Comparing sustainability reporting proposals

ISSB, EU and US

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## 10 questions to assess how the proposals compare

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Comparing sustainability reporting proposals

What’s the issue?

Sustainability reporting is developing quickly, with proposed new requirements from the ISSB, EU and US. There is commonality among the proposals – including that the TCFD framework forms a shared input.

However, there are also areas where they are not aligned, which may create practical challenges for companies trying to design coherent and consistent reporting that meets the needs of both global investors and jurisdictional requirements. In addition to points of detail, this includes the greater scope and scale of the ESRSs with their wider stakeholder focus.

What’s the impact?

The proposals are ambitious and would have a significant impact on companies.

For multinationals and others needing to apply multiple frameworks, the challenges would be magnified if the requirements are not compatible. A key practical consideration is aligning calculation methodologies – minimising the different data requirements.

Achieving a global baseline would support companies in applying the standards, as well as drive consistent reporting across jurisdictions – reporting that is internationally comparable, but also meets local needs.

What’s next?

1. Understand where similarities and differences exist between the proposals that may affect you.
2. Identify what you will be required to report vs what you may choose to adopt.
3. Prepare for fast adoption of all the requirements that may affect your company.

Abbreviations and key terms

1 In this document we use the term ‘proposals’ to refer to the latest proposed requirements from the ISSB, EU and US. The individual requirements are referred to as follows: ISSB – Draft IFRS® Sustainability Disclosure Standards; EU – Draft European Sustainability Reporting Standards (ESRSs); and US – Proposed US SEC climate rule. See ‘Abbreviations and key terms’ for detail on the specific versions used.
At a glance, how do they compare?

**Two ISSB™ proposals**
- Investor focus
- General principles, including proposed requirement to report across all sustainability-related risks and opportunities
- Topic-specific proposed standard on climate
- Climate-first option available in the first year of reporting

**Twelve EU draft standards**
- Multi-stakeholder focus, including investors
- Core principles for disclosure
- To date, granular requirements published for sustainability impacts, risks and opportunities

**One US climate proposal**
- Investor focus
- Detailed requirements to report on climate only
- Future proposals expected (e.g. human capital)

There is commonality among the proposals – including that the TCFD framework forms a shared input. However, in this talkbook we highlight areas where the proposals are not aligned. In addition to points of detail, this includes the greater scope and scale of the draft ESRSS with their wider stakeholder focus.

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1 Additional detailed guidance on other topics is planned for the future. In May 2023, the ISSB will consult on the agenda priorities to inform its two-year workplan on future topics – e.g. biodiversity.
02 Who would be in scope?

ISSB
- As determined by individual jurisdictions — e.g. based on listing status. Some — e.g. Nigeria and the UK — have already indicated that these proposals would form a key part of future requirements. Others — e.g. Japan — plan to develop national requirements based on the proposals.

EU
- A broad range of listed and private EU companies or groups,1 and non-EU companies or groups with significant operations in the EU2

US
- Nearly all US SEC registrants, including foreign private issuers3

As the starting point for disclosures, all three sets of proposals would use the same reporting entity as the financial statements. However, companies would need to carefully consider their broader value chain for at least some sustainability disclosures.

This may bring companies into the scope of multiple frameworks if they are part of sub-consolidations or consolidated groups.

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1 EU: ESRIs will apply to all large companies (including large subsidiaries of non-EU parents) and all companies listed in the EU other than micro-companies. Large companies meet two of the following criteria: > 250 employees; > €40M turnover (revenue); > €20M total assets.

2 Non-EU: ESRIs will apply to non-EU companies or groups with an aggregated revenue within the EU of more than €150M if there is at least one branch in the EU with revenue of more than €40M or one large EU subsidiary. See this article for more information.

3 The proposed US SEC climate rule would apply to accelerated, large accelerated and non-accelerated filers; smaller reporting companies (with some relief); emerging growth companies; foreign private issuers; and companies filing registration statements, including IPOs.

4 This example assumes that the aggregated revenue in the EU is less than €150M.
What materiality lens would apply?

The needs of users of sustainability reporting information may differ. Materiality provides the filter that helps companies focus on what matters to users.

**Double materiality**

The EU adopts ‘double materiality’ principles – aiming to report on all significant impacts by considering both the investor and wider stakeholder lenses.

**Impact materiality (required by EU)**

Impact materiality requires disclosures about sustainability matters that relate to a company’s actual or potential, positive or negative impacts on people or the environment.

Some of these disclosures may also be financially material.

The principles are consistent with reporting under GRI standards.

**Financial materiality (required by all)**

Information that would influence an investor’s decisions – e.g. by affecting their assessment of the company’s cashflow prospects.

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### Where and when would the information be disclosed?

<table>
<thead>
<tr>
<th>ISSB</th>
<th>EU</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Required in the audited financial statements?</strong></td>
<td>No, but permitted via cross-referencing</td>
<td>No</td>
</tr>
<tr>
<td><strong>Required in the annual report?</strong></td>
<td>Yes, with flexible location requirements</td>
<td>Yes, in the management report</td>
</tr>
<tr>
<td><strong>Cross-referencing permitted?</strong></td>
<td>Yes, to documents outside general-purpose financial reporting, subject to conditions</td>
<td>Yes to a limited extent, within specific locations and subject to conditions</td>
</tr>
<tr>
<td><strong>At the same time as the financial statements?</strong></td>
<td>Yes, subject to short term transition reliefs¹</td>
<td>Yes</td>
</tr>
</tbody>
</table>

¹ The ISSB agreed transition reliefs to support companies. Read this [article](#) for further details.

Under the ISSB proposals, information included outside the annual report via cross-referencing to other documents – e.g. in a separate sustainability report – would need to be prepared on the same terms as the annual report, including being released at the same time.
## How do the proposals align with the TCFD?

<table>
<thead>
<tr>
<th>Region</th>
<th>Governance</th>
<th>Strategy</th>
<th>Risk management</th>
<th>Metrics and targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCFD</td>
<td>Governance</td>
<td>Strategy</td>
<td>Risk management</td>
<td>Most aligned. Builds on TCFD – including descriptions of transition plans and requiring scenario analysis.</td>
</tr>
<tr>
<td></td>
<td>ISSB</td>
<td>Strategy</td>
<td>Risk management</td>
<td>ISSB</td>
</tr>
<tr>
<td></td>
<td>US</td>
<td>Strategy</td>
<td>Risk management</td>
<td>Broadly aligned – differences arise where disclosure is required only if the company uses the item (e.g. scenario analysis); and optional reporting of climate-related opportunities.</td>
</tr>
<tr>
<td></td>
<td>EU</td>
<td>Governance</td>
<td>Impact, risk and opportunity management</td>
<td>Largely aligned – differences arise because the EU uses double materiality principles (see Question 4).</td>
</tr>
</tbody>
</table>

### At a glance, how do they compare?

- **Who would be in scope?**
- **What materiality lens would apply?**
- **Where and when would information be disclosed?**
- **How do the proposals align with the TCFD?**
- **What industry-specific disclosures would be required?**
- **What GHG emissions reporting would be required?**
- **When would they be effective?**
- **What assurance would be required?**
- **What do you need to do now?**

### What do you need to do now?

- **What GHG emissions reporting would be required?**
- **What assurance would be required?**
- **When would they be effective?**
- **What industry-specific disclosures would be required?**
- **Where and when would information be disclosed?**
- **How do the proposals align with the TCFD?**
- **What materiality lens would apply?**
- **Who would be in scope?**
What industry-specific disclosures would be required?

**ISSB**
- Climate proposal includes industry-specific disclosures
- Companies would consider SASB Standards for other topics – based on 77 industry-specific SASB Standards

**EU**
- No industry-specific requirements have been proposed but the EU plans to release industry-specific standards

**US**
- No industry-specific disclosures would be required other than industry-appropriate GHG emissions intensity metric (see Question 7)

The SICS® industry classification system used by the ISSB is not consistent with the EU’s intention to use NACE codes. Multinational groups would need to map between the two systems, particularly if they operate in more than one industry.
## What GHG emissions reporting would be required?

### At a glance, how do they compare?

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<th>US</th>
</tr>
</thead>
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<tr>
<td><strong>Scopes 1 and 2?</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Scope 3?</strong></td>
<td>Yes¹</td>
<td>Yes</td>
<td>Yes, if material or included in targets²</td>
</tr>
<tr>
<td><strong>Basis for organisational boundaries</strong></td>
<td>GHG Protocol Standards options – operational or financial control, or equity share</td>
<td>Operational control</td>
<td>Based on control and share of equity-method investees (associates) – consistent with the financial statements</td>
</tr>
<tr>
<td><strong>Intensity metrics?</strong></td>
<td>Not required</td>
<td>Yes, based on net revenue for the total of Scopes 1, 2 and 3 emissions</td>
<td>Yes, based on revenue and a unit of production for the total of Scopes 1 and 2, and separately for Scope 3 (if included)</td>
</tr>
<tr>
<td><strong>Disclose targets?</strong></td>
<td>Yes, if used</td>
<td>Yes, based on Paris Agreement</td>
<td>Yes, if used</td>
</tr>
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</table>

### The GHG Protocol Standards are used by many companies to measure GHG emissions. The underlying guidance was largely developed in the early 2000s; following a consultation, a project is being undertaken to update the guidance.

Read our [guide](#) to help you understand the fundamentals of the protocol.

### The three sets of proposals have different requirements for the organisational boundary, with consequential practical implications for companies subject to multiple frameworks.

1. The ISSB agreed to provide support for companies disclosing Scope 3 emissions to help address data availability and quality challenges. Read our [article](#) on applicable reliefs.
2. Smaller reporting companies would be exempt.

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ISSB
- Final standards are expected in June 2023 with an effective date of 1 January 2024 – i.e. reporting in 2025
- However, local jurisdictions to decide when the requirements would apply
  - A climate-first option would be available in the first year of reporting

EU
- Draft standards would first apply for years beginning on or after 1 January 2024 (i.e. reporting in 2025)
- Phased introduction would start with certain large companies with listed securities in the EU

US
- Effective date will remain open until adoption of the final rules; the dates shown here are an illustrative example

Adoption of IFRS Sustainability Disclosure Standards would be mandated by local jurisdictions. As such, the effective date may vary by location.
What assurance would be required?

ISSB
- Does not have the mandate to require assurance
- Instead, information is designed to be verifiable
- Local jurisdictions could choose to require either limited or reasonable assurance

EU
- EU would require limited assurance initially, moving to reasonable assurance over time
- Limited assurance standards to be adopted no later than 1 October 2026
- Reasonable assurance standards to be adopted after feasibility assessment no later than 1 October 2028

US
- US proposals would require assurance only on Scope 1 and Scope 2 GHG emissions

At a glance, how do they compare? Who would be in scope? What materiality lens would apply? Where and when would information be disclosed? How do the proposals align with the TCFD? What industry-specific disclosures would be required? What GHG emissions reporting would be required? When would they be effective? What assurance would be required? What do you need to do now?

The proposed US SEC climate rule would require some disclosures in the audited financial statements (see Question 4), in addition to requiring assurance over GHG metrics.

1 Certain large companies with listed securities on EU regulated markets and more than 500 employees (e.g. companies currently subject to NFRD).

2 The dates shown here are illustrative only. They reflect the one year lag between the reporting dates (see Question 8) and assurance requirements that were included in the proposal.

3 Read more about ESG Assurance in Audit. The assurance requirements would have no bearing on a company’s responsibility to report accurate information from the first reporting year – e.g. limited assurance does not mean limited reporting (see Question 8).
What do you need to do now?

Educate your organisation... on the proposals, including the people, processes and technologies needed to accomplish what would be required across the frameworks.

Determine how ready you are... by considering the impact of applying multiple frameworks across subsidiaries that would be subject to differing frameworks and how to apply the requirements at the most efficient level.

Develop your reporting readiness... by taking stock of the differences between frameworks and how the various proposals would impact your disclosures and the need to enhance documentation, processes, systems, controls and data quality of key disclosures.

Use data, technology and analytics... to foster better outcomes. Data can provide insights into market opportunities, leading practices and target operating models. It can enable climate ambitions and enhance quality levers.
In this document we use the term ‘proposals’ to refer to the following:

- ISSB – Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and Exposure Draft on IFRS S2 Climate-related Disclosures, plus the ISSB’s discussions and planned actions from its meetings of September 2022 to April 2023;
- EU – Draft ESRSs published by EFRAG on 23 November 2022 and submitted to the European Commission for adoption; and
Whether you are new to sustainability reporting or a current user, you can find digestible summaries of recent developments and more detailed guidance on the current proposals.