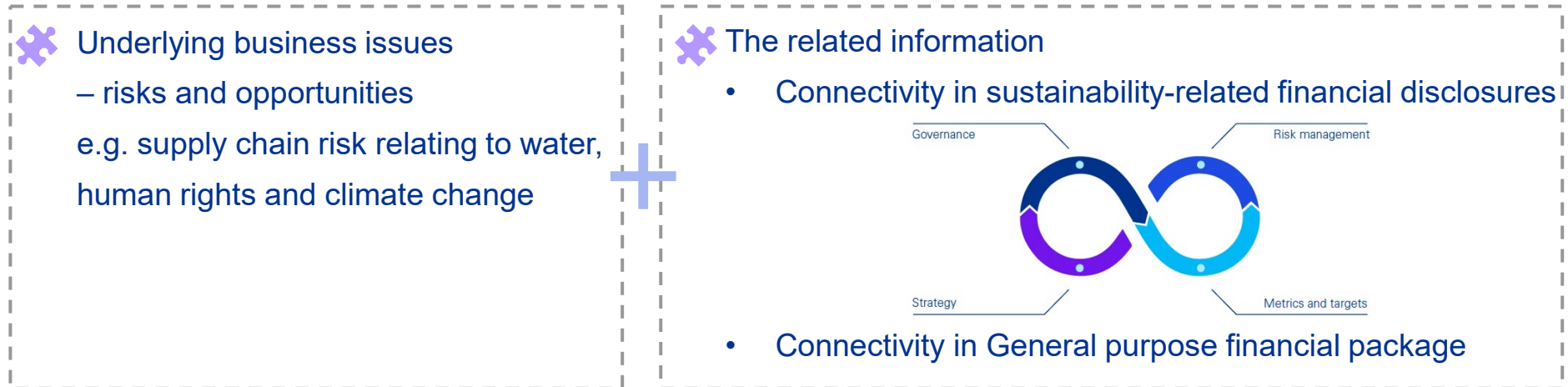


The principles that are important to understand when preparing disclosure - **fair presentation** and **connected information**

Fair presentation



Connected information



Presentation



Location of information :

The standard does not specifying a particular location for disclosure

Same document as the other purpose financial reports

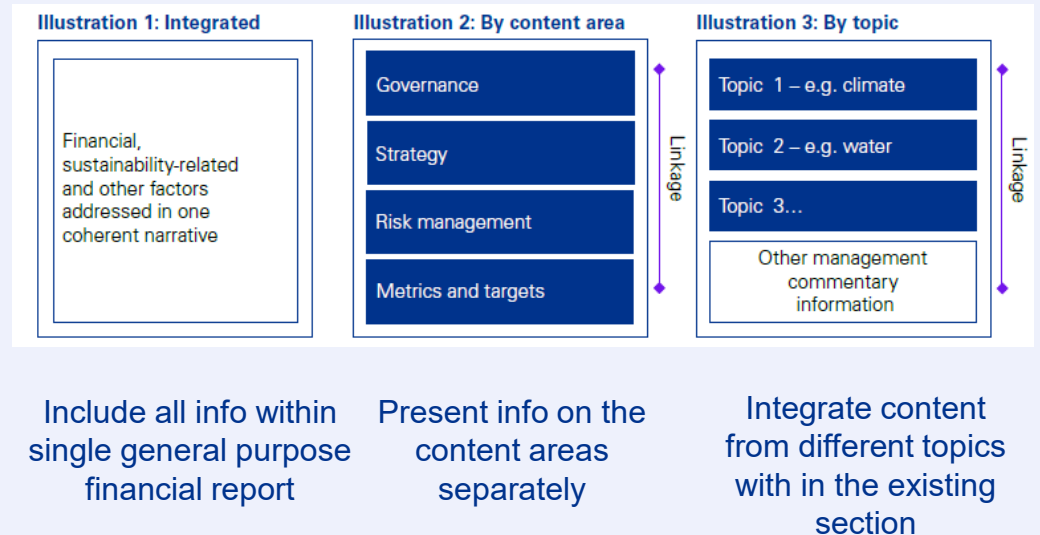
- Integrated through the front part (e.g. management commentary)
- Separate section with clear connectivity to other content

Cross-referenced from other document

- e.g. separate Sustainability report



Presentation structure :

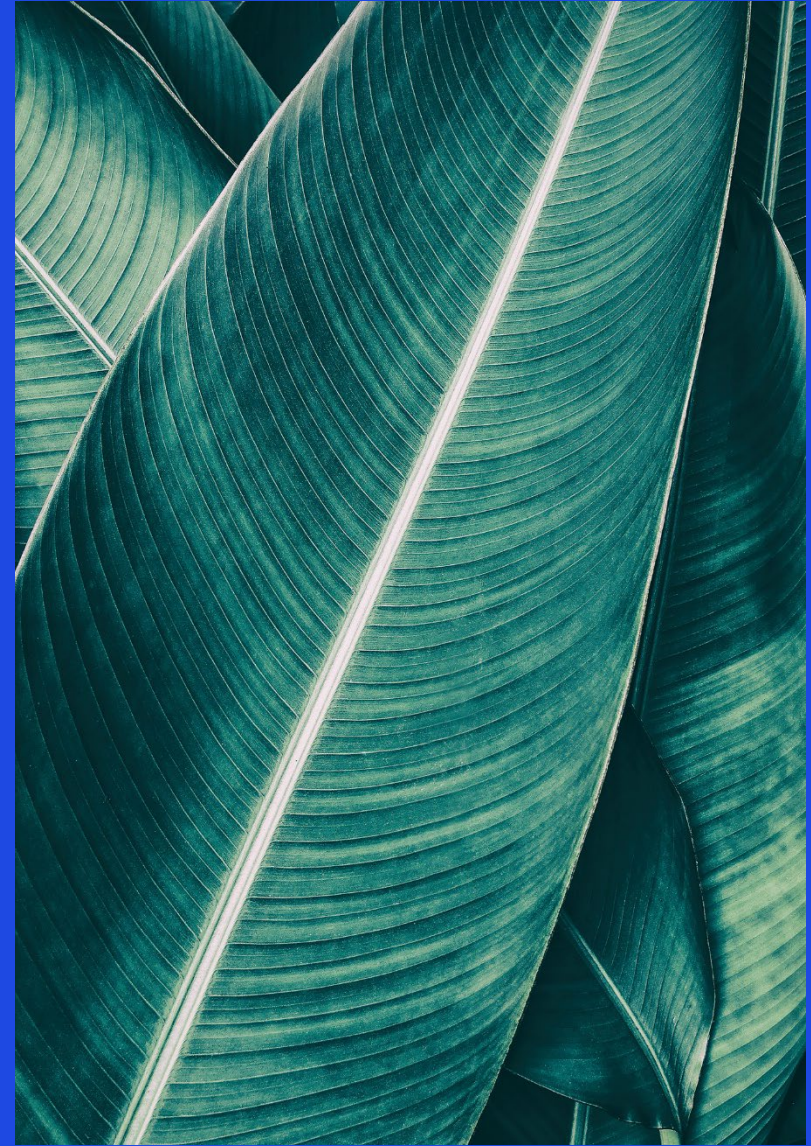


Source: <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2023/07/isg-first-impressions-sustainability-reporting-general-and-climate-related-requirements.pdf>



03 Overview of IFRS S2

Climate-related Disclosures



IFRS S2 – Climate-related Disclosures



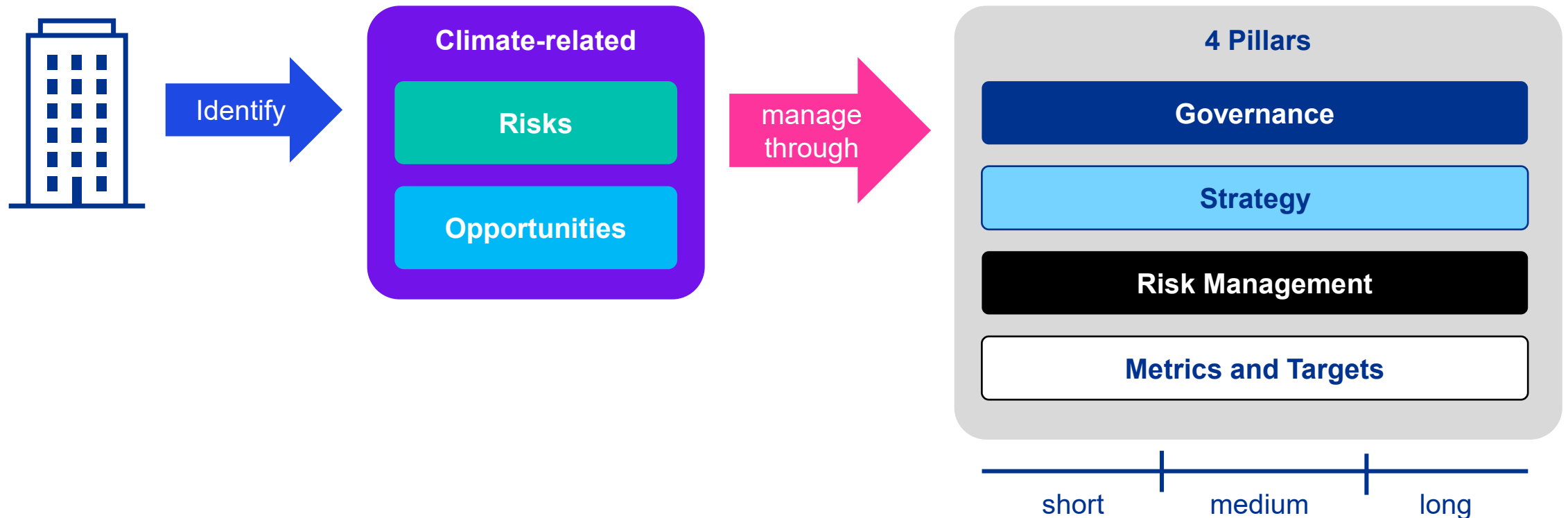
IFRS S2 requires an entity to disclose information about **climate-related risks and opportunities** that could reasonably be expected to affect the entity’s cash flows, its access to finance or cost of capital over the short, medium or long term

- **IFRS S2** fully incorporates the **TCFD recommendations**
- To meet investor information needs, IFRS S2:
 - **Must be used in accordance with IFRS S1**
 - Requires disclosures of **material information about climate-related risks and opportunities**, including physical and transition risks
 - Requires **industry-specific disclosures**, which are supported by accompanying guidance built on **SASB Standards**

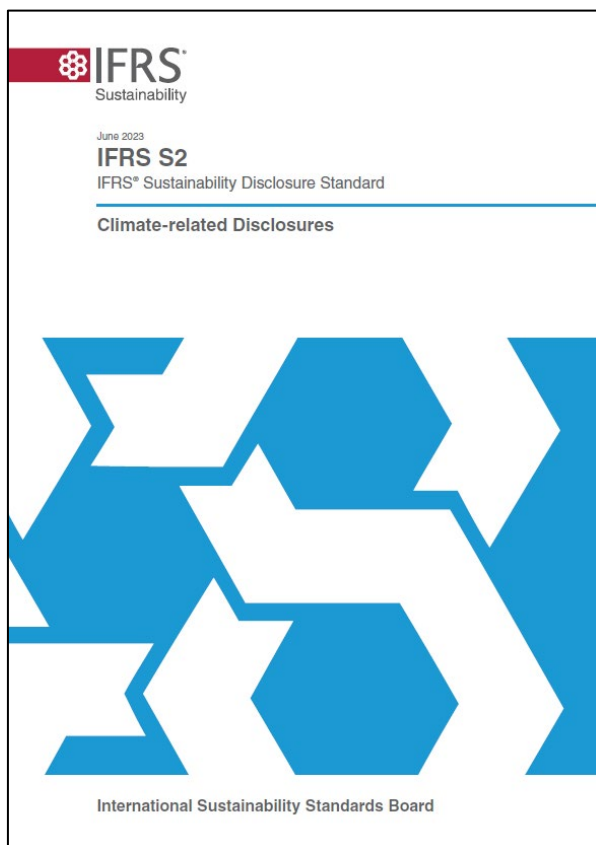
The scope of this Standard covers **climate-related risks** to which the entity is exposed, both **physical and transition risks**, and **climate-related opportunities** available to the entity.

IFRS S2: What are required to be reported?

- **Risks and Opportunities in relation to climate of an entity across 4 TCFD pillars**
 - Meaning → the entity reports how to manage 'risks' and 'opportunities' that are related to climate of the entity by explaining through governance, strategy, risk management, and metrics and targets over time.



IFRS S2: Climate-Related Disclosure



Requirement for disclosure of material information about “**significant climate related risks and opportunities** and strategy for addressing significant climate-related risks and opportunities.”

What information is required?

Identification of climate-related risks and opportunities

Business model and value chain

Strategy and decision-making (e.g., carbon offsets)

Financial position, financial performance and cash flows

Climate resilience

Key consideration

Climate-related risks & Opportunities

Transition Plans

Scenario Analysis

Climate Related Risks & Opportunities

The objective is to identify the climate related risks, and opportunities over time horizons that expected to have a financial effect to develop strategic plan.

Physical Risk	Transition Risk
<ul style="list-style-type: none"> • Acute risks that relate to more frequent or more severe one-off disruptions to companies from extreme weather • Chronic risks that stem from sustained greenhouse gas emissions leading to gradual changes in climate patterns, changes in precipitation patterns, and extreme variability in weather patterns. 	<ul style="list-style-type: none"> • Legal and regulatory may arising costs from possible fines, regulations or litigations • Reputational (e.g. brand damage, shifts in consumer preferences); • Technological (e.g. costs to transition to lower emissions technology.); • Market (e.g. changing customer behavior, increased cost of raw materials).

Climate-related opportunities

Climate-related opportunities may also arise from both physical changes (e.g. warmer average temperatures allow new crops to grow) or transition changes (e.g. developing new technologies to facilitate climate adaptation or participation in carbon market).

Example: Climate-related risks identified by a utility company

Risk ¹	Flooding	Energy efficiency
Description	Disruption to availability of water treatment plants caused by flooding from rivers and flash floods	Replacing energy-intensive equipment used in treating and pumping water
Time horizon²	Short term, growing in severity in the medium term	Short and medium term
Nature	Physical risk (acute) and opportunity	Transition risk and opportunity
Concentrations	Plants built near water, comprising 60% of infrastructure assets	All equipment not yet replaced, comprising 40% of operational assets
Current and anticipated effects	<ul style="list-style-type: none"> – Supply interruptions and unplanned outages, resulting in penalties, and increased repair and maintenance costs – Investment in flood resilience, resulting in increased maintenance costs and capital expenditure – Opportunity through innovation in materials and infrastructure build to reduce freeze incidents and improve response times – Price increases to recover costs that cannot be offset through cost-reducing innovation 	<ul style="list-style-type: none"> – Accelerated equipment replacement costs – Energy cost savings, including in third-party levies supporting low-carbon generation – Lower interest costs through dedicated financing (green bonds) for the capital investment required – Opportunity to lower monitoring and maintenance costs through innovation

Source: <https://assets.kpmg/content/dam/kpmg/xx/pdf/2022/04/sustainability-reporting-proposals-noth.pdf>

Example of Climate Opportunities

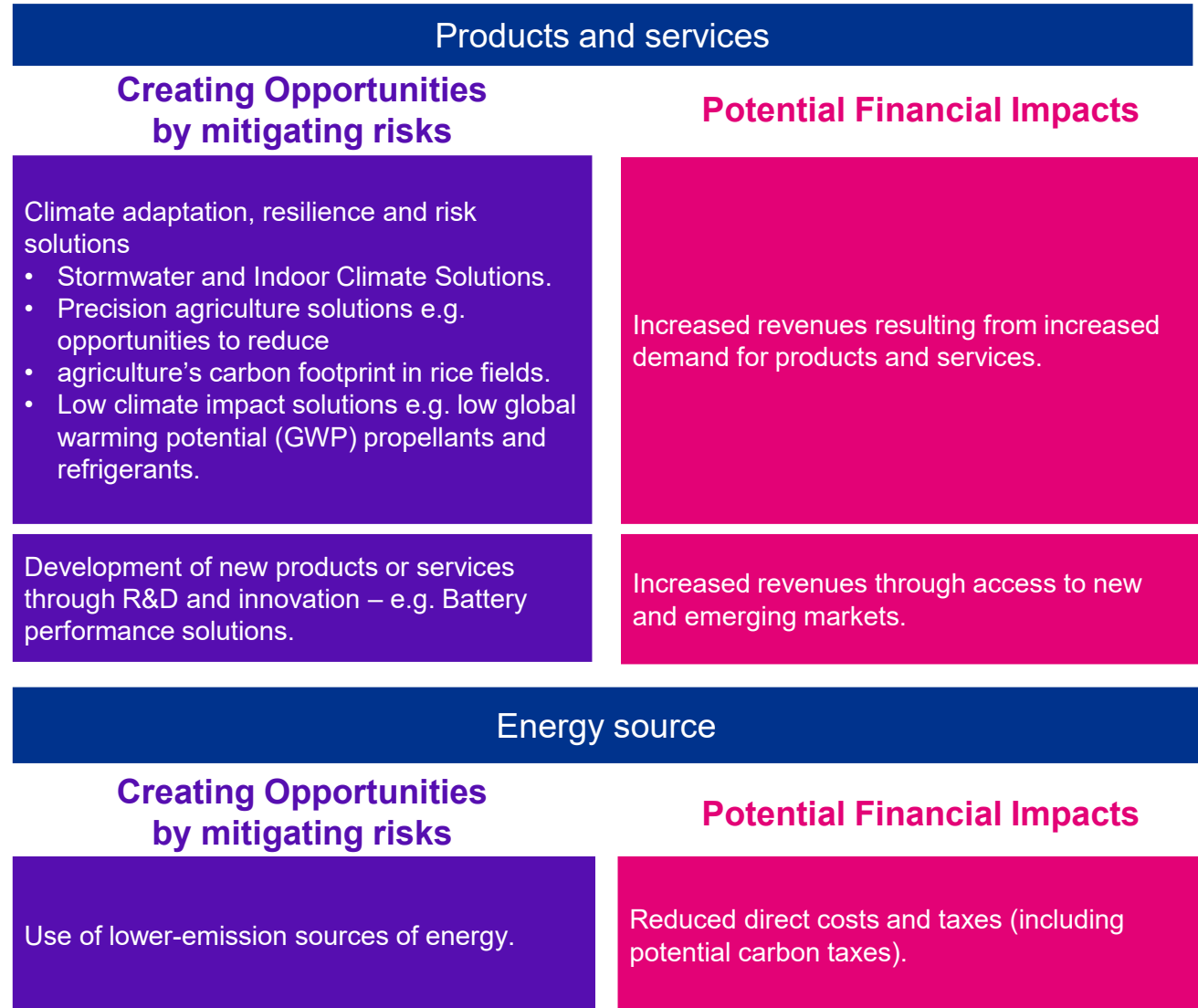
Climate-related opportunities

Once physical & transition risks are identified, the opportunities from risks mitigation and adaptation can be reflected and connected to each risk.

For example,

- Resource efficiency & cost saving
- Adoption of low-emission energy sources
- Development of new products and services
- Access to new markets
- Building resilience along the supply chain

Example of Climate Opportunities disclosure (Agriculture, Food, and Forest Products; Materials and Buildings Sector)



Climate-related Transition Plan



A Transition plan is an aspect of the company's strategy setting out its planned targets and actions to transition to a lower-carbon economy – e.g. how it will reduce its gross greenhouse gas emissions and how this will be resourced.

Key Features

Plans for legacy assets

When companies currently rely on these assets, **explaining what the companies intend to do with them and the financial implications** of those plans may be material information.

Differentiation between direct and indirect adaptation and mitigation efforts.

Adaptation efforts include **how a company changes its activities in response to identified climate related risks**. Mitigation efforts relate to activities that prevent further increases in climate-related risks.

Use of offsets to achieve targets

It is important to disclose **transition plans and emissions reduction targets**. Investors need to understand how much of the plan proposed or target discussed a company intends to achieve via emissions reduction activities or solely through the purchase of offsets.

Source: <https://assets.kpmg/content/dam/kpmg/xx/pdf/2022/04/sustainability-reporting-proposals-noth.pdf>

Source : <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2023/07/isg-first-impressions-sustainability-reporting-general-and-climate-related-requirements.pdf>



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Climate Resilience



An entity shall disclose information that enables users of general purpose financial reports to understand the **resilience of the entity's strategy and business model to climate-related changes, developments and uncertainties**, taking into consideration the entity's identified climate-related risks and opportunities.

The entity shall use **climate-related scenario analysis** to assess entity's circumstances. In providing **quantitative** information, the entity may disclose **a single amount or a range**.

**Companies need to use climate-related scenario analysis when reporting on climate resilience*

Specifically, the entity shall disclose:

- i. The entity's assessment of its climate resilience as at the reporting date**, including responses to the climate-related effects, significant areas of **uncertainty, and capacity** to adjust or adapt
- ii. How and when the climate-related scenario analysis was carried out**, including information about the **inputs** the entity used and the **key assumptions** the entity made in the analysis

Source : <https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s2-climate-related-disclosures.pdf?bypass=on>



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Example of Scenario Analysis : Physical Risk

Unilever – Annual report 2022

Financial quantification of assessed risks and opportunities			Potential financial impact on profit in the year (€bn) ^(a)		
Physical Environmental Risks	Key assumptions	Sensitivity	2030	2039	2050
5. Extreme weather (temperature) impact on crop yields We quantified how extreme weather events such as sustained high temperatures could impact crop output and therefore sourcing costs across key commodities.	<ul style="list-style-type: none"> By 2050, in a proactive scenario, extreme weather would increase prices by: <ul style="list-style-type: none"> Palm: ~12%; Commodities and food ingredients: ~14% 	ρ	-0.3	-0.8	-1.9
	<ul style="list-style-type: none"> By 2050, in a reactive scenario, extreme weather would increase prices by: <ul style="list-style-type: none"> Palm: ~18%; Commodities and food ingredients: ~21% 	ρ	-0.4	-1.1	-2.8

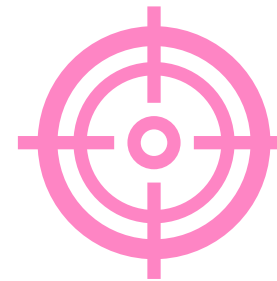
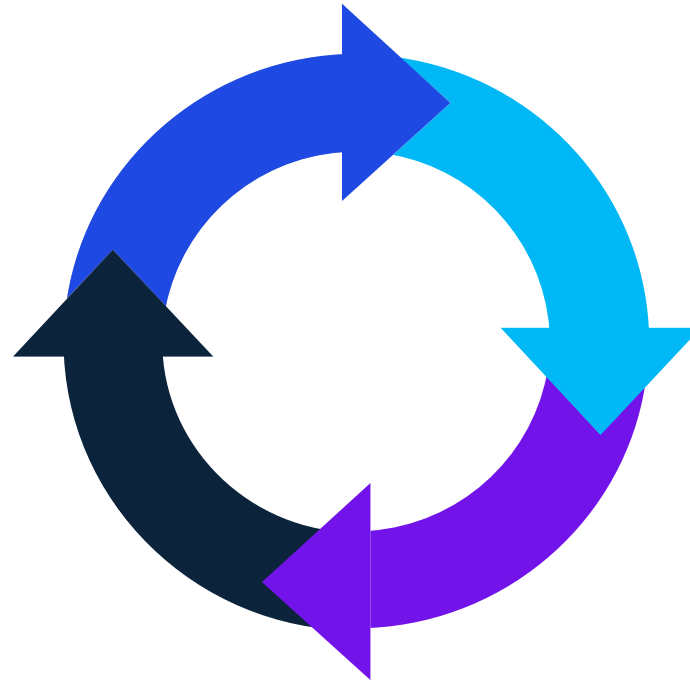
<https://www.unilever.com/files/92ui5egz/production/0daddecec3fdde4d47d907689fe19e040aab9c58.pdf>

IFRS S2 Core Content – Metrics and Targets

The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reports to understand **an entity's performance** in relation to its climate-related risks and opportunities, including **progress towards any climate-related targets it has set**, and **any targets it is required to meet by law or regulation**.



Climate-related metrics

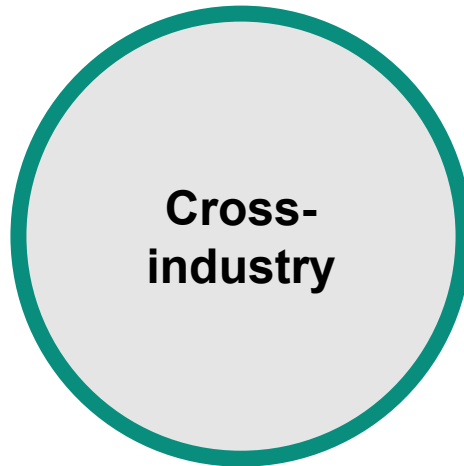


Climate-related targets

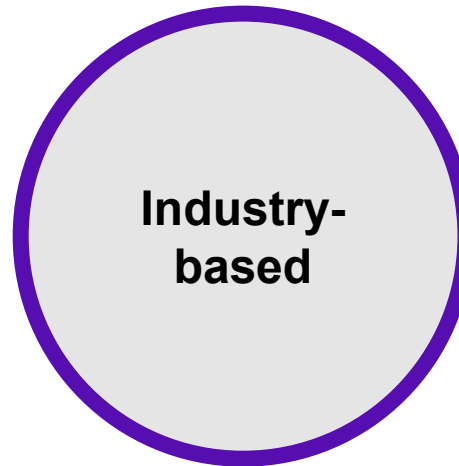
Source : <https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s2-climate-related-disclosures.pdf?bypass=on>

Climate-related Metrics

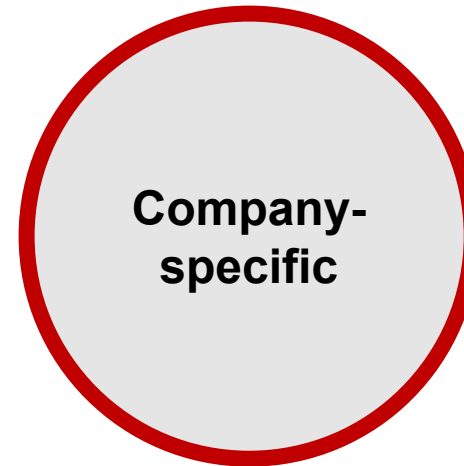
There are **three (3) types of metrics** that companies would **use to measure and monitor their significant climate-related risks and opportunities.**



Information **relevant to the cross-industry** metric categories

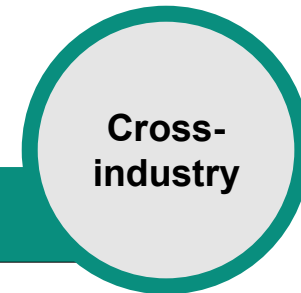


Industry-based metrics that are associated with **particular business models, activities or other common features** that characterize participation in an industry



Target set by an entity, and any target it is required to meet by law and regulation

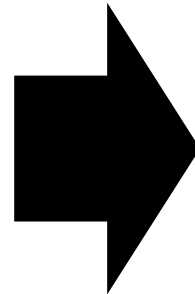
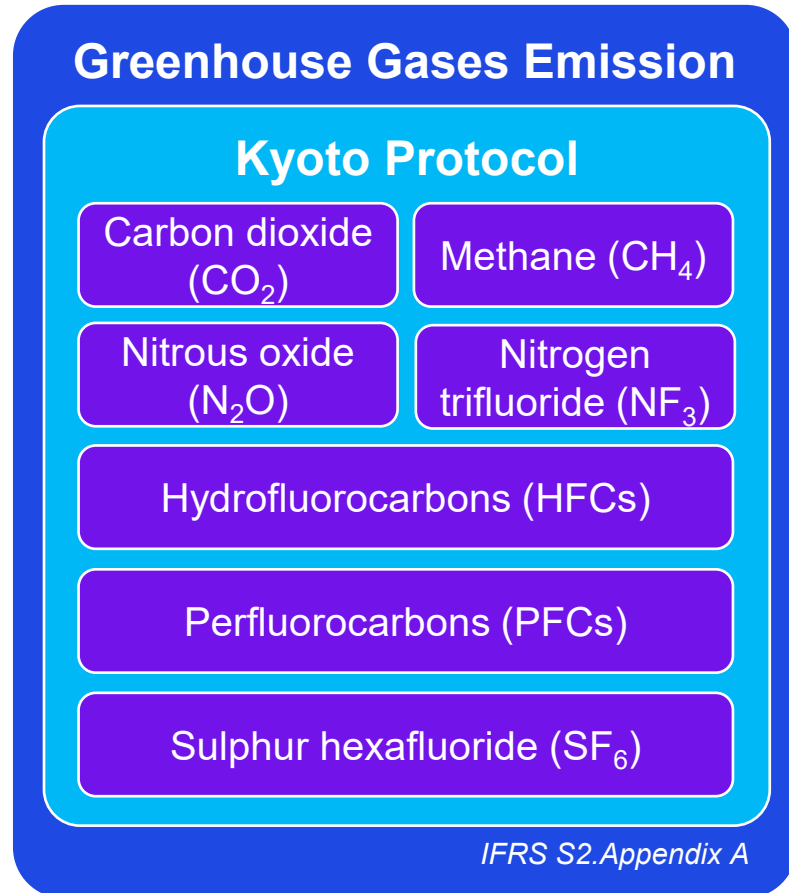
Cross-industry Climate-related Metrics



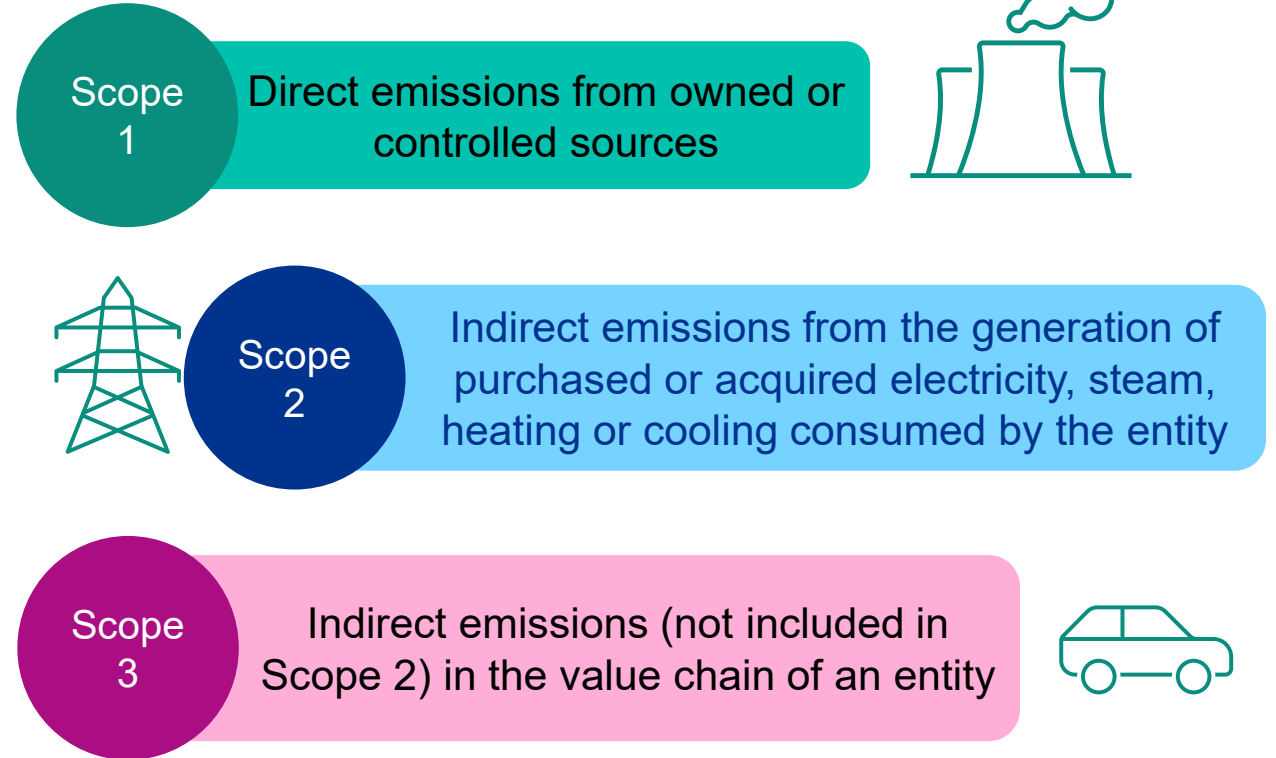
Type of metrics	What to disclose
Greenhouse gas emissions	Absolute Scope 1, Scope 2, and Scope 3 ; emission intensity
Transition risks	Amount and extent of assets or business activities vulnerable to transition risks (i.e. risks arising from transition to a lower-carbon economy).
Physical risks	Amount and extent of asset or business activities vulnerable to physical risks (i.e. risks relating to the physical impacts of climate change).
Climate-related opportunities	Proportion of revenue, assets, or other business activities aligned with climate-related opportunities.
Capital deployment	Amount of capital expenditure, financing, or investment, deployed towards climate related risks and opportunities.
Internal carbon prices	<ul style="list-style-type: none"> • Price on each ton of GHG emission used internally by an organization • A description of how the company is applying the carbon price in its decision making (e.g. investment decisions, transfer pricing and scenario analysis).
Remuneration	<ul style="list-style-type: none"> • The proportion of executive management remuneration linked to climate-related considerations in the current period. • A description of how climate-related considerations are factored into executive remuneration.

Source: <https://assets.kpmg/content/dam/kpmg/xx/pdf/2022/04/sustainability-reporting-proposals-noth.pdf>

Greenhouse Gas disclosure under GHG Protocol

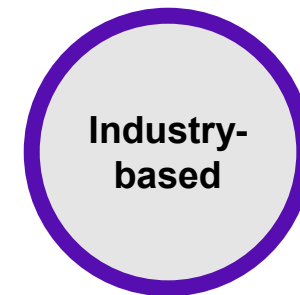


Companies need to disclose absolute gross Scope 1, Scope 2 and Scope 3 GHG emissions



There are 15 categories of Scope 3 GHG emissions, as identified in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard

Industry-based Climate-related Metrics

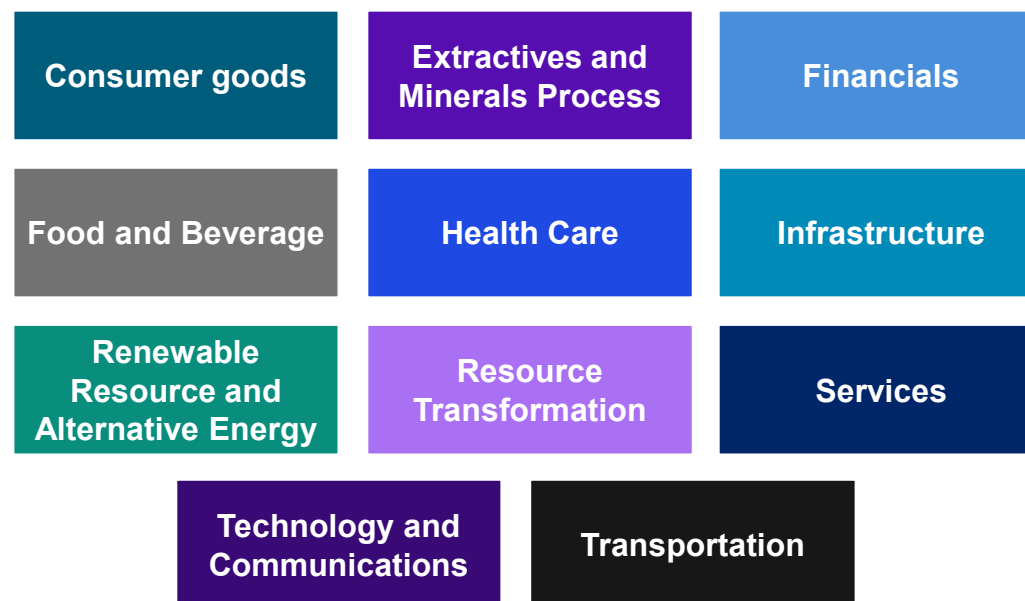


- The IFRS provides definitions and measurement requirements for **industry-based metrics across 11 sectors, comprising 68 industries.**
- These aim to **help companies disclose metrics specific to their industry** when describing how they monitor and measure climate-related risks and opportunities.

Industry-based disclosure requirements



List of Industry-based Sectors



Source: <https://www.ifrs.org/projects/work-plan/climate-related-disclosures/appendix-b-industry-based-disclosure-requirements/>

Examples of Industry-based Disclosure Requirements

Food and Beverage sector Agricultural Products industry

Type of metric	What to disclose	Reporting unit
Greenhouse Gas Emissions	- Gross global Scope 1 emissions	Metric tons (t) CO ₂ -e
	- Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets	n/a
	- Fleet fuel consumed, percentage renewable	Gigajoules (GJ), Percentage (%)
Energy Management	- Operational energy consumed, - Percentage grid electricity, - Percentage renewable	Gigajoules (GJ), Percentage (%)
Water Management	- Total water withdrawn, - Total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress	Thousand cubic meters (m ³), Percentage (%)
	- Description of water management risks and discussion of strategies and practices to mitigate those risks	n/a
	- Number of incidents of non-compliance associated with water quantity and/or quality permits, standards, and regulations	Number
Ingredient Sourcing	- Identification of principal crops and description of risks and opportunities presented by climate change	n/a
	- Percentage of agricultural products sourced from regions with High or Extremely High Baseline Water Stress	Percentage (%) by cost

Consumer sector E commerce industry

Type of metric	What to disclose	Reporting unit
Hardware infrastructure, energy and water management	- Total energy consumed, split by percentage of grid electricity and percentage renewable	Gigajoules (GJ), percentage (%)
	- Total water withdrawn and total water consumed, with the percentage of each in regions with high or extremely high baseline water stress	Thousand cubic meters (m ³), percentage (%)
	- Discussion of the integration of environmental considerations into strategic planning for data centre needs	N/A
Product packaging and distribution	- Total greenhouse gas emissions footprint of product shipments	MT CO ₂ e
	- Discussion of strategies to reduce the environmental impact of product delivery	N/A
Activity	- A company-defined measure of user activity suitable for its business activities (e.g. monthly active users)	Number
	- Data processing capacity	Quantitative
	- Number of shipments	Quantitative

Source: 1) <https://www.ifrs.org/projects/work-plan/climate-related-disclosures/appendix-b-industry-based-disclosure-requirements/>



Climate-related Targets

An entity shall disclose the **quantitative and qualitative climate-related targets** it has set to **monitor progress** towards achieving its strategic goals, and any targets it is required to meet by **law and regulation**, including any **greenhouse gas emissions targets**.

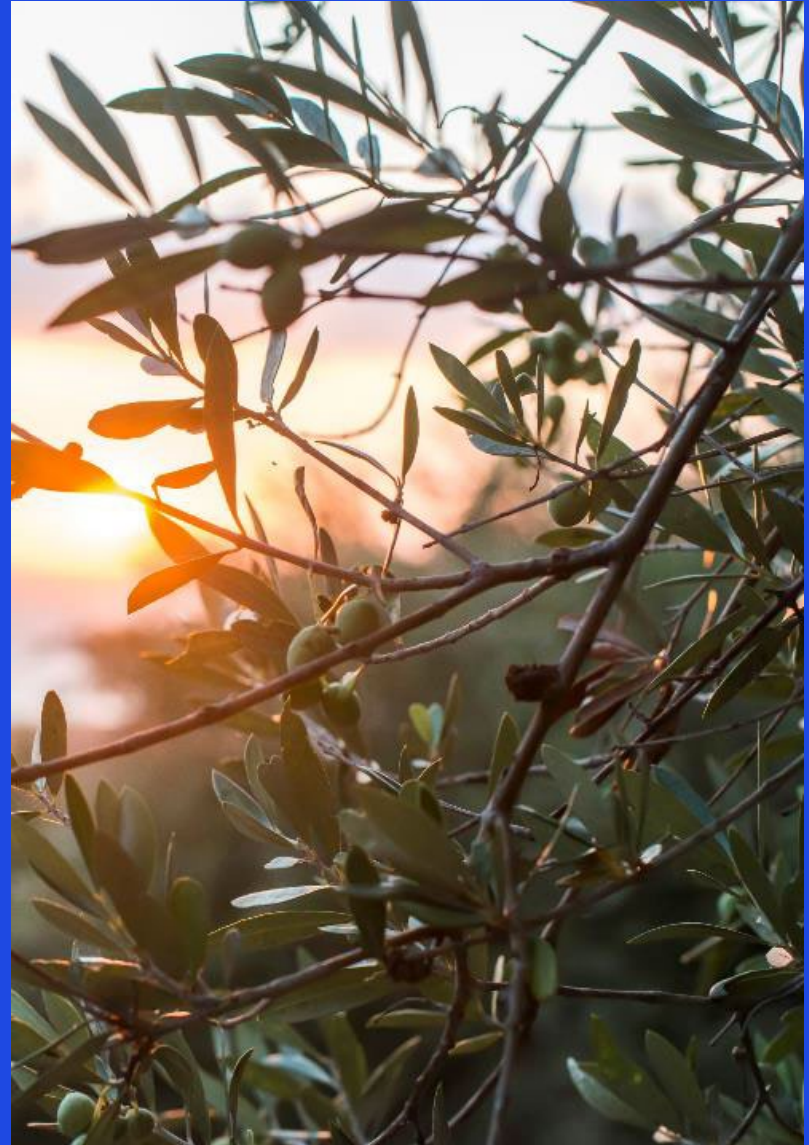


For each target, the entity shall disclose:

	Details
a	The metric used to set the target
b	The objective of the target
c	The part of the entity to which the target applies
d	The period over which the target applies
e	The base period from which progress is measured
f	Any milestones and interim targets
g	If the target is quantitative, whether it is an absolute target or intensity
h	How the latest international agreement on climate change , including jurisdictional commitments that arise from that agreement, has informed the target

Source : <https://www.ifrs.org/supporting-implementation/supporting-materials-for-ifrs-sustainability-disclosure-standards/ifrs-s2/an-in-depth-explainer--ifrs-s2-climate-related-disclosures/>

04 Effective date and transition relief



Effective Date and Transition Reliefs

Effective date :



Transition reliefs :

	First-year relief	How it applies
S1	Comparative information	Disclosure is not required for any period before the date of the initial application.
	Non-climate-related risks and opportunities	Disclosure can focus first on climate-related risks and opportunities.
	Timing and reporting	Publication of the sustainability-related financial disclosure after the related financial statements
S2	Scope 3 GHG emissions	Disclosure of Scope 3 GHG emissions is not required.
	The use of the GHG Protocol	Allow to continue the existing measurement method for Scope 1, 2, and 3 GHG emissions (i.e., methodology other than the GHG Protocol Corporate Standard).

**The transition relief is applicable for the first year of disclosure only*

05 Key challenges in adopting the ISSB Standard



Key challenges in adopting the ISSB Standard

The adoption of ISSB standards represents a significant step forward in enhancing the transparency and comparability of sustainability reporting.

01



Regulatory requirement

In some jurisdictions, the standards will provide a baseline either to influence or to be incorporated into local requirements which require the company to be adopt the standard in the nearly future

02



Pressure from stakeholders

They require companies to elaborate and disclose how sustainability-related risks and opportunities impact their financial statements for their decision.

03



Data availability , quality and collection

Companies may struggle to gather accurate and reliable data on ESG factors. This can hinder their ability to report under ISSB standards

04

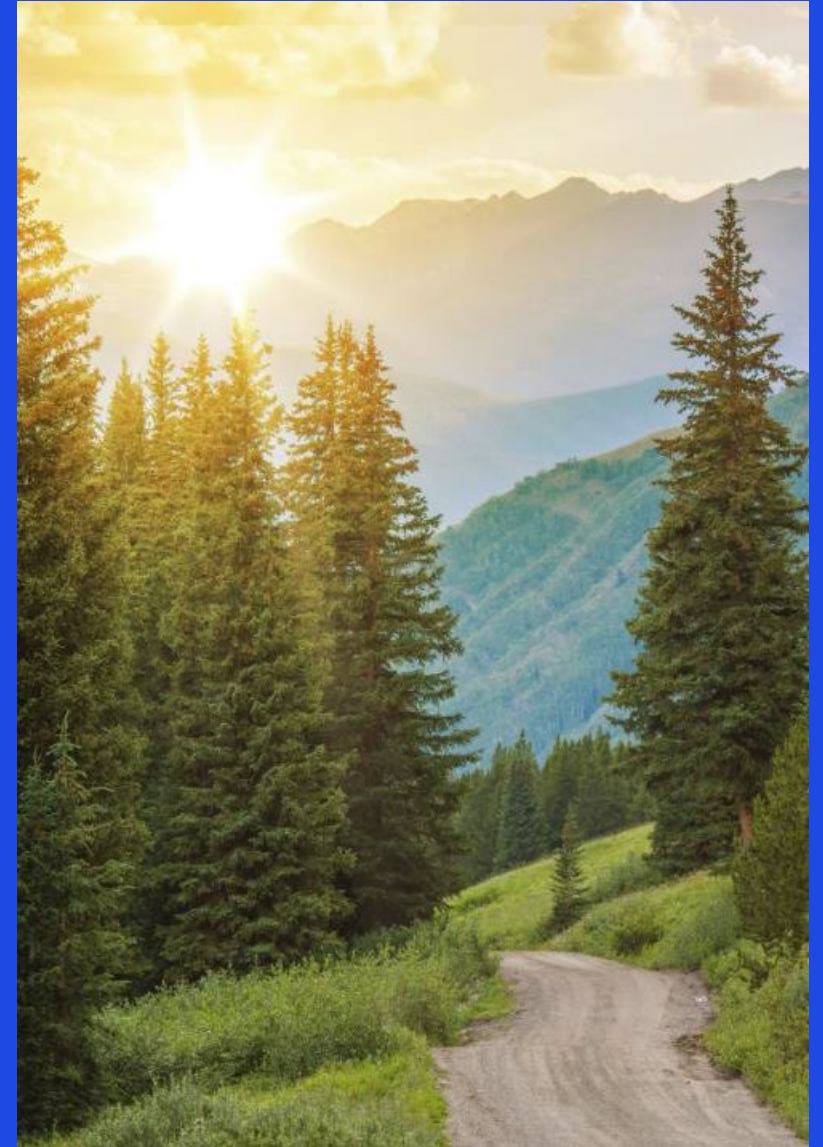


Resource capability

Reporting under ISSB often requires additional understanding and build up resource capabilities, including financial investments, technology, and human capital. Capability and allocating these resources effectively can be a challenge



06 Actions to be Taken at Present



What to Do Now ?



1. Understand the impact

- Research and understand current and emerging requirement.
- 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 role and available knowledge and capacity.

4. Transform reporting

- Design the future stage 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.



Source: [Get ready for ISSB sustainability disclosures - June 2023 \(kpmg.com\)](https://www.kpmg.com/au/en/issues-and-insights/articlespublications/get-ready-for-issb-sustainability-disclosures-june-2023)

Summary

Recap: What to do Now?

What's the Impact?

What's Next?

- ISSB marks the next step towards **equal prominence for sustainability and financial reporting**.
- It is **based on existing frameworks and standards**, particularly TCFD and SASB.
- Aims to **create global baseline for investor-focused** sustainability reporting that local jurisdictions can build on.
- Companies would **report on all relevant sustainability topics** (not just on climate) under a consistent global framework and **focus on how these topics impact Company's prospect**
- **Reporting would be connected to the financial statement**. Therefore, companies need processes and control in place so that they can **provide sustainability information of the same quality as their financial information**.
- The standards will be effective on **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 voluntary** – e.g., in response to investor or societal pressure.



Companies may need to apply the IFRS Sustainability Disclosure Standards alongside other sustainability reporting frameworks in their local jurisdictions. When this is the case, it is important that companies understand the differences between requirements and plan their reporting to ensure all requirements can be met in a cohesive manner, with minimal duplication

Source: [Get ready for ISSB sustainability disclosures - June 2023 \(kpmg.com\)](https://www.kpmg.com/au/en/issues-and-insights/articlespublications/get-ready-for-issb-sustainability-disclosures-june-2023)



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