



IFRS Today

Exploring topical issues in financial and sustainability reporting

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Bryce Ehrhardt
Managing Director
ESG Reporting
KPMG in the US



Simon Weaver
Global Head of
ESG Strategy,
Transformation and
Implementation,
Co-Head of
Climate Risk and
Strategy KPMG
International and
Partner, KPMG in
the UK

PODCAST TRANSCRIPT

ESG reporting | TCFD to ISSB | How does my company get there?

Bryce

Hello and welcome to the first edition in our ESG reporting podcast series. My name is Bryce Ehrhardt, and I'm going to be guiding you along this journey where we're going to be bringing you some of the latest insights and developments into what is this ever-evolving ESG reporting world. What we're doing here is we're launching this series at a landmark moment, because we have the first two IFRS® Sustainability Disclosure Standards.

These have just been published, and this is really a sign of great progress towards a global ESG reporting baseline. And really it's also much-needed connectivity between sustainability information and what is typically reported in the financial statements. It's because of this moment that we wanted to spend our first episode talking about these ISSB™ Standards. I mean, there are really many angles that we can take when discussing them, but we really wanted to start with linking them to what may be a good foundation for some companies, which is the TCFD.

So I'm joined today by Simon Weaver, who heads up KPMG's global ESG Strategy Transformation and Implementation team, which admittedly is a mouthful. And we're really happy to have Simon here. He's going to help us get into how to approach these new standards for companies that already use the TCFD framework and also for those that don't. So, Simon, welcome and thanks for joining us today.

Simon

Thanks, Bryce. It's great to be here.

Bryce

So, Simon, what we wanted to do today is really focus on three key areas where we have the intersection between the TCFD framework and these recently published ISSB Standards. I'm just going to run through what we're going to talk about really quickly.

- The first question is going to be: what has the TCFD already achieved?
- And then for the second one, let's go into how the ISSB Standards are going to build on that TCFD framework.

- And then we can wrap up by talking about what our listeners should be doing next.

So with that being said, then let's dive in. Simon – given that you sit on the TCFD, do you mind quickly just helping to baseline our listeners' knowledge about the TCFD and how it's been used up until this point in time?

Simon

Yes absolutely, Bryce. So, the TCFD: importantly, what does it stand for? Taskforce on Climate-related Financial Disclosures. And really it was set up to help capital markets to better understand and explain the impacts of climate change, both risks and opportunities. Now, importantly, it's a voluntary reporting framework which has been taken on by some jurisdictions.

But what the TCFD has done really well is accompany that with lots of practical guidance for companies and financial institutions to really understand how to bring climate risks and opportunities into their strategic decision-making, but also ultimately into their disclosures. So it has four key pillars: the first one is governance and then strategy, risk management, and metrics and targets.

And I often say it's unfortunate that it's got the D in TCFD – because it is much more than a disclosure framework. It really is a strategic risk management framework. And that's why it's popular with investors, because it really encourages companies to consider how their business is impacted by climate change and then ultimately reporting on that and providing that to the users of financial statements.

But I think one of the biggest successes of the TCFD has actually been around how it's elevated the conversation at the board level across the globe, around what is climate change and how does it impact our economy and individual organisations.

Bryce

Simon, you mentioned earlier on that the TCFD is a voluntary framework. And in this kind of voluntary reporting world, success can sometimes be characterised by how many companies are using it.

So just how many companies actually are leveraging the TCFD right now from a climate reporting perspective?

Simon

I get a monthly update being on the TCFD Board and it literally goes up every month. But I think where we're at, at the moment, is there's over 4,500 companies that are reporting under the TCFD and that covers a market capitalisation of USD 28 trillion.

And then if you actually include all of the financial firms and the portfolios they're reporting on, you then go up to USD 220 trillion. So it's a huge amount. KPMG did a survey of some of the world's biggest companies in 2022, and 61 percent at that point were reporting under TCFD. So it's really taken off and I think it's back to that strategic framework and boards really seeing the value of what this can do for their organisation.

Bryce

That's awesome. Now that we have a good sense of what the TCFD is and how it's currently used, let's bring these new ISSB Standards into the mix and really shift our focus to the second question of how the ISSB Standards actually build on the TCFD framework. And if you don't mind, Simon, maybe I can actually give this one a start?

So two things. First, at its foundation, the ISSB Standards build on the structure of the TCFD that you just outlined. So when we actually go and read them, we're going to see things like governance and strategy. What's really cool is that other

draft standards, such as those in Europe and those being developed in the US, are using similar structures to support that international operability.

The second point (and this is where the ISSB Standards start going above and beyond the TCFD) is that the ISSB Standards focus on all ESG-related matters, not just climate. And so it's there that we already start seeing the ISSB Standards go above and beyond.

Simon

Now, I think they're two really great points, Bryce. Two further things for me.

Once you go beyond climate, it does actually get more complex, unfortunately, starting to think about potential trade-offs, how different things interact with things like the 'just transition' and also the link between climate matters and biodiversity.

And I think it's great that the ISSB has started to consider those and include those in the *Standards*. Also, they are standards. So the ISSB Standards provide more detailed principles and requirements for what is and importantly what isn't required to be reported. So they're really a sustainability reporting standard vs the TCFD, which is a *framework*. And that leads back to the point around them being assurable ultimately over time.

Bryce

Okay. So let's pivot to our third and final area of focus then for today, which is simply what our listeners should be thinking about now and how companies should be approaching these requirements.

So Simon, why don't you kick us off this time? What do you think companies really need to do, now that we've reached this landmark moment where the ISSB has launched these new standards?

Simon

Yes. I think there's probably three key things to kick off with. One is scope; secondly, materiality; and then thirdly, a sort of gap or readiness assessment.

- So in terms of the scope, the first question is identifying where is the ISSB applicable for you across your organisational structure? And importantly, how does that tie into the incoming EU standards and the US climate rule, for example? And ultimately, by doing that kind of analysis, you can come up with a sustainability reporting strategy which – importantly – is compliant, but almost more importantly is an efficient strategy and value adding for your organisation.
- The second step is then around materiality. So understanding where are the key focus areas for you across the sustainability agenda, the importance of engaging with the board across your business and stakeholders, and ultimately enabling you to prioritise and focus, both for internal decision-making and ultimately for your ISSB disclosures.
- And then finally a gap or readiness assessment. Hopefully you're actually doing a lot of what you need to do for the ISSB Standards already. So it's important to understand where that is and make sure you're moving from where you are already, rather than starting afresh.

Bryce

And I also think it's important that companies understand the transition options. There's a key one within the ISSB Standards that really allows companies to report only on climate for the first year. So for those that are already doing TCFD reporting, this means they can move from a clear progression of doing TCFD reporting now to ISSB climate-only reporting and then eventually to the full ISSB reporting.

But even taking into account those transition options, it's still important to get on with designing your future reporting target operating model and, of course, identifying what data you need within that model.

Simon

Yes, and I think that's a really good point. But I think one of the key things I say to all my clients is it's important to not let the desire for perfect data get in the way of moving forward. And I'm seeing that time and time again.

Now, absolutely, we need to start to bring non-financial reporting controls, systems and processes in line with the quality that we have for financial reporting. But that's going to take time and it's really important just to get going.

Bryce

And I love that – it's one of the key takeaways. That's just resonating so much with me right now. A few other key takeaways that I'm hearing and digesting right now:

- One – if you're already doing some form of reporting in the TCFD framework, that's a bonus. You've given yourself a leg-up in the short term in that implementation journey, especially given that transition relief that we just discussed.
- Secondly, you need to understand where the ISSB goes above and beyond the TCFD and also how your organisation is going to achieve those new requirements.

Simon, what about you? What are some key takeaways?

Simon

- Yes, I think just building on that second one, that materiality assessment, that is where you absolutely have to start to understand where to go, whether you've done the TCFD before or not.
- Secondly, scenario analysis – that's the bit that really takes the time, so make sure you're kicking that off early and make sure you've got that cross-functional group to deliver on it.
- And thirdly, don't forget that you cannot look at your ISSB implementation in a silo; you need to consider the ISSB requirements in conjunction with any other ESG regulatory reporting requirements your organisation will be subject to.

Bryce

Simon, you ended on the perfect note there. That last point of yours is about not operating in a silo.

We're going to be diving into this broader topic in a variety of our upcoming episodes with some of our other guest speakers. So listeners, please stay tuned.

Bottom line here: there's real progress towards the longer-term aim of building that global baseline for ESG reporting. And now, right now, is the perfect time to step up and get started on your implementation journey if you haven't already.

We've only scratched the surface here with Simon, but hopefully this gives you a clear sense of what's involved for companies and how these topics are going to be covered over the course of this series.

Much more detailed information on these standards and how you might apply them are available at [KPMG IFRS](#), and all that leaves me to say is thanks for listening and thanks to Simon for joining us and we are really looking forward to welcoming you to our next episode.

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