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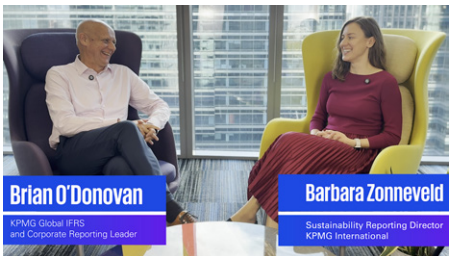
Corporate Reporting Today

Our series on current issues around corporate reporting

5 November 2026



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TRANSCRIPT

Reporting on nature | Understanding the ISSB's disclosure proposals

Brian

Hello, I'm Brian O'Donovan, Global IFRS and Corporate Reporting Leader at KPMG. During COP17 – that's the UN biodiversity conference – the ISSB published its proposals on nature-related disclosures. I'm joined today by my colleague Barbara Zonneveld from the KPMG International Standards Group, to discuss what these proposals could mean for companies.

Hello, Barbara.

Barbara

Hi, Brian. So these are very interesting proposals, and I think that they come at a time when we see growing investor interest in nature. And sometimes these things are much closer to home than we think. For example, here in the UK we had an extremely dry summer. So, for example, steel companies that depend on water might have been impacted.

Nature in focus

Brian

It's no surprise to me personally that companies are becoming more and more interested in nature, given the potential financial effects.

Barbara

Yes. That's right, because companies depend on nature and at the same time their actions can impact nature. And these dependencies and impacts can create risks and opportunities for companies that can have impact on their cash flows, access to finance or cost of capital.

Brian

Yes, but nature isn't new to sustainability reporting, is it? IFRS S1 – the general ISSB Standard – already requires companies to consider all material sustainability-related risks and opportunities, including nature. What would these proposals really add?

Barbara

These proposals would explain how to apply IFRS S1 specifically to nature, and also they add some nature-specific disclosure requirements, but they are not

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introducing completely new principles. In fact, the ISSB itself has drawn heavily on the work on the TNFD – which is the Taskforce on Nature-related Financial Disclosures. So the purpose of these proposals is to help companies to provide investor-useful information on nature.

Nature is not just biodiversity

Brian

So before going any further, we should probably say what we mean by 'nature'. Is it really just biodiversity?

Barbara

No, no. Nature is actually much broader than biodiversity. It also covers land, freshwater, ocean and atmosphere. So for businesses, that may mean land use, water availability or access to ecosystems that companies depend on.

Brian

Yes, and nature-related exposures, they could be in the value chain, even if a company's own activities don't seem to be very nature-intensive. So these proposals could affect lots of companies. It's not just agriculture or mining.

Barbara

Yes. As you said, the exposure can occur anywhere along the value chain, and the location of the business activities is actually very important for nature, because the same type of business activity can have very different risks depending on where they happen and the condition of nature in that location.

Nature and climate: connected stories

Brian

Many companies have been investing heavily specifically in their climate reporting. But I don't think that companies should be thinking separately about climate and nature when telling their story.

Barbara

I agree. Climate and nature are very interconnected. Like for example, climate change can put extra pressure on nature and companies may already be telling their climate-related stories, but now they should also think about these interactions and how they present it.

Companies should also pay attention to the trade-offs and synergies in their strategies. For example, one action that companies take to address their climate change could have unintended consequences on nature, or it could benefit both of them.

Brian

Yes, so it's important companies think about these connections and capture them in their reporting processes. I think the good news is it means companies can build on the processes they've developed to report under IFRS S1, IFRS S2 and TNFD.

Barbara

Absolutely. They are not starting from scratch. But I think that nature brings very specific challenges to reporting, especially around the value chains, location and data that companies need to collect.

Why a practice statement?

Brian

There's another interesting aspect to these proposals. So the ISSB is not proposing a new standard. It's proposing a practice statement. What does that distinction really mean?

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Barbara

So the key point is that the practice statement is voluntary. And what that means is that companies don't have to apply the practice statement in order to claim compliance with ISSB Standards. But if a company decides to apply the practice statement, then it needs to comply with all its requirements.

Brian

So under these proposals, a company could apply the practice statement and claim compliance with ISSB Standards. Or it could choose not to apply the practice statement, but still claim compliance. Is that right?

Barbara

Yes, that's right. So the ISSB wanted to provide companies with guidance on nature reporting to help them, but at the same time they didn't want to disrupt implementation of IFRS S1 and IFRS S2, which currently is undergoing in many jurisdictions.

Brian

So it's a balancing act really, isn't it? And importantly, the ISSB is asking for feedback on whether or not a practice statement is the right way forward. It's not a done deal.

Barbara

Not a done deal. Yes.

Key impacts and next steps

Brian

So let's finish with some practical implications. What should companies be thinking about now to assess the potential impact of these proposals?

Barbara

So the first thing would be to make a decision whether a company wants to apply this practice statement or just use it as guidance. Either way, I don't think companies would be starting from scratch because many companies have already developed their disclosure policies under ISSB Standards, and others are using TNFD recommendations and guidance currently. So, I would recommend starting from where you are here.

Look at your existing processes, data, and current disclosures, and identify where the proposals may require you to go further. This could include, for example, understanding better where nature-related risks and opportunities exist for you, how nature and climate connect, and how it all can affect your business model and your strategy.

Brian

So there's a lot for companies to consider but also a lot they can build on.

Barbara

Yes, exactly.

Brian

So remember, these are just proposals. This consultation is open for comment until the 19th of February 2027. Do tell the ISSB what you think. And if you want more information on this consultation and much else besides, take a look at kpmg.com/ifrs.

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Publication name: *Corporate Reporting Today:: Reporting on Nature | Understanding the ISSB's disclosure proposals*

Publication date: November 2026

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