# IFRS Today

## Our series on the most topical issues in financial and sustainability reporting

**13 June 2022**

### PODCAST TRANSCRIPT

## Comparing international, EU and US sustainability reporting proposals

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Reinhard Dotzlaw
Partner, Global IFRS leader

KPMG in Canada

### Reinhard

Hello everyone.

My name is Reinhard Dotzlaw and I'm the global IFRS and corporate reporting leader for KPMG. Welcome to this podcast at a pivotal moment for sustainability reporting. We have not one but three sets of proposals on sustainability reporting to discuss, and three highly experienced voices to give us their views on them.

Within the space of a few weeks, the SEC, the European Union and the International Sustainability Standards Board (ISSB™ Board) have all published proposed sustainability reporting standards. As you will hear, some are more detailed than others, and some cover wider issues for a wider stakeholder group. But all of them represent significant steps towards greater connectivity between sustainability reporting and financial reporting.

Joining me to draw the key points from these three frameworks – where they differ and where they align – are the leaders of the KPMG global corporate and sustainability reporting team. Together they are leading KPMG's responses to the proposals. Here they will offer a higher-level overview:

- **Tomo Sekiguchi** in Japan will talk to us about the **ISSB Board**'s first two proposed standards;
- **Mark Vaessen** in the Netherlands will look at the **EU**'s publication of some 13 separate proposals; and
- **Julie Santoro** in the US will talk to us about the **SEC**'s proposed standard.

First, Tomo on those ISSB proposals…

Tomokazu Sekiguchi
Partner

KPMG in Japan

## Tomokazu

Thanks Reinhard…

I would like to highlight three points that you might want to remember.

First, the ISSB Board's standards are designed to be the global baseline, focused on the needs of investors. So, local jurisdictions can decide whether and how to build on a consistent global baseline to meet the needs of wider stakeholders and public policy objectives.

The second thing to remember is that the standards are not just about climate. At the end of March, two proposals were released by the ISSB Board – the general requirements proposal and the climate proposal.

The climate proposal was developed by building on the general requirements with climate-specific requirements. These included disclosures of transition plans, and cross-industry and industry-specific metrics. Although the climate proposal is the ISSB Board's first topic-specific standard, the general requirements proposal applies across all sustainability topics, not just climate.

The ISSB Board will consult on their work plan sharing which topics they plan to address and when, during the second half of 2022.

Third and finally, the ISSB Board's proposals have drawn contents from the TCFD[1] framework.

They would require companies to report material sustainability-related financial information across the areas of governance, strategy, risk management and metrics and targets.

However, they're much more detailed than the TCFD guidance. They go beyond TCFD in areas including disclosures of transition plans, scenario analysis and greenhouse gas (GHG) emission reporting.

The proposals also build on the work of specific voluntary standard setters. For example, industry-specific guidance in the climate proposal is based on the climate-related metrics in the SASB [2]'s industry-specific standards. So you can see how these standards have developed from other international initiatives.

And now, Mark will give a quick overview of the EU proposals.

Mark Vaessen
Chair, Global Corporate and Sustainability Reporting Topic Team (CSRTT)

## Mark

Thanks, Tomo…

Let me focus on the key points and implications of the EU consultation.

First to note is that they have a broad scope, these EU proposals. They cover a wide range of sustainability topics. There are 13 exposure drafts of the European Sustainability Reporting Standards (ESRSs) that have been released and they focus on 11 ESG topics – including climate change and biodiversity, but also social topics such as on workforce or governance topics such as business conduct.

1. Task Force on Climate-related Financial Disclosures
2. Sustainability Accounting Standards Board

The proposed ESRSs are more prescriptive and contain a large number of disclosure requirements. They apply to all large listed and private EU-based companies – companies meeting two out of three criteria:

- either more than 250 employees;
- more than €40 million turnover; or
- more than €20 million total assets.

These proposals – if they are adopted as proposed, currently still being negotiated – would apply to approximately 50,000 companies within the EU and that includes subsidiaries of non-EU companies that are based in the EU.

Companies would have to publish separate sustainability statements as part of their management report. And the reported content would contain sector-agnostic, sector-specific and company-specific disclosures.

Now, one of the key differences in the EU's proposals is the definition of materiality. The ISSB Board's definition of materiality – and also the SEC's – would be consistent with what we know from IFRS Accounting Standards. That is, they're focused on information that affects investors' assessment of the company's enterprise value.

But unlike the ISSB Board and SEC, the EU is proposing to go beyond the needs of investors and also aiming at meeting public policy objectives. They refer to this as 'double materiality' and although double materiality has a big overlap with enterprise value, it does mean that it goes beyond it and that the proposed European Sustainability Reporting Standards would consider a wider range of stakeholders than the ISSB Board's and the SEC's proposals and therefore also a wider range of disclosures.

Now finally on assurance, the EU's scope of assurance would be significantly greater than the SEC's, requiring assurance over all content – narrative and metrics. Initially, the EU would require limited assurance with a phasing in towards reasonable assurance after six years of the standards coming into force.

So, all in all, if you look at the proposals, you can note that there are big challenges ahead for EU-based companies. There's a lot of change coming, a lot of requirements coming in their direction and little time to implement. With that, I hand over to Julie…

## Julie

Julie Santoro
Partner

KPMG in the US

Thanks, Mark…

So let's take a quick look then at the SEC's climate proposal. And I think if I had to choose three things to talk about, the first would be scope. So, it applies to nearly all registrants, so that includes foreign private issuers. However, it is narrower than the other proposals. It only looks at climate. And then, also to point out it's similar to the ISSB proposal. You're looking at it through an investor lens and what is material there.

The second thing to talk about is the financial statements. Unlike the other proposals, the SEC would require disclosure of the impact of climate-related risk on the balance sheet, on the income statement, on the statement of cash flows inside the financial statements. It would also require expenditure metrics, and that's expenditure related to climate-related risk. And all of these disclosures would be required, to the extent that they are one percent of any line item in the financial statements – so an incredibly granular proposal. You'd also have to disclose estimates and assumptions underpinning the numbers in the financial statements. Because this is in the statements, it would be subject to audit and also subject to the registrant's internal control over financial reporting.

So the third thing, then, to point out are the proposals on GHG emissions. These would be disclosed in the annual report. So, still in the Form 10-K or the 20-F if you're a foreign private issuer but they would be outside the financial statements, but still subject to the registrant's disclosure controls and procedures. There would be: disclosure of Scope 1 and Scope 2 emissions[3] for everybody; Scope 3 emissions if they are material or if they are included in targets or goals; and there is an exemption there for smaller reporting companies. There would be absolute emissions disclosed but also intensity metrics. And, lastly, assurance would be required – limited assurance and then followed a couple of years later by reasonable assurance.

So, Mark, I'll hand back to you. Those are really the three things I think worthy of pointing out on the SEC proposal.

## Mark

So Reinhard, our overarching takeaway is that wherever companies are, there are big challenges ahead of them. The impact of these reporting requirements will be felt very soon. Time is of the essence here and time is very short. Understanding the similarities and differences is crucial and we do hope that we will see – as much as possible – global alignment between all of these requirements.

## Reinhard

Thank you, Mark – and Julie and Tomo.

The message is clear, then. Now is the time to get involved in these important consultations. They will have wide implications for corporate reporting and that means there will be implications for your company.

So take a look at our **talkbook** comparing these proposals, and get involved in the discussion to shape the future of sustainability reporting. There is unstoppable momentum behind these proposals, and they will impact your company soon. The time you take now to familiarise yourself with what's proposed will be time well spent.

Thank you for joining this podcast: take care and stay safe.

3. The Greenhouse Gas (GHG) Protocol defines three scopes of emissions. Scope 1 refers to all direct GHG emissions from operations that are owned or controlled by the reporting company. Scope 2 refers to indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. Scope 3 refers to all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions (such as financed emissions).

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