



Get ready for ISSB sustainability disclosures

Understanding the prototypes

home.kpmg/ifrs



December 2021



Get ready for ISSB sustainability disclosures

[Abbreviations and key terms >](#)

What's the issue?

- Prototype standards on climate-related disclosures and general requirements for sustainability disclosures are now available; they are based on existing frameworks and standards, including TCFD and SASB.
- They provide an indication of the disclosures that may soon be required under IFRS® Sustainability Disclosure Standards (the standards), providing a sense of direction for enterprise value-focused sustainability reporting.

What's the impact?

- Companies applying these standards will need processes and controls in place to provide sustainability information of the same quality and timeliness as their financial information.
- Getting ready now is critical even if the final standards are not identical to the [prototypes](#). Companies that are already producing similar sustainability-related information are likely to find reporting under the final standards easier, even if the information is not published.

What's next?

- The first two standards may be issued as soon as H2 2022. Individual jurisdictions will decide whether and when to adopt them.
- With strong support from IOSCO, a rapid route to full adoption is expected in a number of jurisdictions. In some jurisdictions, the standards will provide a baseline.
- Some public and private companies may choose to adopt them voluntarily – e.g. in response to investor or societal pressure.

As a European company, why should you pay attention?

Anticipated EU regulation

- The EC proposed Corporate Sustainability Reporting Directive (CSRD) is under negotiation and expected to be adopted by mid-2022. EFRAG will be granted the power to issue European sustainability standards and guidance.
- Prototypes for these standards are currently being developed by EFRAG's Project Task Force on European sustainability reporting standards (PTF-ESRS).
- First draft standards are expected in the course of 2022, with the aim of finalizing these in H2 2022.

EU regulation inspired by the same frameworks and standards

- EU Commissioner McGuinness (November 2021)¹:
 - *“The EU wants to make sure our standards are closely aligned with global standards. And this is something we are fully committed to on sustainability reporting. We welcome the IFRS Foundation initiative to develop a common global baseline on sustainability reporting. We believe that global standards should be a common floor, not a ceiling that limits those that want to go further and faster.”*
 - *EU standards will build on and contribute to global standardisation initiatives. We should build on what exists, and seek as much alignment as possible, while also meeting Europe's ambitious goals.”*
- Therefore, the ISSB prototypes will likely be taken into account in European developments of standards with the aim of compatibility when preparing for the European sustainability reporting standards.

Market demand toward a global baseline

- Regardless of regulation and domicile, companies – both public and private – are coming under pressure from investors, lenders, customers and others to improve their sustainability credentials and related reporting
- There is considerable investor support behind the ISSB initiative, and the Glasgow Financial Alliance for net Zero (GFANZ) announced at COP26 that over \$130 trillion of private capital is committed to transforming the global economy for net zero.²
- Therefore, a company may be called on, or may decide voluntarily, to comply with the future ISSB standards, in preparation of the expected EU standards.

1. Quotes from speech Commissioner McGuinness (November 2021, COP26) [Remarks and EU side event on disclosures at COP 26: EU Sustainability Reporting Standards and the Future of Sustainability Reporting | European Commission \(europa.eu\)](#)
2. GFANZ press release, “Amount of finance committed to achieving 1.5 degrees Celsius now at scale needed to deliver the transition”, (3 November 2021), <https://www.gfanzero.com/press/amount-of-finance-committed-to-achieving-1-5c-now-at-scale-needed-to-deliver-the-transition/>

10 questions to start getting ready

01 What's the purpose of the prototypes?

02 What are they based on?

03 How and when could they affect you?

04 What would need to be disclosed?

05 Would they require scenario analysis?

06 Where would the information be disclosed?

07 What about topics other than climate?

08 What if you've already adopted other frameworks?

09 What do they mean for broader sustainability reporting?

10 What do you need to do now?

1. What's the purpose of the prototypes?

Provide an early indication of what to expect from the ISSB

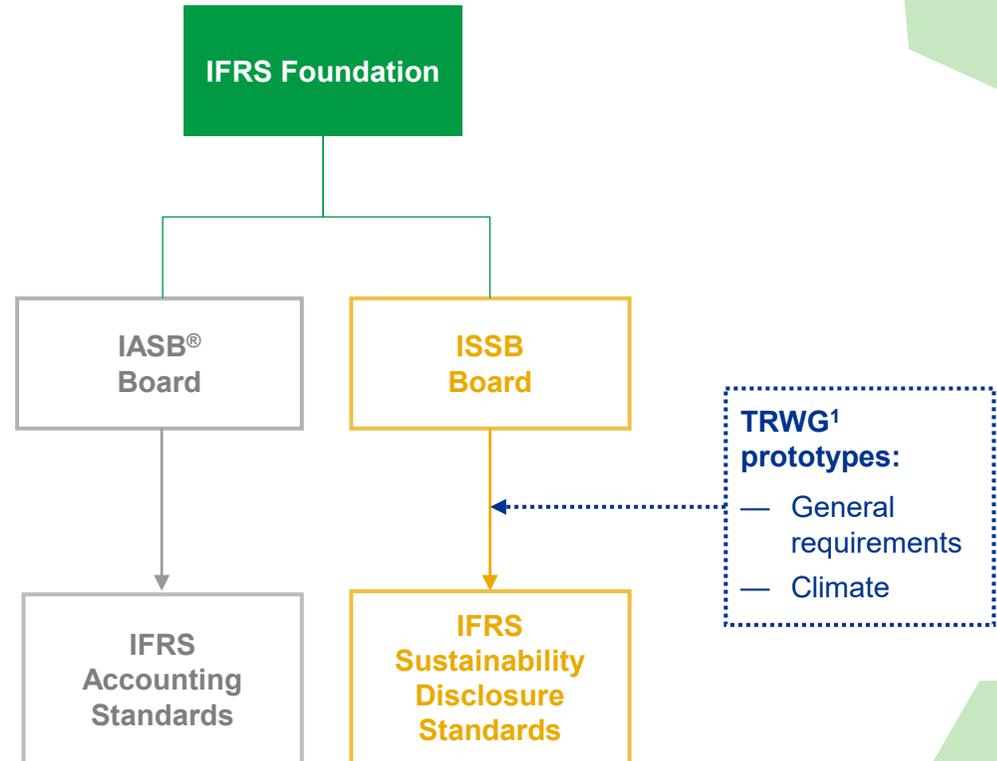
- A sense of direction for future enterprise value-focused standards.
 - The prototypes have been released for information only; they have not been through the due process of the IFRS Foundation.
- Insight into what companies may be required to disclose in the near future.

Enable rapid progress towards authoritative standards

- By driving consistency and comparability of information in the earliest practicable reporting period.
- Some companies may report on this basis for 2022 year ends.

The prototypes cover:

- Climate-related disclosures.
- General requirements for disclosures that would form the basis for future standard setting on other sustainability matters.



1. The prototypes are the result of a collaboration between the CDSB, IASB Board, TCFD, VRF (<IR> and SASB) and WEF – supported by IOSCO.



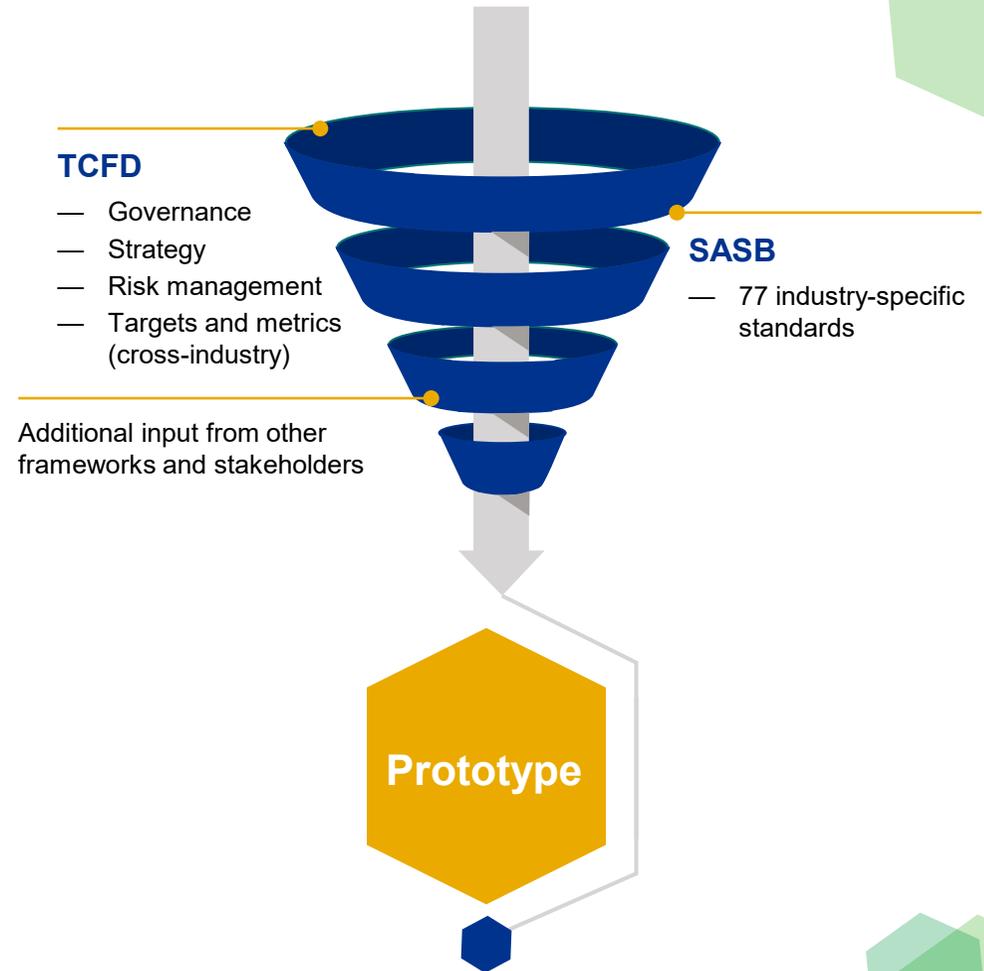
2. What are they based on?

Built on the latest thinking of existing frameworks and standards

- Follow the four pillars of the TCFD's recommended disclosures: governance, strategy, risk management, metrics and targets.
- Enhanced by climate-related industry-specific metrics derived from the SASB's 77 industry-specific standards.
- Additional input from other frameworks and stakeholders, including from the IASB Board's management commentary proposals.

Bring financial reporting concepts to sustainability reporting

- Built using a similar approach to IFRS Accounting Standards.
- The general disclosure requirements prototype was inspired by IAS 1 *Presentation of Financial Statements*, which sets out the overall requirements for presentation under IFRS Accounting Standards.



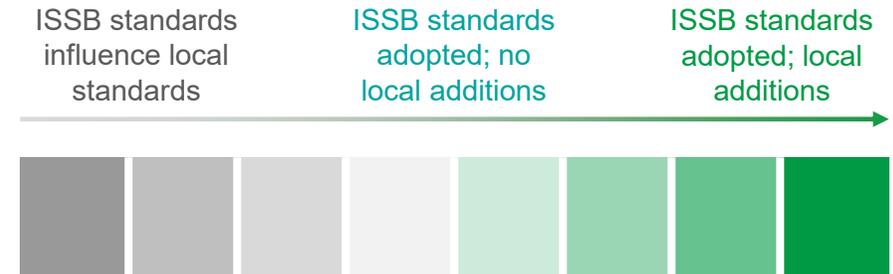
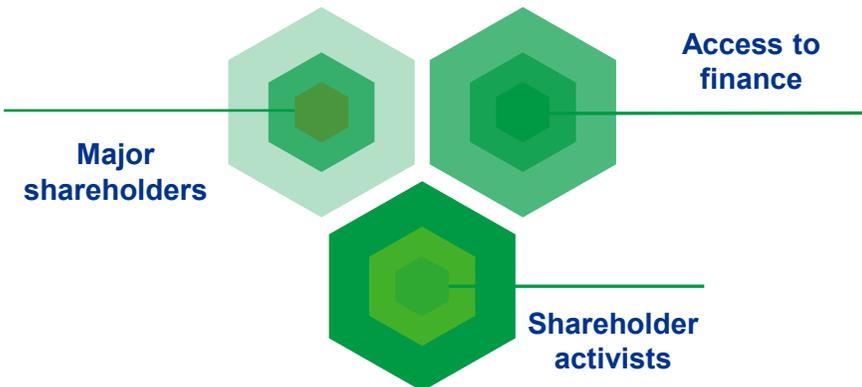
3. How and when could they affect you?

Pressure from investors

- Investors are increasingly willing to use their voting power to drive transparency over sustainability matters, including transition plans and their impact.
- They expect the ISSB to bring the same focus, comparability and rigour to sustainability reporting as the IASB Board has done for financial reporting.
- They have generally supported the adoption of TCFD and SASB Standards in the past. Therefore, they will be expecting companies to adopt the standards quickly.

Regulatory requirements

- With strong support from IOSCO, a rapid route to adoption is expected in a number of jurisdictions.
- In some jurisdictions, the standards will provide a baseline either to influence or to be incorporated into local requirements. Others are likely to adopt the standards in their entirety.



4. What would need to be disclosed?

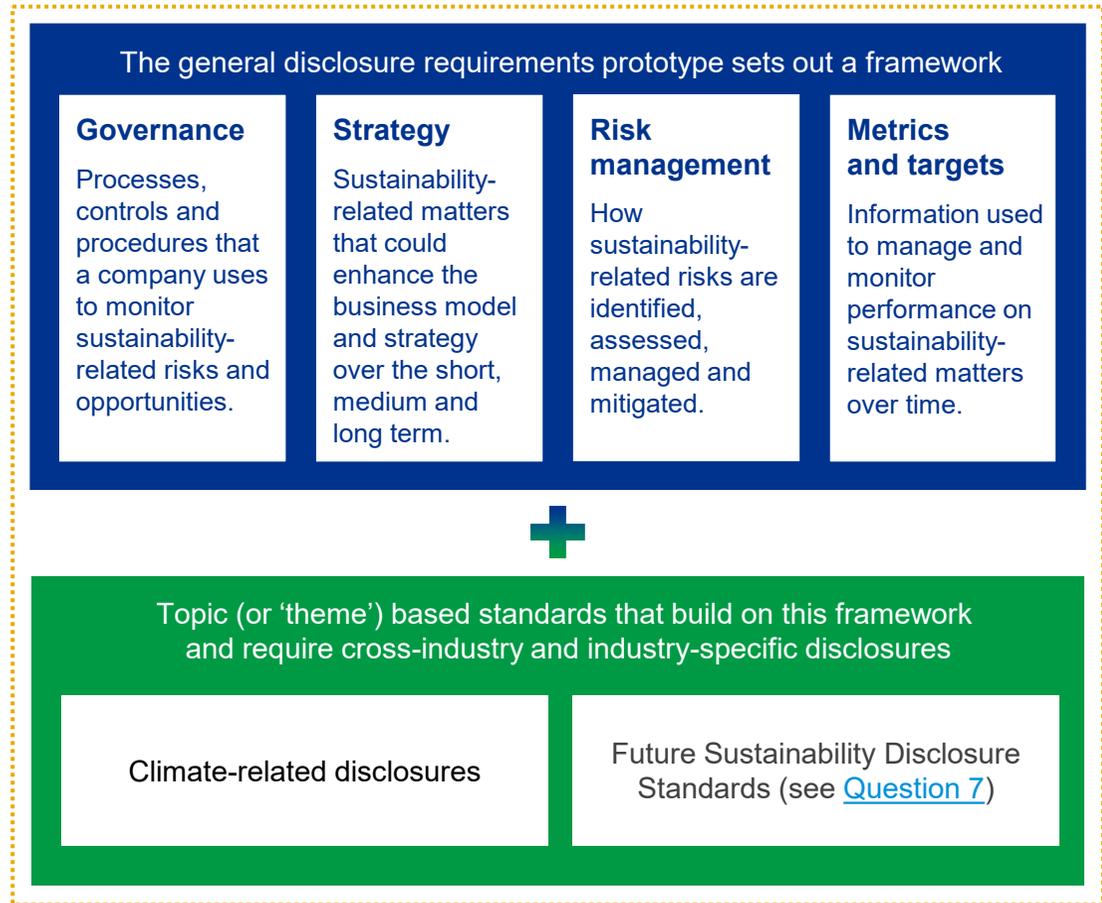
Material information that:

- Provides a complete and balanced explanation of significant sustainability risks and opportunities.
- Covers governance, strategy, risk management and metrics and targets.
- Focuses on the needs of investors and creditors, and drivers of enterprise value.
- Is consistent, comparable and connected.
- Is relevant to the sector and industry.
- Is presented across time horizons: short, medium and long-term.

Material metrics based on:

- Measurement requirements specified in the climate prototype or with reference to other frameworks such as the Greenhouse Gas Protocol.

Disclosures focus on matters that are critical to the way a company operates:



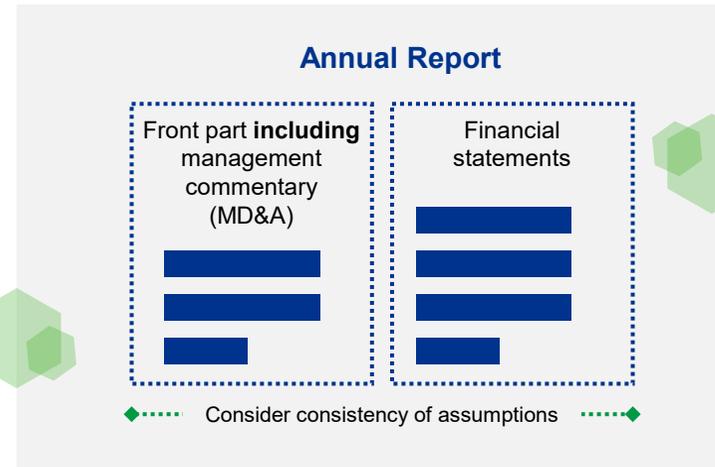
5. Would they require scenario analysis?

What is scenario analysis?

- A structured way to consider how climate-related risks and opportunities could impact a company's governance framework, business model and strategy.
- [Scenario analysis](#) is used to answer 'what if' questions. It does not aim to forecast or predict what will happen.

What is a climate scenario?

- A set of assumptions around how the world will react to achieving different degrees of global warming.
 - For example, the carbon prices and other factors needed to limit global warming to 1.5°C.
- By their nature, scenarios may be different from the assumptions underlying the financial statements. However, careful consideration needs to be given to the extent to which linkage between the scenario analyses and these assumptions is appropriate.



Is scenario analysis required?

- It is referenced in the climate prototype.
- It can be a helpful tool for management in assessing the resilience of a company's business model and strategy to climate-related risks.

Why is disclosure useful?

- It can help investors assess the possible exposures from a range of hypothetical circumstances.

6. Where would the information be disclosed?

It depends

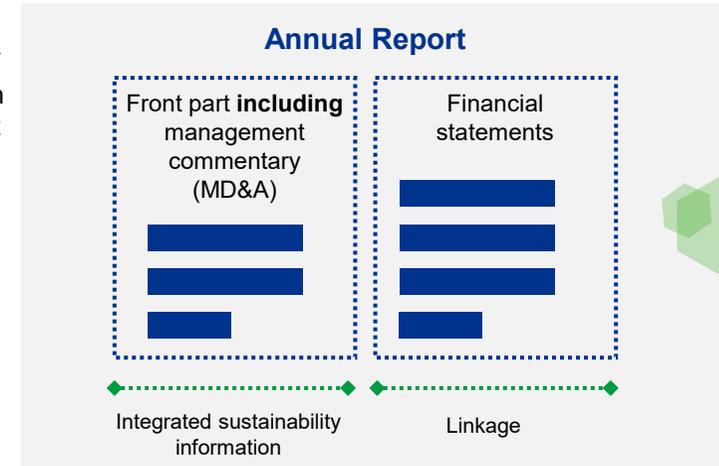
- The prototypes do not specify a single location.
- The prototypes allow for cross referencing to information presented elsewhere, but only if it is released at the same time as the general-purpose financial report.
- Many countries already include broad requirements for the disclosure of investor-relevant information¹, and may therefore already require material sustainability-related information.

Would it need to be audited?

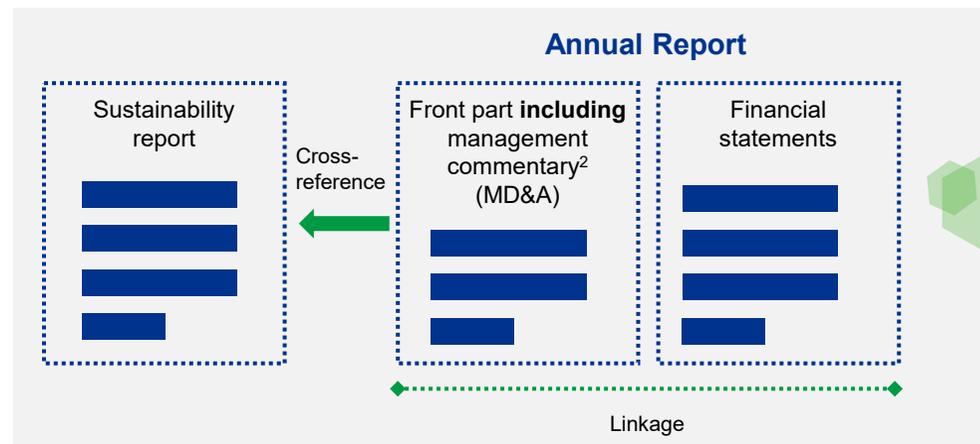
- Audit requirements are not within the ISSB's remit.
- Regulators may choose to require assurance.
- Regardless of local assurance requirements, companies will need to ensure they have the processes and controls in place to produce robust and timely information.

1. For example, the MD&A or management commentary may be the most appropriate place to provide information required by future standards.
2. Ensuring material information is not excluded from management commentary.

Example 1:
Integration of information in management commentary.



Example 2: Separate report providing sustainability information, cross-referenced to and available on the same terms as management commentary



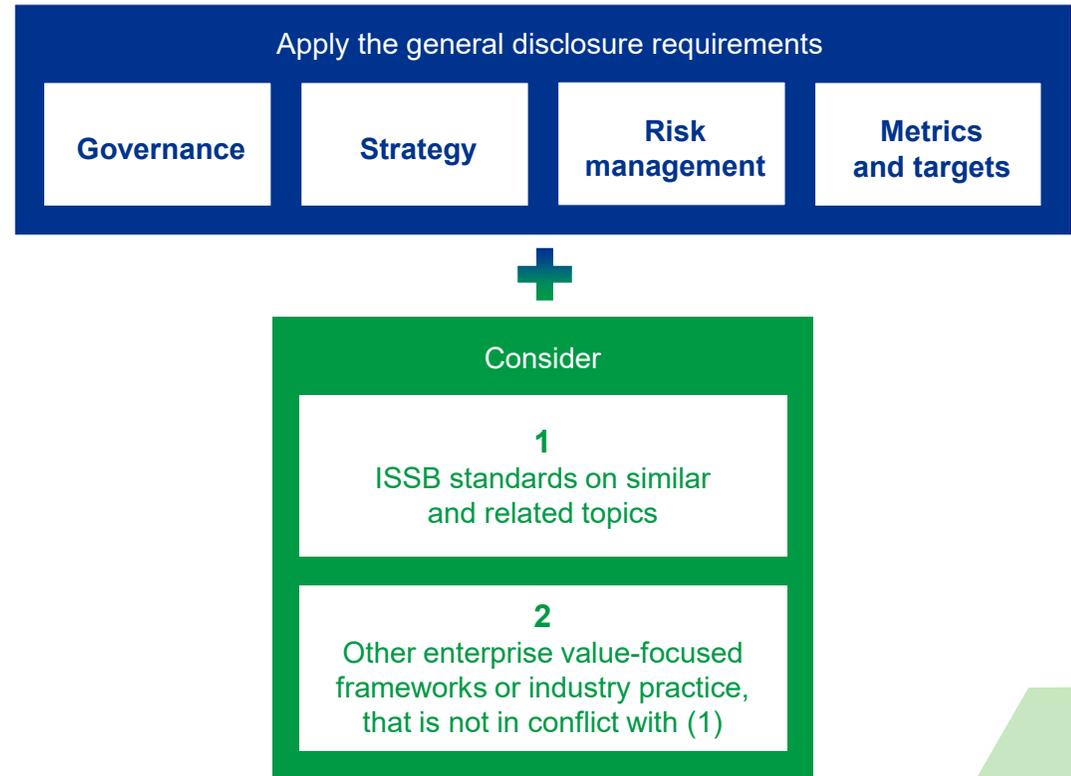
7. What about topics other than climate?

The general disclosure requirements prototype helps companies by:

- Identifying sustainability-related information that could affect enterprise value.
- Illustrating the structure and form of disclosures on other topics.
- Providing guidance on the concepts of materiality, the reporting boundary and connectivity.
- Recommending the use of existing voluntary standards – e.g. SASB Standards – until further standards are published.

Public consultation

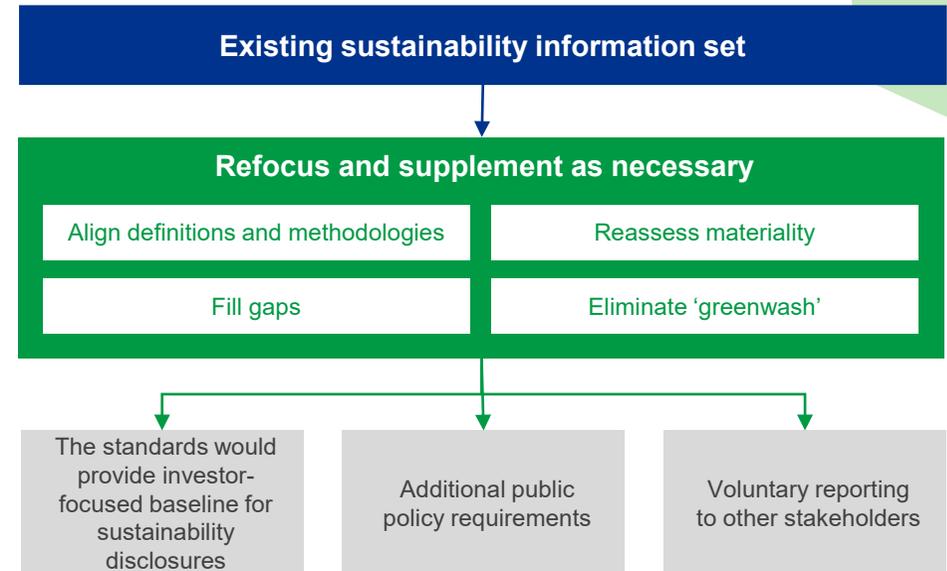
- The ISSB is expected to consult publicly on what topics to cover in future standards.



8. What if you've already adopted other frameworks?

Build and adapt

- Consider specific jurisdictional guidance, including any recommendation to adopt or converge with the forthcoming standards.
- Map how the prototypes differ from current frameworks used.
- Focus on matters that affect the company's prospects and consider what would impact an investor's assessment of those prospects.
- Consider where additional data is needed.



Items to consider if previously adopted TCFD:

- Identify and present material information on topics other than climate and focus on sector and industry metrics.
- For climate-related reporting specifically, prepare for more granular disclosures, and align the bases of calculation and presentation to the climate prototype.

Items to consider if previously adopted SASB Standards:

- Focus on strategic and process-related requirements related to governance, strategy and risk management.
- Use data collection processes for industry-specific metrics.

9. What do they mean for broader sustainability reporting?

Evolution

- The prototypes are part of the evolution from fragmented, voluntary frameworks to authoritative standard setting.
- The formation of the ISSB provides a natural focal point for the consolidation of enterprise value-focused reporting frameworks.

Reporting to meet public policy and other needs

- This is likely to continue as a separate strand of reporting.
- Some jurisdictions are developing 'green taxonomy' requirements for the classification of revenue and expenditure based on whether the activity meets certain sustainability criteria.

Private companies

- Some private companies are coming under pressure from investors, lenders, customers and others to improve their sustainability credentials and related reporting.
- Therefore, they may be called on to comply with the future standards.



10. What do you need to do now?

Be prepared

The four things you should be doing now:

1



Educate your organisation

on sustainability reporting and climate-related risks and opportunities, and what it means for the company.

2



Establish a board-led governance structure

that brings both finance and sustainability reporting to the boardroom table when making commitments, decisions and reporting on climate-related issues.

3



Engage with current process owners

and understand how information is being defined, captured and reported, and where there are control gaps.

4



Explore your options

to create efficiencies and move certain aspects of the data collection and calculation process into systems and processes that are already related to sustainability reporting.

Abbreviations and key terms

CDSB

Climate Disclosure Standards Board – an initiative of CDP (formerly the Carbon Disclosure Project)

CSRD

Corporate Sustainability Reporting Directive

EFRAG

European Financial Reporting Advisory Group

Enterprise value

Enterprise value focuses on the factors that drive companies' short-, medium- and long-term prospects, and the information the capital markets need to assess them

IASB Board

International Accounting Standards Board

IOSCO

International Organization of Securities Commissions

ISSB

International Sustainability Standards Board

SASB

Sustainability Accounting Standards Board

TCFD

Task Force on Climate-related Financial Disclosures

TRWG

Technical Readiness Working Group

VRF

Value Reporting Foundation (which houses the, Integrated Reporting Framework and the SASB Standards)

WEF

World Economic Forum and in particular the Stakeholder Capitalism Metrics

Keeping in touch



Mark Vaessen

Partner, Department of Professional Practice
KPMG Netherlands
Vaessen.Mark@kpmg.nl



Mark Didden

Senior Manager Sustainability
KPMG Netherlands
Didden.Mark@kpmg.nl



Marco Frikkee

Partner Sustainable Finance
KPMG Netherlands
Frikkee.Marco@kpmg.nl

Whether you are new to IFRS® Standards or a current user, you can find digestible summaries of recent developments, detailed guidance on complex requirements, and practical tools such as illustrative disclosures and checklists.

IFRS Today

Blogs, podcasts and videos



News

Search all KPMG articles on IFRS Standards



Tracking the development of IFRS Sustainability Disclosure Standards



KPMG IFRS on LinkedIn

Follow us and share our insights with your connections



Climate change financial reporting resource centre



COVID-19 financial reporting resource centre



Insights into IFRS®

Helping you apply IFRS Standards to real transactions and arrangements



Guides to financial statements

Illustrative disclosures and checklists



Follow 'KPMG IFRS' on LinkedIn or visit home.kpmg/ifrs.



home.kpmg/ifrs

Publication name: *Get ready for ISSB sustainability disclosures*

Publication number: 137812

Publication date: December 2021

© 2021 KPMG Advisory N.V., a Dutch limited liability company and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

All rights reserved.

KPMG refers to the global organization or to one or more of the member firms of KPMG International Limited (“KPMG International”), each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. For more detail about our structure please visit <https://home.kpmg/xx/en/home/misc/governance.html>

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

This publication contains copyright © material of the IFRS® Foundation. All rights reserved. Reproduced by KPMG IFRG Limited with the permission of the IFRS Foundation. Reproduction and use rights are strictly limited. For more information about the IFRS Foundation and rights to use its material please visit www.ifrs.org.

Disclaimer: To the extent permitted by applicable law the Board and the IFRS Foundation expressly disclaims all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise (including, but not limited to, liability for any negligent act or omission) to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.

Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

‘IFRS®’, ‘IASB®’, ‘IFRIC®’, ‘IFRS for SMEs®’, ‘IAS®’ and ‘SIC®’ are registered Trade Marks of the IFRS Foundation and are used by KPMG IFRG Limited under licence subject to the terms and conditions contained therein. Please contact the IFRS Foundation for details of countries where its Trade Marks are in use and/or have been registered.