KPMG

ESG Priorities – Key consideration for Audit Committee

Date: Wednesday 13 December 2023

Time: 1:30 p.m. to 3:00 p.m.

Agenda

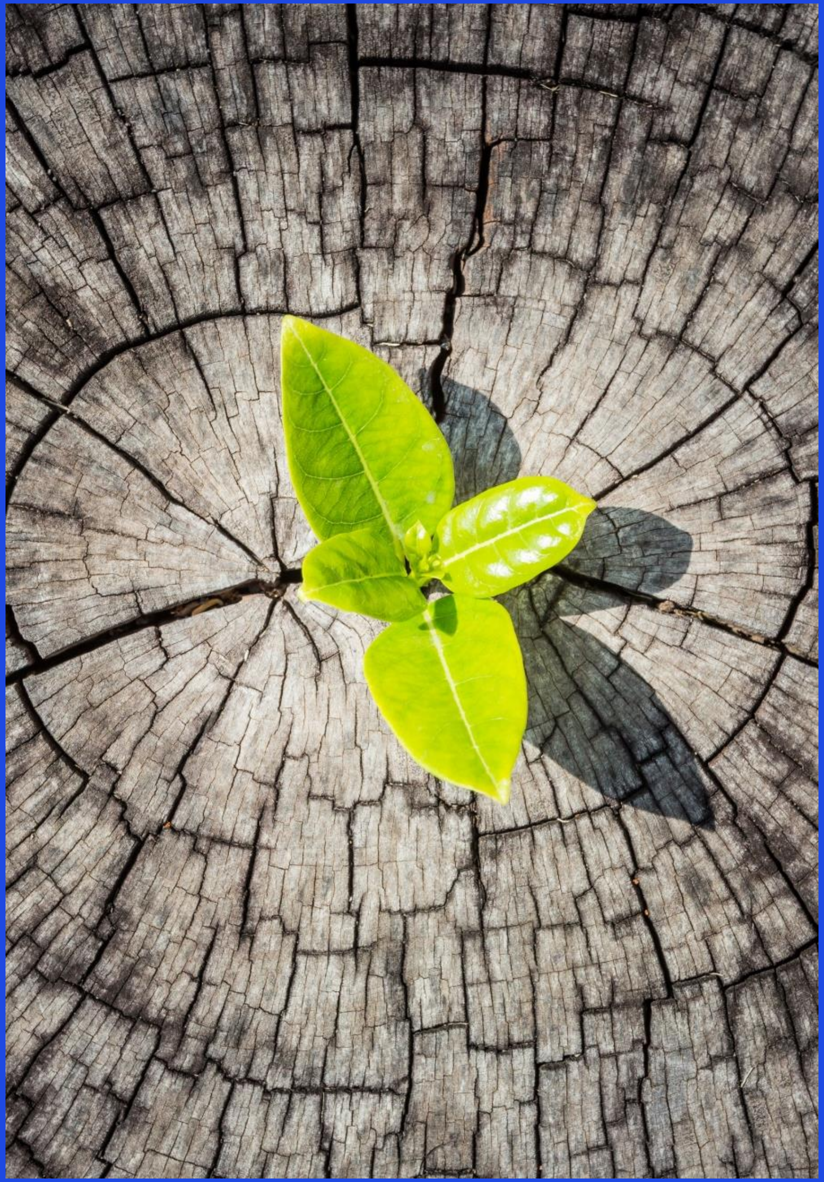
01 Oversight of ESG risks and opportunities

02 Climate change and impact to the financial statements

03 Carbon tax and carbon credit

04 Evolving ESG reporting landscape –
Adoption of IFRS S1 and S2 (ISSB standards)

Oversight of ESG risks and opportunities



Climate Action will Dominate the Next Decade

WORLD ECONOMIC FORUM

According to the Global Risk 2023 Report by World Economic Forum, climate action failure will be most severe global risk in the next decade.

	2 years from 2023	10 years from 2023
1	Cost of living crisis	Failure to mitigate climate change
2	Natural disasters and extreme weather events	Failure of climate change adaptation
3	Geoeconomics confrontation	Natural disasters and extreme weather events
4	Failure to mitigate climate change	Biodiversity loss and ecosystem collapse
5	Erosion of social cohesion and societal polarization	Large-scale involuntary migration
6	Large-scale environmental damage incidents	Natural resource crises
7	Failure of climate change adaptation	Erosion of social cohesion and societal polarization
8	Widespread cybercrime and cyber insecurity	Widespread cybercrime and cyber insecurity
9	Natural resource crises	Geoeconomics confrontation
10	Large-scale involuntary migration	Large-scale environmental damage incidents

Source: The Global Risk Report, 2023, World Economic Forum

All **6 environmental risks** feature in the top 10 risks over the next 10 years while **“Biodiversity loss and ecosystem collapse”** is viewed as one of the fastest deteriorating global risks over the next decade,

9 risks are featured in the top 10 rankings over both the short and the long term, alongside **two new entrants** to the top rankings: **“Widespread cybercrime and cyber insecurity”** and **“Large-scale involuntary migration”.**

ESG Common Risks

Carbon Emissions and Climate Change

Resource Depletion

Land Use and Biodiversity Impact

Waste Management

Water Usage and Pollution

Supply Chain Sustainability

Ethical Labor Practices in the Supply Chain

Health and Safety Concerns

Community Relations

Regulatory Compliance

ESG - Turning Risks to Opportunities

Renewable Energy

Green / Eco-friendly Products

Sustainable Agri

Green Building

Water / Waste Management

Sustainable Supply Chains

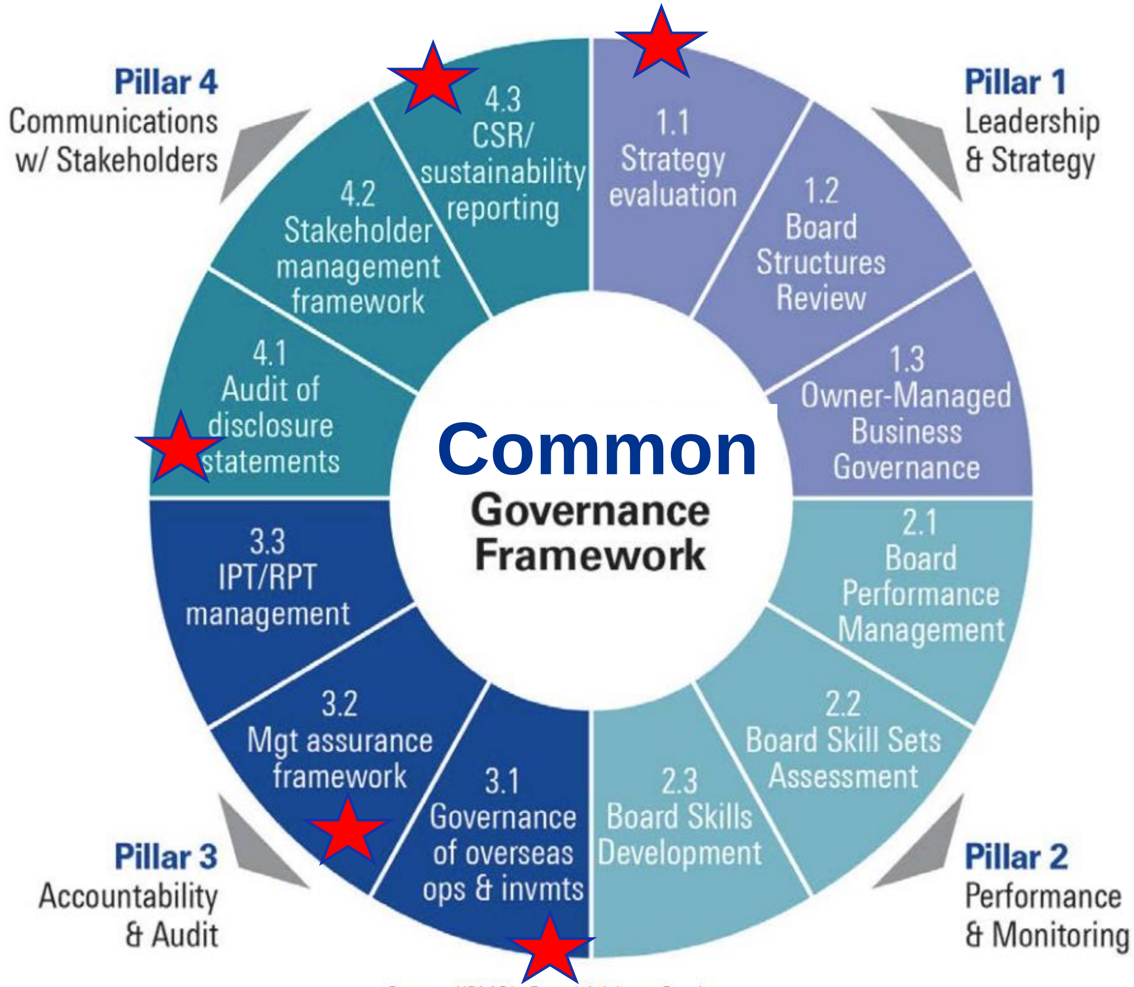
Ethical Labor in Supply Chain

Well-Being & Happy Employees

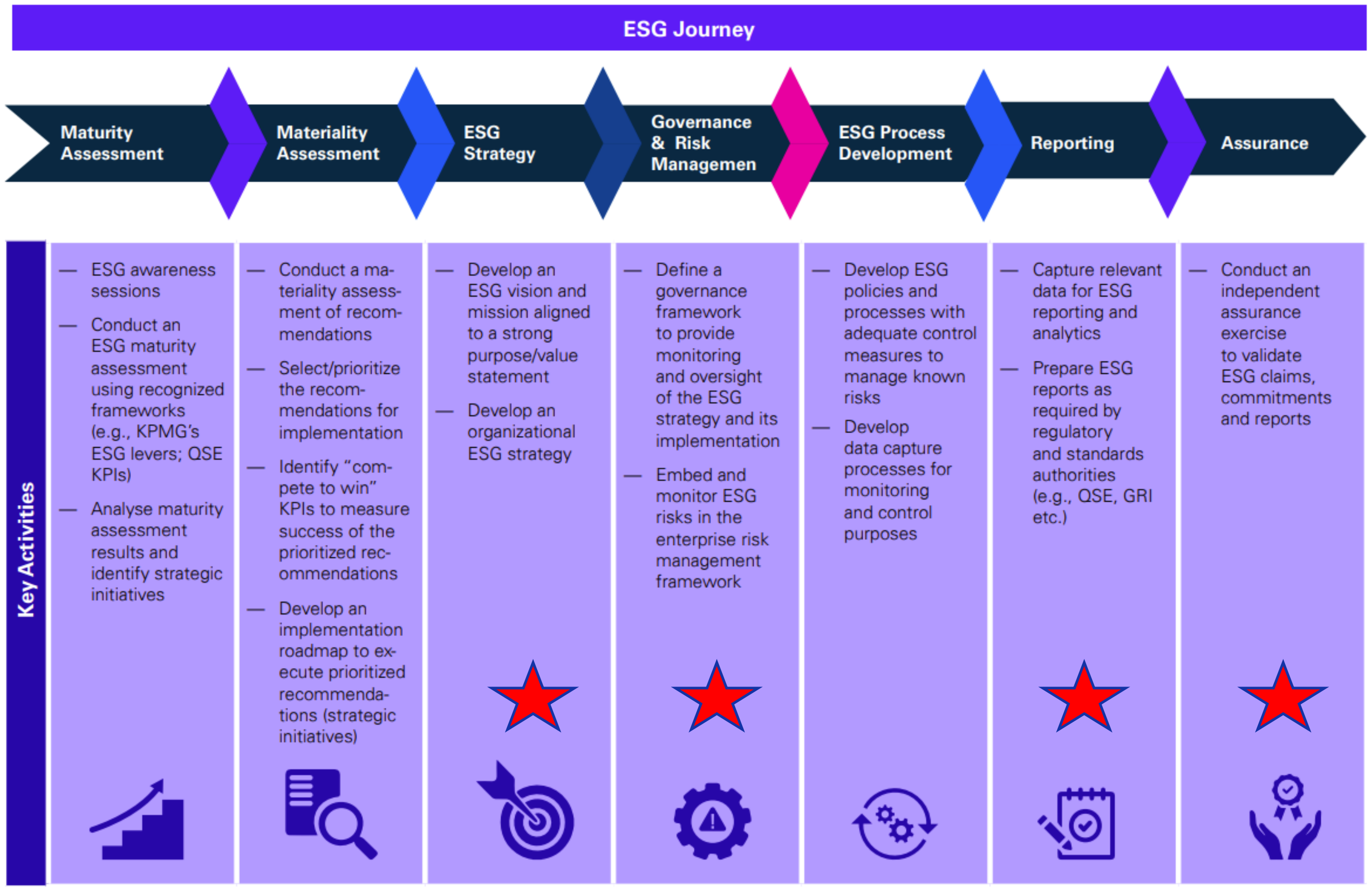
Social Investing

Green Financing

Corporate Governance & ESG Journey



Source: KPMG's Board Advisory Services



Audit Committee Roles & ESG Journey

Review the appropriateness of the reporting system and disclosure of information

Review the presence of the Company’s risk management, work processes, control, oversight of performance of duties

Review the Company’s Compliance Procedure

Review the compliance of the Company’s Internal Control System with Internal Control Framework

Review the presence of proactive preventive system to enhance operating effectiveness and efficiency

ESG Journey

	Maturity Assessment	Materiality Assessment	ESG Strategy	Governance & Risk Managemen	ESG Process Development	Reporting	Assurance
Key Activities	— ESG awareness sessions — Conduct an ESG maturity assessment using recognized frameworks (e.g., KPMG’s ESG levers; QSE KPIs) — Analyse maturity assessment results and identify strategic initiatives	— Conduct a materiality assessment of recommendations — Select/prioritize the recommendations for implementation — Identify “compete to win” KPIs to measure success of the prioritized recommendations — Develop an implementation roadmap to execute prioritized recommendations (strategic initiatives)	— Develop an ESG vision and mission aligned to a strong purpose/value statement — Develop an organizational ESG strategy	— Define a governance framework to provide monitoring and oversight of the ESG strategy and its implementation — Embed and monitor ESG risks in the enterprise risk management framework	— Develop ESG policies and processes with adequate control measures to manage known risks — Develop data capture processes for monitoring and control purposes	— Capture relevant data for ESG reporting and analytics — Prepare ESG reports as required by regulatory and standards authorities (e.g., QSE, GRI etc.)	— Conduct an independent assurance exercise to validate ESG claims, commitments and reports

Audit Committee ESG Oversight Roles – Practical Points

Scope of Responsibilities

Do we have a specific committee with the capacity, interest, and skills to take the lead on overseeing the company's overall ESG efforts?

ESG Risk Management

How effective does the Company assess ESG risks and monitor action plans?

Compliance & Control

Are there compliance / controls policy and procedures in place to ensure ESG effectiveness?

Operating Efficiency & Effectiveness

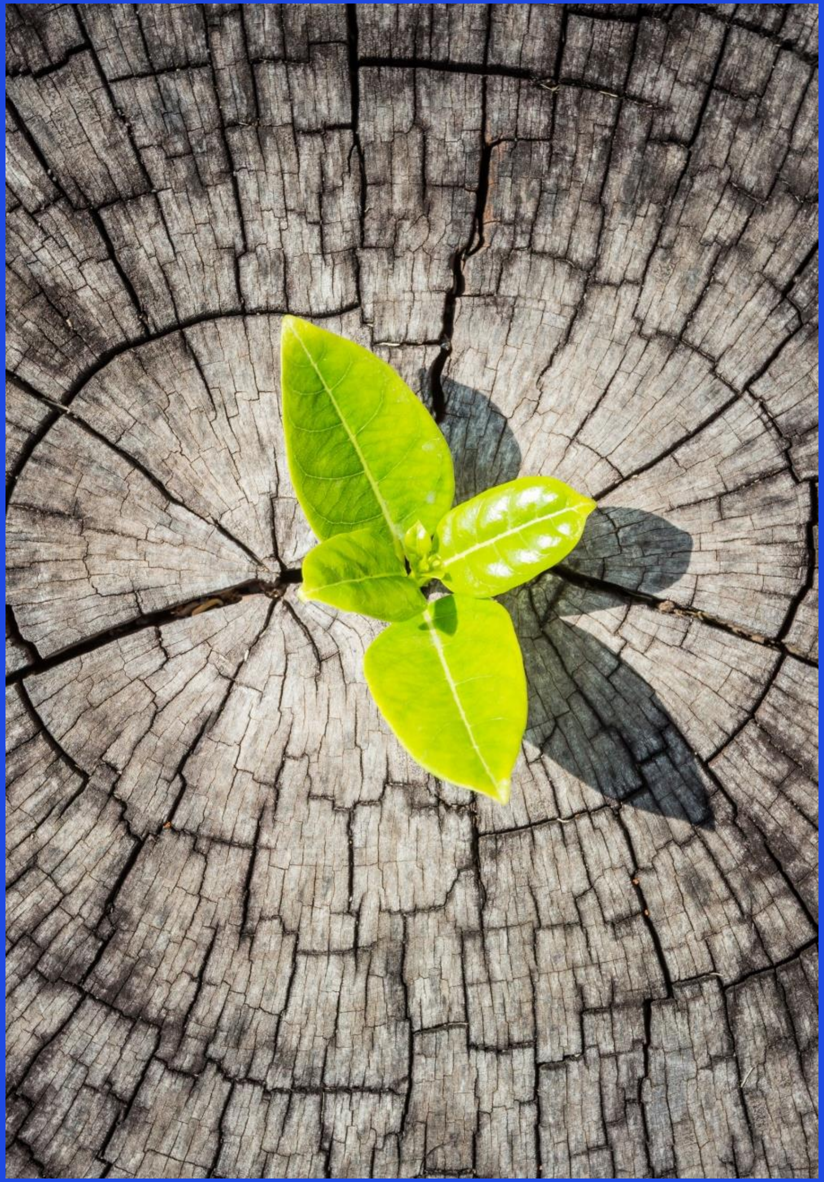
Are there sufficient resources to drive ESG goals and reporting accuracy?

Internal Audit

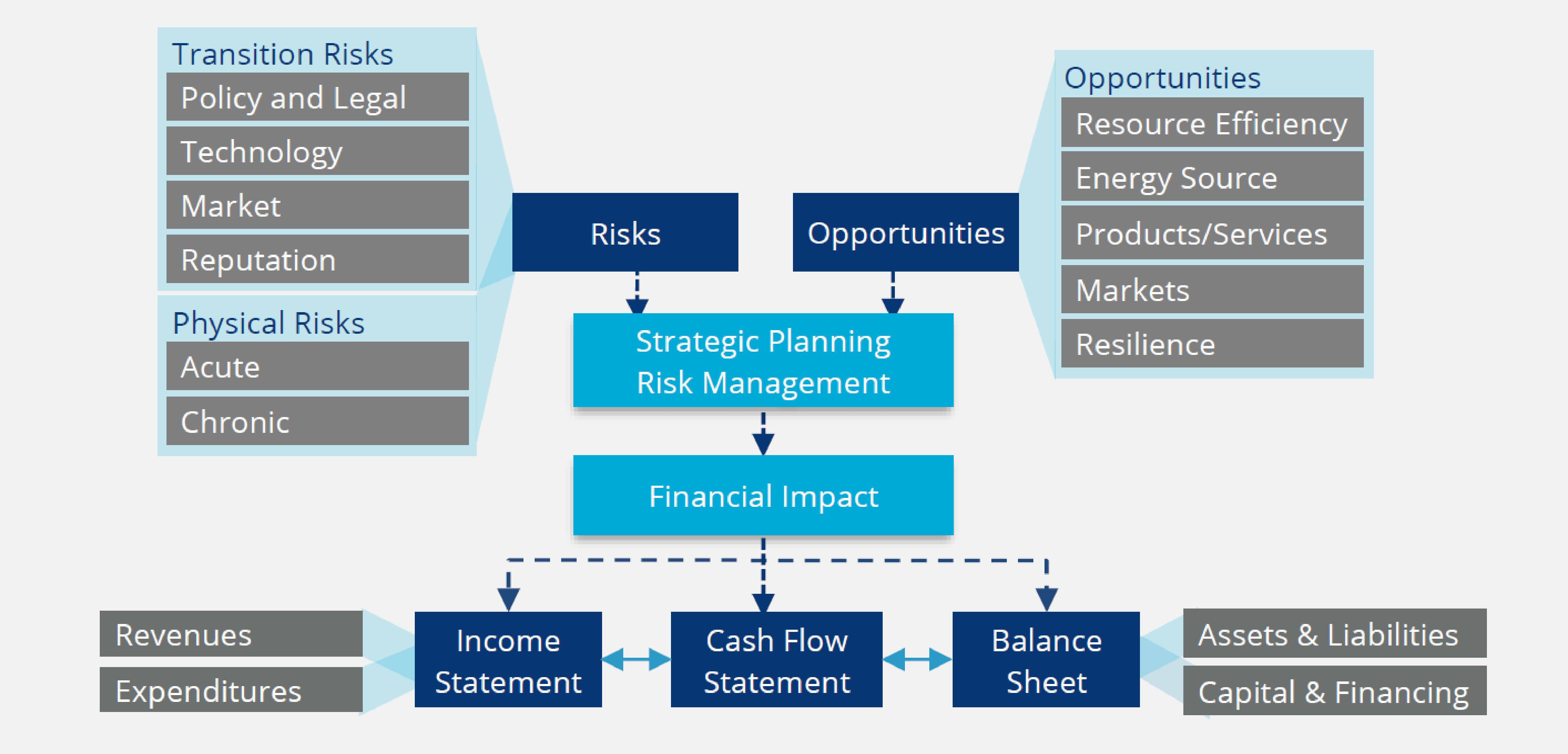
How can we support Internal Audit to perform ESG audit effectively?

How can we ensure that overall ESG strategy, action plans, risk and controls including ESG operating effectiveness, and reporting are aligned within the Group ?

Climate change and impact to the financial statements

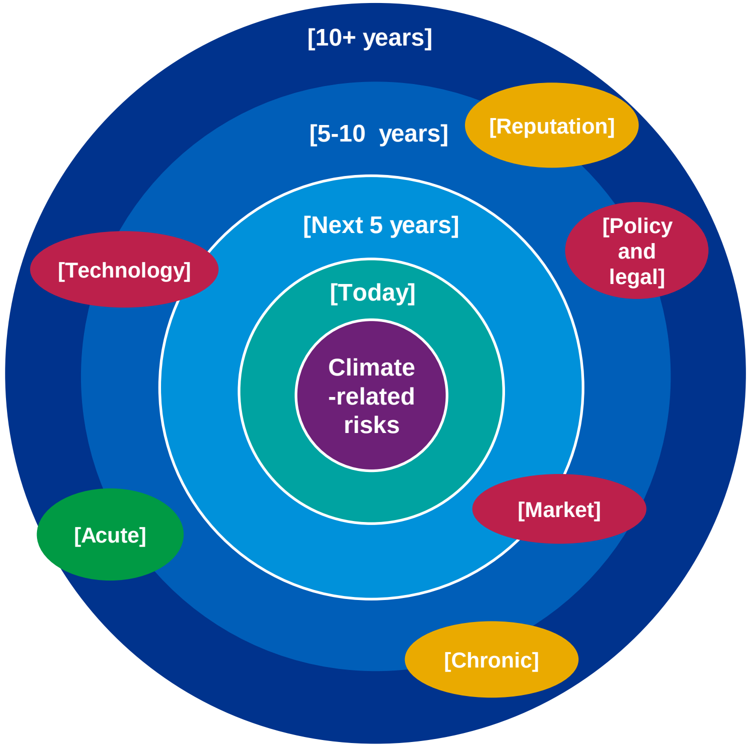


Climate risk, opportunities and financial impacts



Potential effects of climate-related risks on the entity

	Risk	Description	Potential impacts	Significance of impacts
Physical risks	Acute	[Insert description]	[Insert potential impacts]	
	Chronic	[Insert description]	[Insert potential impacts]	
Transition risks	Policy and legal	[Insert description]	[Insert potential impacts]	
	Market	[Insert description]	[Insert potential impacts]	
	Technology	[Insert description]	[Insert potential impacts]	
	Reputation	[Insert description]	[Insert potential impacts]	



High impact
Medium impact
Low impact

Key considerations

Considering climate-related risks and opportunities and their financial impacts when preparing financial statements

Considering materiality from both a quantitative and qualitative perspective in relation to disclosures of key judgements and assumptions related to climate risk

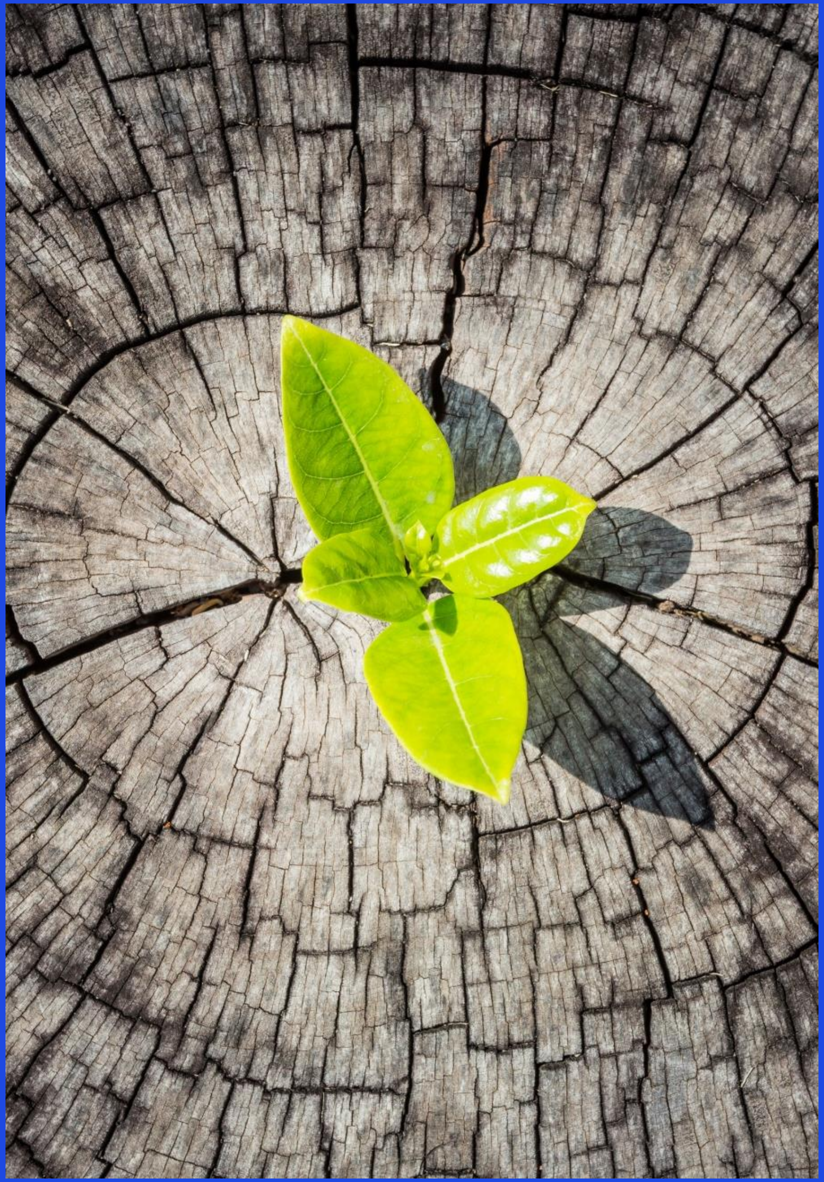
Providing clear and robust disclosures, especially of the key judgements and estimates affected by climate-related matters

Ensuring consistency of assumptions used in relevant areas of the company's financial statements and that they are in sync to the extent appropriate with information related to climate-related risks discussed elsewhere in the annual report.

Potential impacts on financial reporting

Assessment of the potential impacts of climate-related risks on financial reporting	
Asset useful lives	Asset lives may be affected by commitments and strategies that affect the future operation of the business model. For example, commitments to operate the business on a carbon neutral basis, or changes to the business model to respond to changing customer needs.
Impairment	Longer-term 'business as usual' assumptions in impairment testing models may be affected by expectations of changes related to climate-related issues.
Provisions and contingent liabilities	Constructive obligations may arise from specific commitments or past practice to remedy environmental damage. Provisions for longer-term contracts may be required if costs attributable to climate-related factors affect expectations of their future profitability
Expected credit losses	Actual or expected adverse changes in the regulatory, economic or technological environment of borrowers could result in a significant change in their ability to meet debt obligations.
Financial instrument risk exposure	Climate-related factors may create concentrations of risk that are correlated across investments in different entities and sectors. Concentration risk disclosures under IFRS® Standards may be material, regardless of their numerical impact.
Materiality considerations	Users want to understand how climate risk has been considered in preparing the financial statements, and will expect transparent disclosure of the assumptions, judgements and estimates made.

Carbon tax and carbon credit



Overview of the Carbon Credit Mechanism

To achieve the emission reduction target to Net-zero is the challenge journey to all companies and countries. On the pathways of decarbonization, the **Carbon Credit Mechanism** is an important flexible measure to leverage the emission reduction cost and sharing the reduction potential among stakeholders during the transition period of decarbonization pathways.

The **Carbon Credit Mechanism** is a market-based mechanism used for controlling the emission by
(1) setting up the emission limiting target,
(2) determine the penalty fee for excess emission amount,
(3) establish the emission reduction credit certification system, and
(4) offering the financial incentives for entity who are able to lowering the emission by reduction/removal activities through trading.

There are 4 main components in the mechanisms;

Carbon taxes - a tax levied on carbon emissions

Emissions Trading Schemes - these put a cap on the carbon emitted by business and create a market and price for carbon allowances.

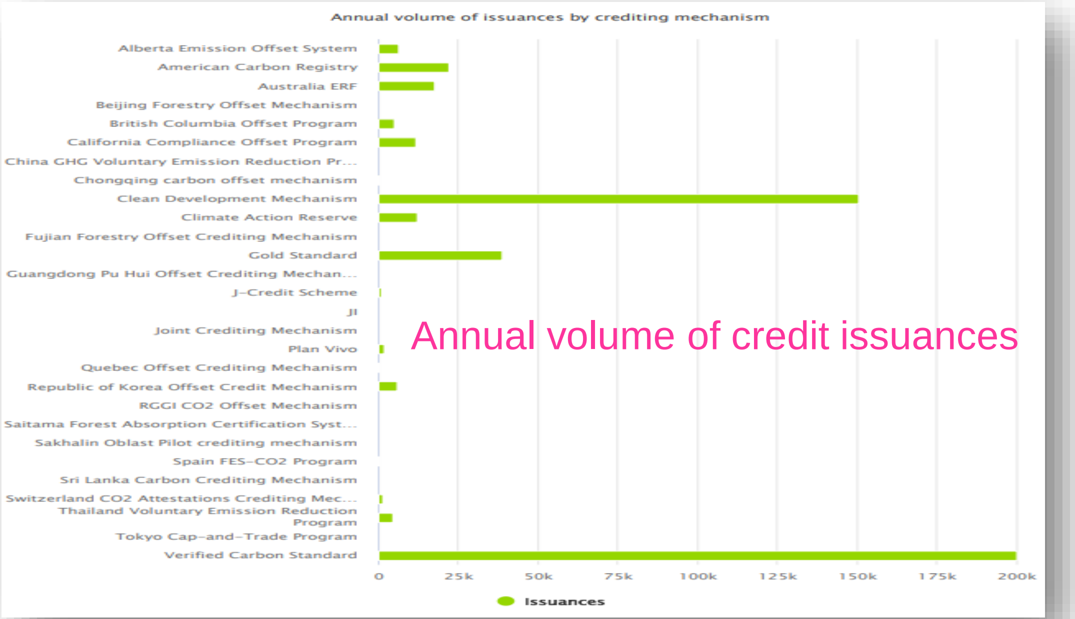
Crediting Mechanisms - these utilize carbon credits which are intended to reduce carbon emissions and which can be traded

Internal Carbon Pricing - a value that companies voluntarily set for themselves, in order to internalize the economic cost of their greenhouse gas emissions.

Types of Carbon Credit – depends on schemes and activities

Mandatory Scheme

- **Allowance Unit – e.g. KP-AAUs, EUETS-EUA**
- **Emission Reduction Unit/Certified Emission Reduction – e.g. JI-ERU, CDM-CER**
  (different naming to make distinctive where the credit come from which mechanisms)
- **Removal Unit – e.g. RMU** from removal activities



Source: Carbon pricing dashboard, World Bank

Voluntary Scheme

Credit from Emission Reduction Activities

- renewable energy,
- energy efficiency,
- transportation management,
- substitution and avoidance of GHG emission,
- waste handling.

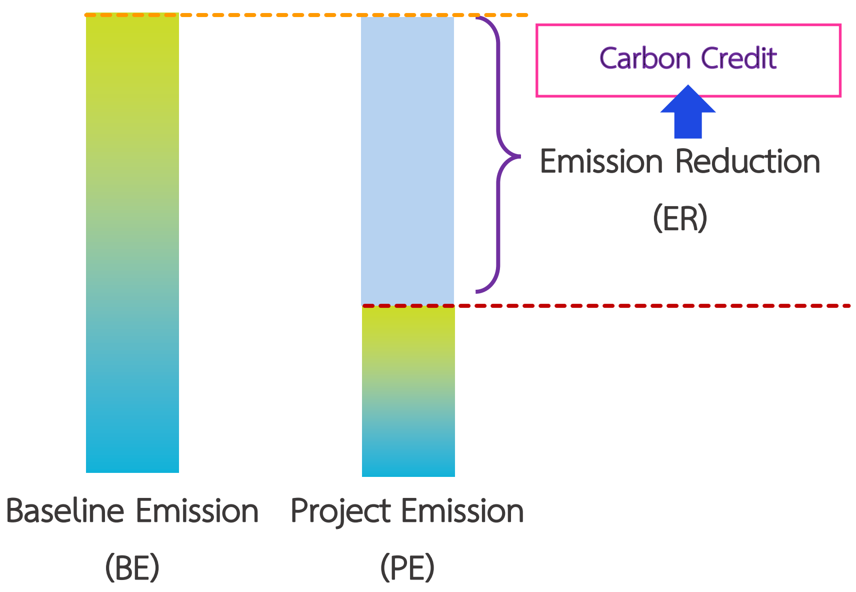
Credit from Emission Removal Activities

- Nature-based Solution
  - Reforestation, Afforestation, REDD+
  - Blue carbon
- Technology-based Solution
  - DAC – CCUS
  - Artificial Photosynthesis

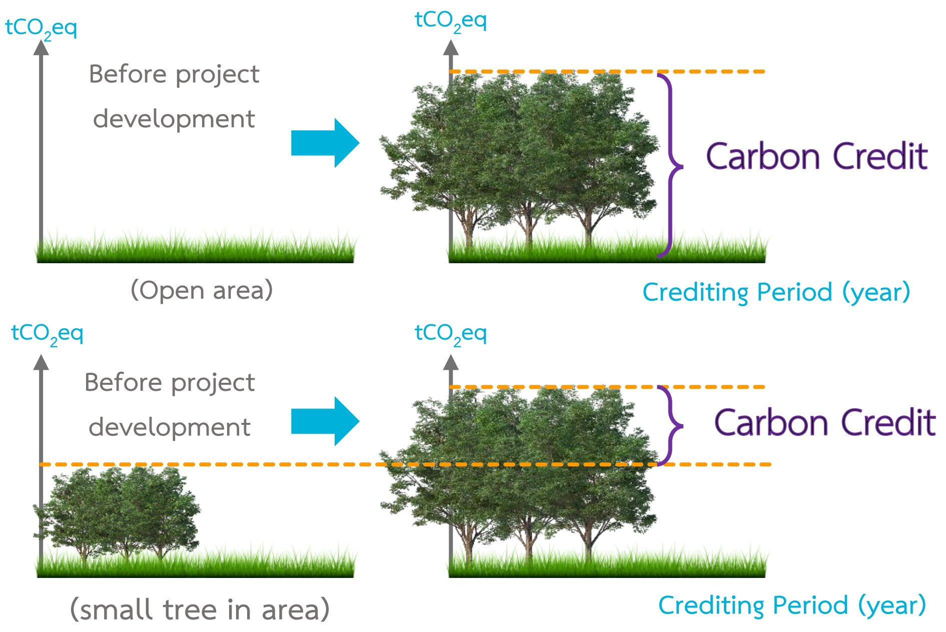
Where the carbon credit come from?

Emission Reduction (ER) = Baseline Emission (BE) - Project Emission (PE)

The credit from reduction activities



The credit from removal activity



Carbon Border Adjustment Mechanism – CBAM

Climate neutrality

CBAM is designed to function in parallel with the EU ETS which encourages high-emission industries in the EU to reduce emissions.

CBAM aim

- Counteract the risk of carbon leakage arising from the removal of the free ETS allowances.
- Encourage other countries to establish carbon pricing policies.

CBAM design

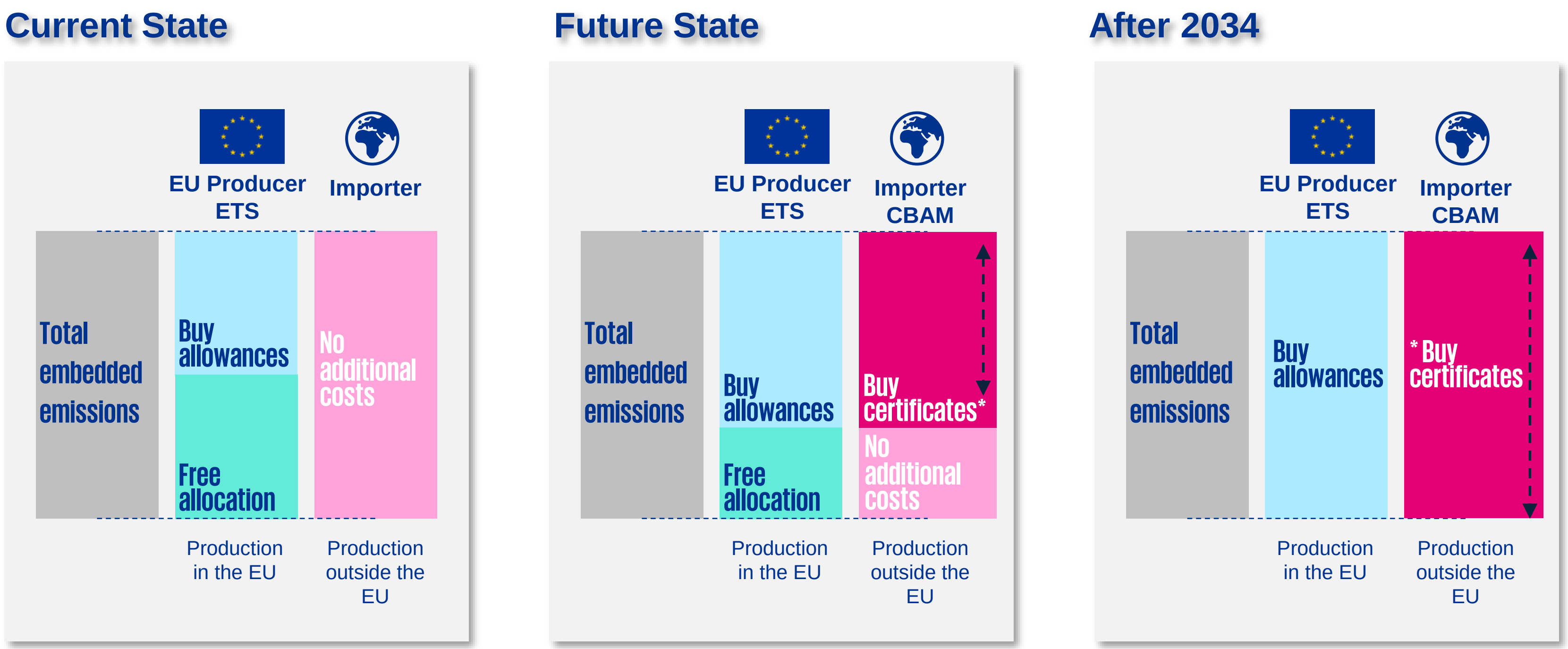
- Imposes a charge on the embedded carbon content of certain goods upon their importation into the customs territory of the European Union that is equal to the charge imposed on domestic goods under the EU ETS.
- Adjustments take into account any mandatory carbon prices paid in the exporting country.
- Equivalent carbon price on imports addresses the risk of carbon leakage and creates level playing field for EU producers and EU importers.

CBAM initial scope

Electricity | Iron & steel | Cement | Fertilisers | Aluminium | Hydrogen

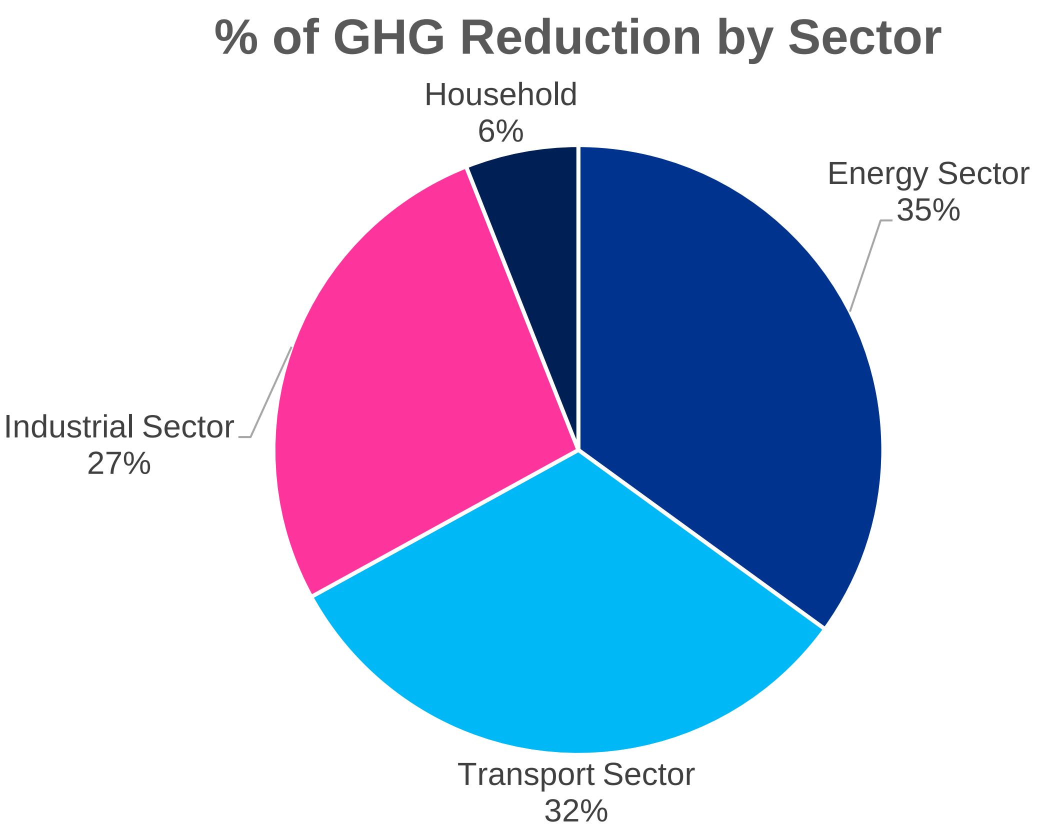
- Products with the highest carbon footprint
- 45% of EU ETS Sectors
- High Convergence of EU ETS and CBAM

CBAM evolution



Source: EU Carbon Border Adjustment Mechanism (CBAM) - KPMG Global

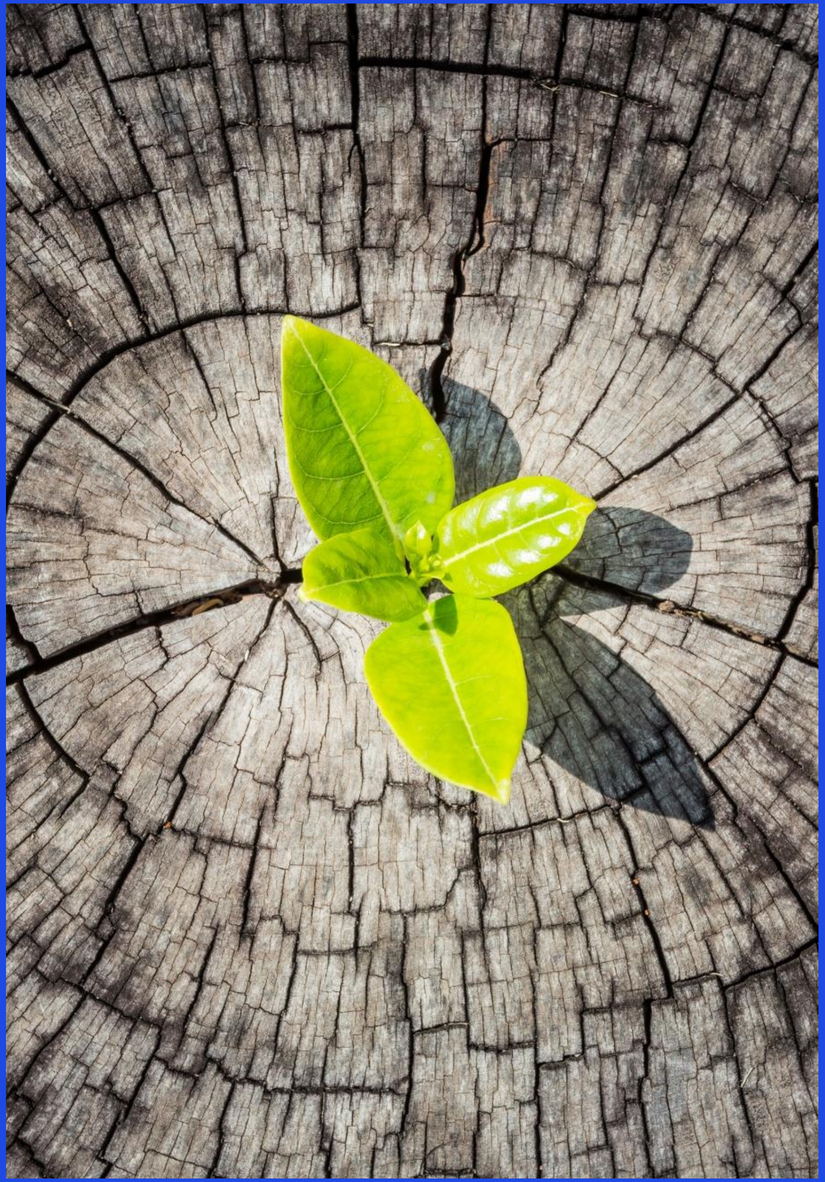
Upcoming Carbon Tax in Thailand



Source: Thailand is to impose a carbon tax on 3 major economic sectors - Asia News NetworkAsia News Network

- The Excise Department plans to **impose a carbon tax on the energy, transport and industrial sectors** to help Thailand achieve its goals of carbon neutrality by 2050 and net zero greenhouse gas emissions by 2065, as well as cut the cost of imported fuel.
- Thailand is promoting electric vehicles, greater use of renewable energy, and the **carbon tax to help it meet its environmental goals.**
- **Planning to start from 2026**, the mechanism will **require companies to report their CO2 gas emissions annually**, including on goods imported. Failure to comply will result in higher taxes.
- The carbon tax will **encourage more companies to use cleaner or renewable energy and reduce carbon dioxide (CO2) emissions by up to 30%**

Evolving ESG reporting landscape – Adoption of IFRS S1 and S2 (ISSB standards)



ESG Reporting – Frameworks & Regulations

The core principles embedded within the global goals are therefore the red thread that moves up through the pyramid.

Reporting principles are designed to elicit information that is coherent, robust, decision-useful and aligned with the objectives, audience for and content of corporate reports.

The "big three" ESG Disclosure Standards are Emerging

IFRS Sustainability Disclosure Standards

- Released the first two **IFRS set S1 and S2 in June 2023.**
- **IFRS S1** require an entity to disclose information about its **"sustainability-related risks and opportunities"** while the IFRS S2 focus on disclosure of material information about **"climate related risks and opportunities".**
- The standards are **effective** beginning **on or after 1st January 2024,** but adoption on standard will depend on local jurisdictions.

European Sustainability Reporting Standards

As part of the CSRD, the first set of draft European Sustainability Reporting Standards (ESRSs) were released and **disclosures will be required as early as the 2024 reporting period.**

The twelve ESRSs require companies to provide information on:

- **Governance and strategy** to address material sustainability topics;
- **Impacts, risks and opportunities** arising from those topics; and
- **Quantitative metrics and targets.**

US SEC Climate Related Disclosure Rules

On March 21, 2022, the **SEC issued a proposed rule** that would enhance and standardize the climate-related disclosures provided by public companies and proposed climate rule **is currently pending.**
The proposal incorporates the concepts and many disclosures of the **TCFD framework.**
An effective date will **remain open until the SEC adopts the final rules.**

Source: ESG Reporting - KPMG Global

ESG Reporting - New IFRS (S1, S2)

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

Future proposal (Other topics)

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

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**

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

03 Reporting entity

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

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

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 <u>if unable to provide quantitative information due to level of measurement uncertainty involved</u>

Presentation under ISSB

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

Fair presentation

- Relevant
- Faithful presentation
- Comparable
- Verifiable
- Timely
- Understandable

Connected information

Underlying business issues

Risks and opportunities

e.g. supply chain risk relating to water, human rights and climate change

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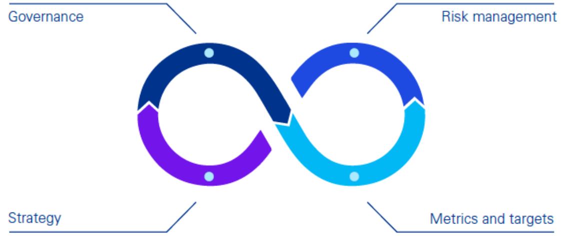
The related information

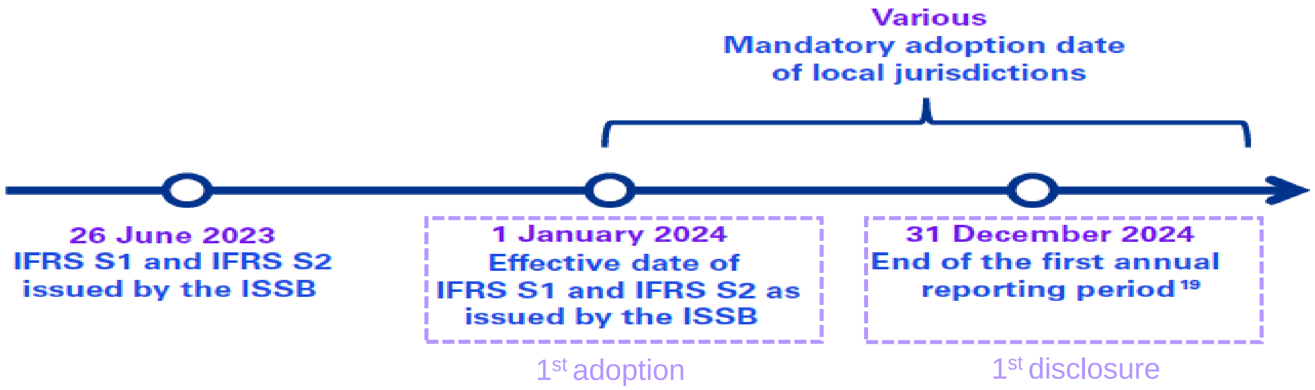
- Connectivity in sustainability-related financial disclosures



- Connectivity in General purpose financial package

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.
S1	Non-climate-related risks and opportunities	Disclosure can focus first on climate-related risks and opportunities.
S1	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.
S2	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*

New Reporting Requirements - Key Challenges

People

Team Capability
Roles and Responsibility
Knowledge Management
Integration / Collaboration
Integration & Collaboration with Business

Process

Input requirement
Reporting Process
Data Collection
Output / Reporting Template
Governance

IT System

Existing IT Systems
Connection & Linkage amongst System
Future IT architect
AI Capability

Key Factors

Reporting Standards

Industry Practice

Company Specific

Assurance

Regulators

Users of the Report

Key Takeaways

ESG presents both Risks & Opportunities – Assessment of the impact and capability is necessary for effective oversight

Evaluate and recognition of Climate change impact to the financial statements

ISSB Standards requires dedicated resources and system for accurate reporting

Internal Audit team will require additional skills, capability, tool and technology for perform ESG audit effectively

Q&A

Please give us the feedback to improve our services.

KPMG

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