Sustainability reporting – Responding to ISSB proposals

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Global IFRS Institute | Sustainability reporting

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"There is a growing demand among investors for more consistent and comparable information on sustainability-related risks and opportunities. We therefore recognise the urgent need for standards that will help preparers to report relevant information in a way that is practical and without undue burden. The ISSB's proposals represent a strong start towards achieving this – a global baseline that can be endorsed and built on by local jurisdictions."

Mark Vaessen, Chair
Global Corporate & Sustainability Reporting Topic Team

KPMG comments on drafts of first two IFRS Sustainability Disclosure Standards

The International Sustainability Standards Board (ISSB™) has invited comments on its first proposed IFRS® Sustainability Disclosure Standards: IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.

The KPMG **response** to the proposals includes the following key points.

Supporting the ISSB's core mission

We support the ISSB's mission to develop standards that will help preparers to report from the starting point of a globally consistent baseline of investor-focused sustainability information. This will allow national and regional jurisdictions to build on the global baseline and set supplemental standards that serve their specific jurisdictional needs – a 'building blocks approach'.

We stress that achieving a global baseline that is practical, and does not unnecessarily burden preparers, requires an alignment of principles, structure and measurement bases that underpin the disclosures – not simply the disclosures themselves.

Further, to achieve the objective of a global baseline, we believe it is important for the ISSB's initial standards to be of high quality but issued as quickly as possible.

The future of sustainability reporting

Our vision for the future is a global reporting ecosystem for sustainability-related information that combines a focus on enterprise value to meet the needs of capital market participants with reporting on impacts that serves the needs of a broader group of stakeholders. We believe that these aims are complementary. Given the mandate of the IFRS Foundation, we agree with the ISSB's focus on enterprise value.

We acknowledge the commitments made by the ISSB and the Global Reporting Initiative to coordinate their work programmes and standard-setting activities, recognising the importance of connectivity and the need for a global, interconnected system for sustainability reporting.

Connecting financial and sustainability information

We encourage the ISSB and International Accounting Standards Board (IASB®) to work closely together to ensure connectivity between their respective standards to achieve a coherent reporting package, including an aligned conceptual framework covering the reporting of all types of investor-focused information.

Reporting on all significant sustainability-related risks and opportunities

We support the broader scope of proposed IFRS S1 so that reporting is not dominated by climate. However, to achieve this in practice in advance of a full suite of IFRS Sustainability Disclosure Standards, we recommend that the ISSB constrain the sources of additional guidance that companies should consider to identify relevant risks and opportunities to the Sustainability Accounting Standards Board (SASB) standards, define the scope of 'sustainability' and on transition, allow a phased introduction to different requirements.

Defining materiality

We support the ISSB's proposed alignment of the definition of materiality with IFRS Accounting Standards. To achieve consistent global adoption, we believe it is vital that preparers and users understand this definition and how to apply it in practice. Therefore, we recommend that clarifications are added before the standards are finalised.

Once the standards have been finalised, we recommend that the ISSB undertake a project to develop a more detailed guide for preparers to follow when assessing materiality.

Facilitating adoption of the general requirements proposal

We believe that further guidance is needed on the measurement and disclosure of information from associates, joint ventures and other non-consolidated investments. Initially, we suggest requiring disclosure of the approach(es) taken to incorporate information relating to material investments, followed by a separate project to provide further guidance. This should include working together with the Greenhouse Gas (GHG) Protocol to update those requirements and drive consistency and comparability in the reporting of GHG emissions.

As drafted, certain requirements may encourage companies to make inconsistent attributions of impacts as climate- or sustainability-related, and may lead to companies disclosing management's forecasts of future performance without sufficient explanation that these are hypothetical and inherently uncertain. We suggest clarifications and drafting changes to resolve this.

By requiring retrospective changes in estimates, we believe the proposals place an undue burden on preparers to potentially restate all comparative information each year. We have made recommendations to resolve this – including a near-term solution and longer-term project.

Facilitating adoption of the climate proposal

We support the way that the proposals build on the Task Force on Climate-related Financial Disclosures (TCFD) framework. To further enhance, we suggest:

- *On scenario analysis:* encouraging companies to use scenario analysis, but only requiring disclosure when it is used by management (instead of when they are 'unable to do so'). We are proposing this change to support the global adoption of the proposals in a timely manner – as companies' proficiency in undertaking climate-related scenario analysis improves, and companies recognise the considerable value this exercise brings in understanding their climate-related impacts and exposures, there will be a trend towards the more extensive use of scenario analysis, and therefore its disclosure under the standards.
- *On transition plans:* recognise that there are likely to be climate-related impacts on a company's strategy that are not connected to its transition plan, and clarify that the activities and targets included in a company's disclosure of transition plans should clearly differentiate between activities that are either underway or otherwise committed, and any other elements of the plan.

Find out more

Read our full **response** (PDF 454 KB) and our high-level **guide** (PDF 870 KB) to the proposals.

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