

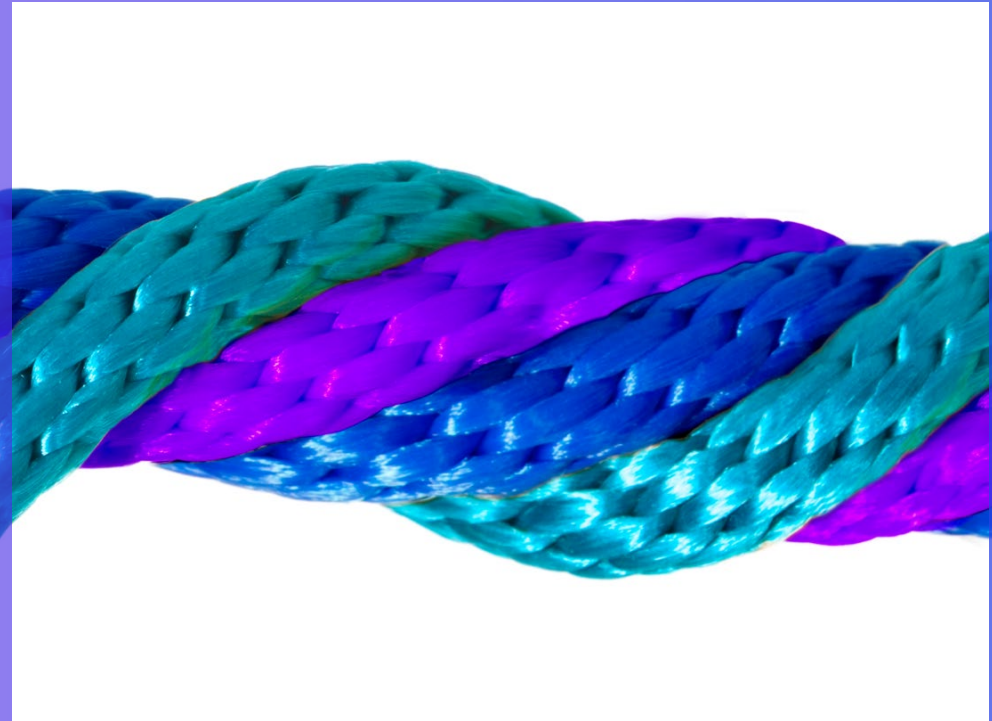


Comparing sustainability reporting proposals

ISSB™, EFRAG and SEC

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June 2022 (updated August 2022)



10 questions

to assess how the proposals compare

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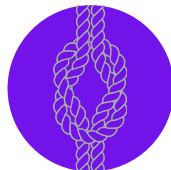
09

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10

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Comparing sustainability reporting proposals



What's the issue?

Sustainability reporting is developing quickly, with proposed new requirements from the [ISSB Board](#), [EFRAG](#) and the [SEC](#).

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 EFRAG proposals 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, which may be soon after the requirements are finalised.

Abbreviations and key terms ▶

01 At a glance, how do they compare?

Two ISSB proposals

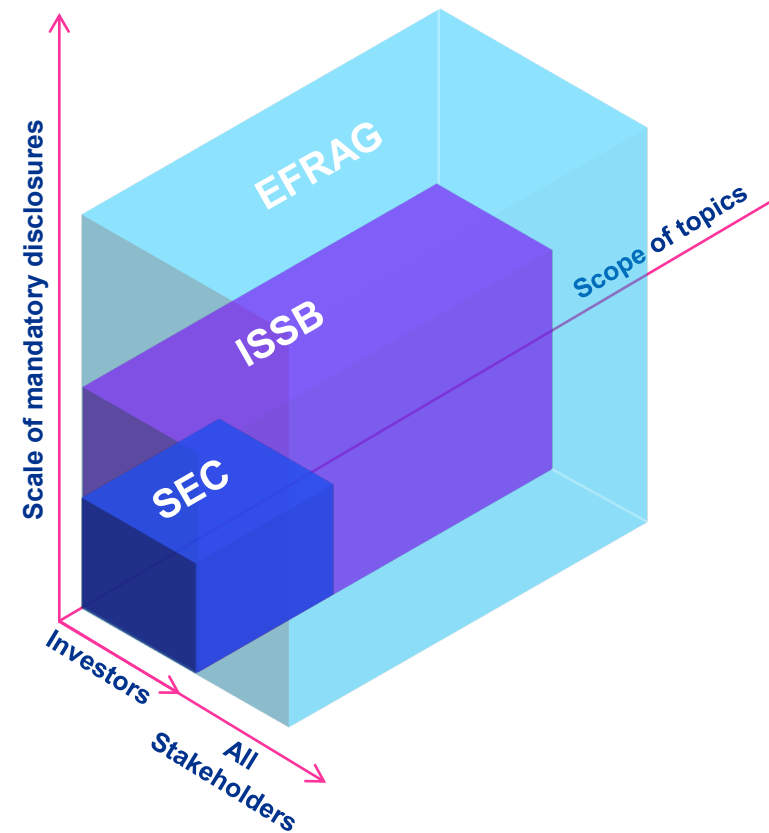
- Investor focus
- General principles, including proposed requirement to report across all significant sustainability-related risks and opportunities (not just climate)
- To date, detailed guidance on climate only¹

Thirteen EFRAG proposals

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

One SEC climate proposal

- Investor focus
- Detailed requirements to report on climate only



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 EFRAG proposals with their wider stakeholder focus.

¹ Additional detailed guidance on other topics is planned for the future.

02 Who would be in scope?

ISSB

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

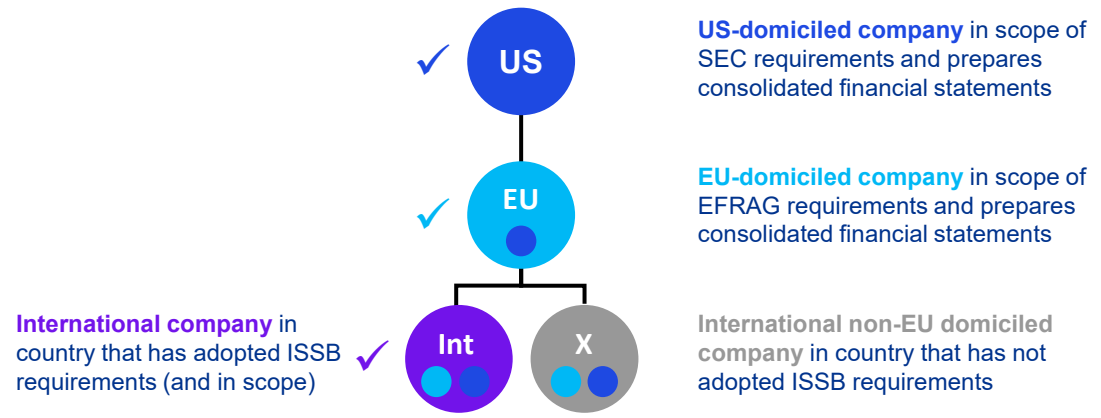
EFRAG

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

SEC

- Nearly all SEC registrants, including foreign private issuers³

A US listed and domiciled parent with global subsidiaries⁴



✓ ✓ ✓ Company directly subject to requirements ● ● Company indirectly subject to requirements via group reporting



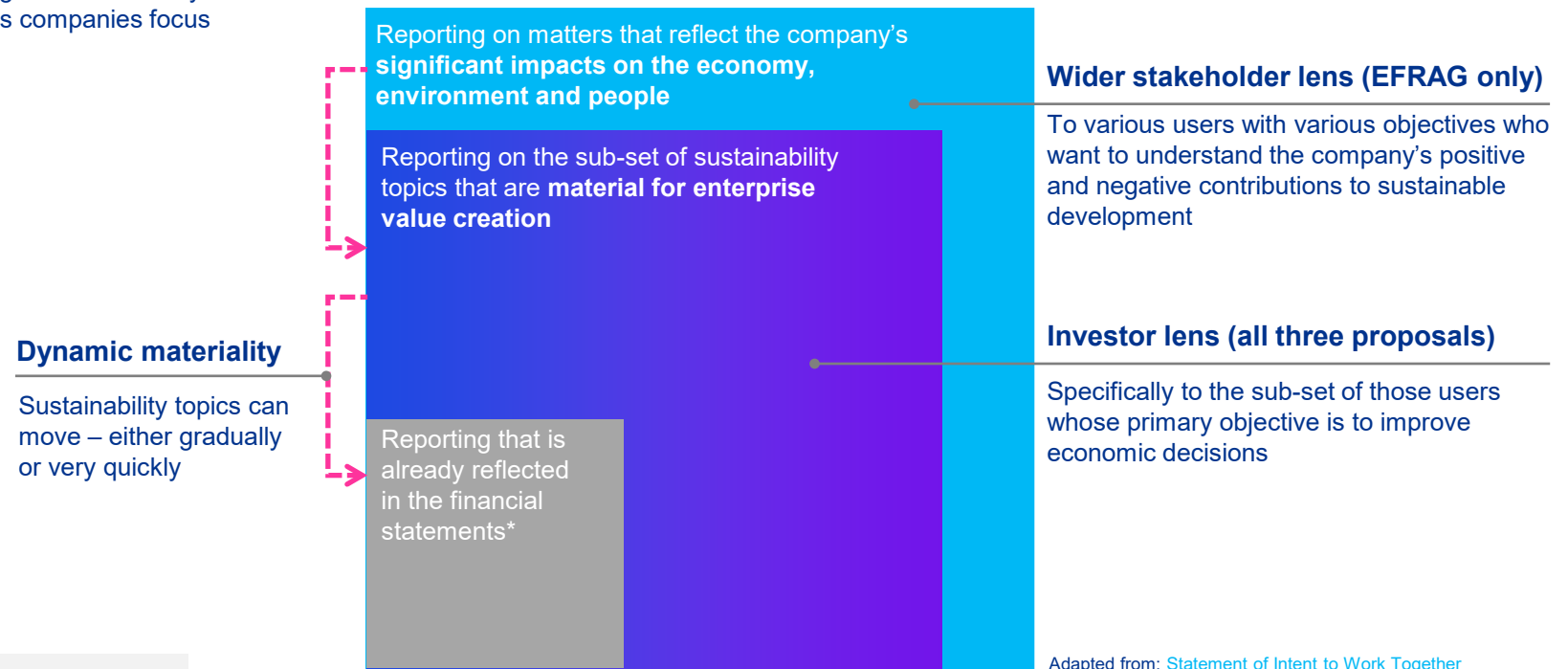
All three sets of proposals would use the same reporting entity as the financial statements as the starting point for disclosures. However, companies would need to carefully consider their broader value chain for at least some sustainability disclosures.

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

- EU: EFRAG proposals would apply to all large companies (including large subsidiaries of non-EU parents) and all listed EU companies other than micro-companies. Large companies would meet two of the following criteria: > 250 employees; > €40M turnover (revenue); > €20M total assets.
- Non-EU: EFRAG proposals would apply to non-EU companies or groups with an aggregated revenue within the EU of more than €150M if there is at least one large subsidiary or branch in the EU with revenue of more than €40M.
- The SEC proposal 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.
- This example assumes that the aggregated revenue in the EU is less than €150M.

03 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.



* Including assumptions and cash flow projections

Adapted from: [Statement of Intent to Work Together Towards Comprehensive Corporate Reporting](#), Summary of alignment discussions among leading sustainability and integrated reporting organisations CDP, CDSB, GRI, IIRC and SASB, Sept 2020; Figure 1, Dynamic materiality



Double materiality

EFRAG adopts 'double materiality' principles – aiming to report on all significant impacts by considering both the investor and wider stakeholder lenses.

04

Where and when would the information be disclosed?

	ISSB	EFRAG	SEC
Required in the audited financial statements?	No, but permitted via cross-referencing	No	Yes, for financial impact and expenditure metrics, plus financial estimates and assumptions
Required in the annual report?	Yes, with flexible location requirements	Yes, in the management report	Yes, in a separate section or by reference from another section (e.g. MD&A)
Cross-referencing permitted?	Yes, to documents outside general-purpose financial reporting, subject to conditions	Yes, within the management report	Yes, within the annual report
At the same time as the financial statements?	Yes	Yes	Yes

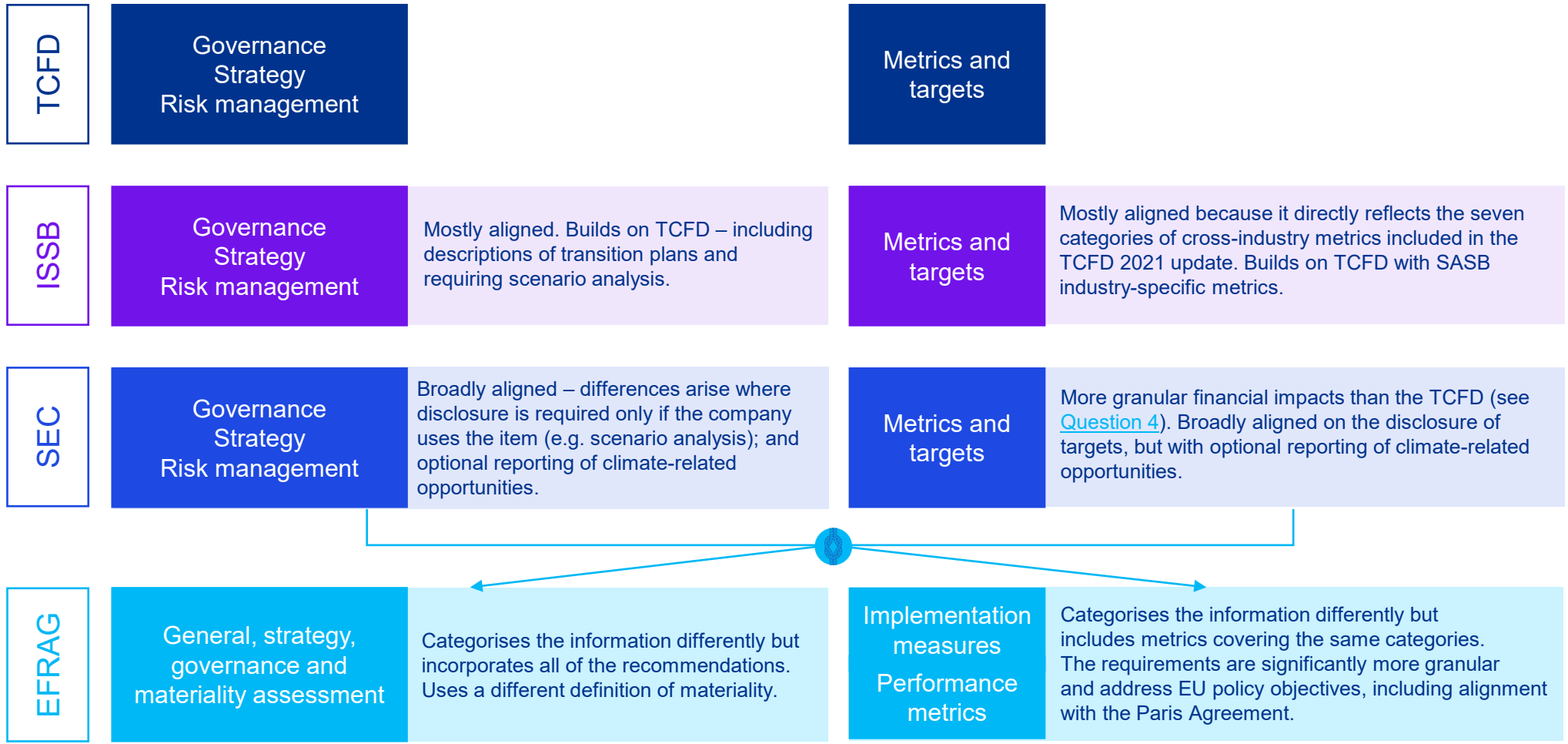
The SEC's proposed requirement to include certain disclosures within the financial statements may conflict with EFRAG's proposal to include all information in the management report without cross-referencing externally. Therefore, reporting under both frameworks may result in duplication. The ISSB's proposal on location would be compatible with both.



Under the ISSB's 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.



05 How do the proposals align with the TCFD?



06 What industry-specific disclosures would be required?

ISSB

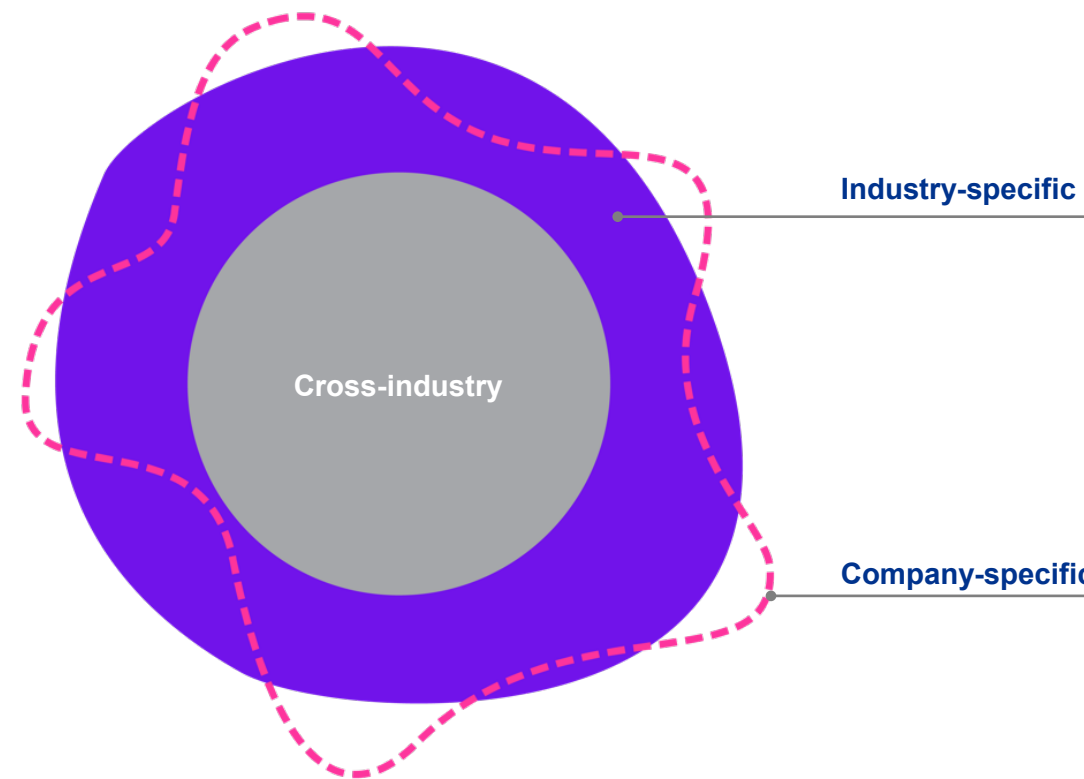
- Climate proposal includes industry-specific disclosures
- Companies would consider SASB Standards for other topics – based on 77 industry-specific SASB Standards

EFRAG

- No industry-specific requirements have been proposed but EFRAG plans to release 40 industry-specific standards in 2023

SEC

- 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 Board is not consistent with EFRAG’s proposal to use NACE codes. Multinational groups would need to map between the two systems, particularly if they operate in more than one industry.

07

What GHG emissions reporting would be required?

	ISSB	EFRAG	SEC
Scopes 1 and 2?	Yes	Yes	Yes
Scope 3?	Yes	Yes	Yes, if material or included in targets ¹
Basis for organisational boundaries	Consistent with the GHG Protocol	Consistent with the financial statements, but expanded to cover the broader value chain (including associates)	Consistent with the financial statements, based on control and share of equity-method investees (associates)
Intensity metrics?	Yes, based on a unit of output for <i>each of</i> Scopes 1, 2 and 3	Yes, energy consumption. Based on net turnover for the <i>total of</i> Scopes 1, 2 and 3 in 'high climate impact sectors'	Yes, based on revenue and a unit of production for the <i>total of</i> Scopes 1 and 2, and separately for Scope 3 (if included)
Disclose targets?	Yes	Yes, based on Paris Agreement	Yes, if used

¹ Smaller reporting companies would be exempt.

The GHG Protocol is overwhelmingly used by companies to measure [GHG emissions](#). The underlying guidance was largely developed in the early 2000s and has not been regularly updated. In March 2022, the GHG Protocol [announced](#) a project to assess and update its guidance.



The three sets of proposals appear to define the organisational boundary differently, with consequential practical implications for companies subject to multiple frameworks.



08 When would they be effective?

ISSB

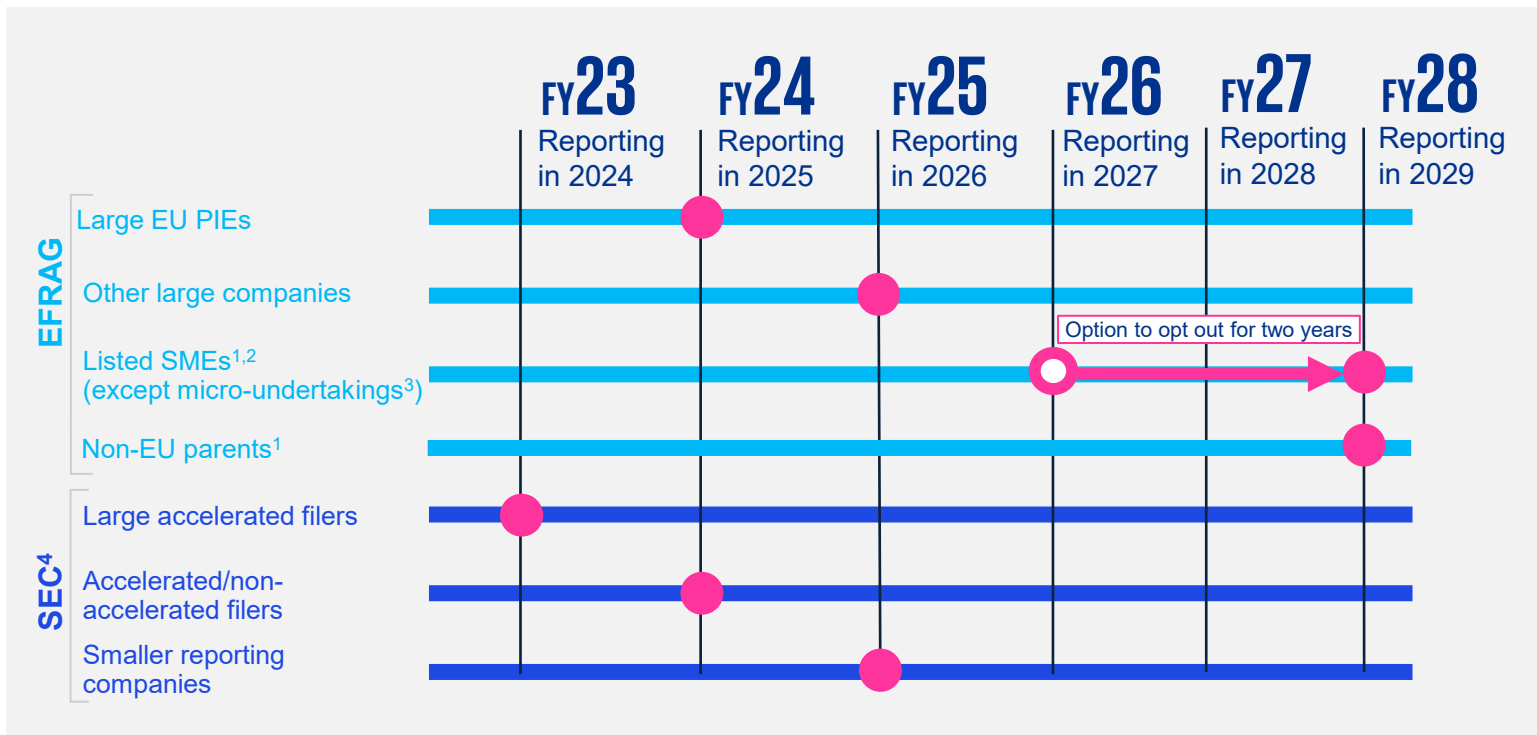
- The proposals do not include an effective date – the consultation invites feedback on when it would be feasible to apply them

EFRAG

- The proposals would first apply for years beginning on or after 1 January 2024 (i.e. reporting in 2025). Phased introduction would start with companies already subject to the NFRD (i.e. large EU PIEs)

SEC

- The effective date will remain open until adoption of the final rules; the dates shown here are based on an illustrative example included in the proposal



● First reporting year

¹ Separate standards will be developed for SMEs and non-EU parent companies (to be adopted by 30 June 2024).
² Small and non-complex institutions and captive insurers are treated like listed SMEs (opt-out option until 2028 does not apply unless they also meet the definition of SME).
³ Micro-undertakings are companies that do not exceed two of the following three criteria (including subsidiaries): 10 employees, net revenue of €0.7M or total assets of €0.35M.
⁴ Initial reporting of Scope 3 GHG emissions would lag by one year and smaller reporting companies would be exempt (see [Question 7](#)).



Adoption of IFRS® Sustainability Disclosure Standards will be mandated by local jurisdictions. As such, the effective date may vary by location.

09 What assurance would be required?

ISSB

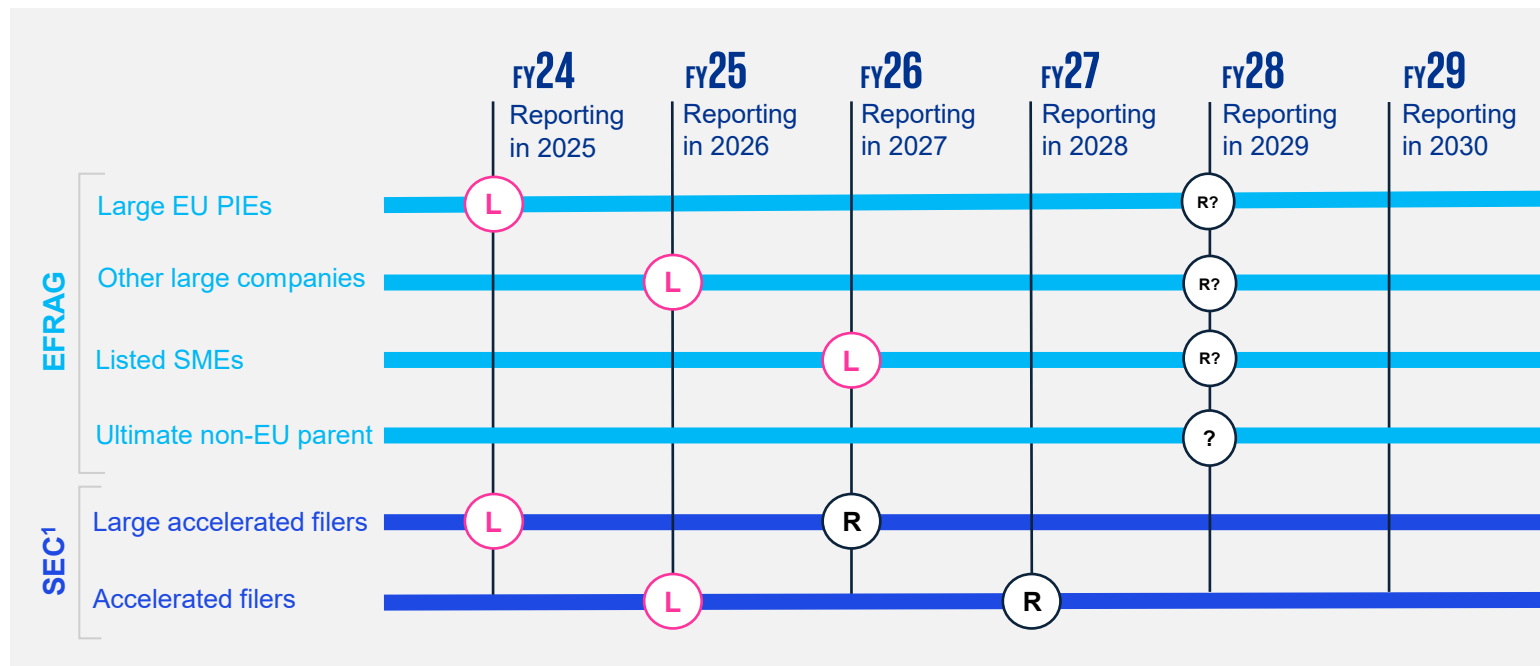
- Does not have the mandate to require assurance
- Instead, information is designed to be verifiable
- Local jurisdictions could choose to require either limited or reasonable assurance

EFRAG

- 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

SEC

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



L Limited assurance² introduced

R Reasonable assurance² introduced

R? Reasonable assurance² subject to feasibility assessment

? Assurance would be based on jurisdictional requirements of the third country parent or that of an EU member state

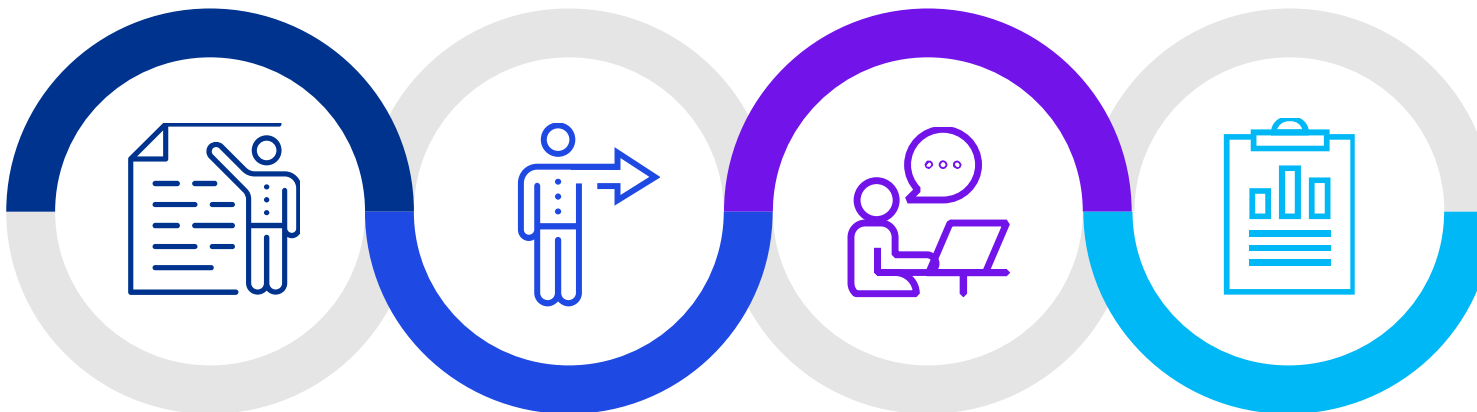


The SEC would require some disclosures in the audited financial statements (see [Question 4](#)), in addition to requiring assurance over GHG metrics.

¹ The dates shown here are based on an illustrative example included in the proposal (see [Question 8](#)).

² 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](#)).

10 What do you need to do now?



Educate your organisation

... on the proposed requirements, 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 levels.

Read KPMG responses to:

- [SEC](#)
- [ISSB](#)
- [EFRAG](#)



Abbreviations and key terms

CSRD

The EU's proposed Corporate Sustainability Reporting Directive, which would amend and significantly expand the existing EU requirements for sustainability reporting

EFRAG

European Financial Reporting Advisory Group, which is responsible for developing European Sustainability Reporting Standards

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

EU

European Union

GHG Protocol

Greenhouse Gas Protocol

GRI

Global Reporting Initiative

IOSCO

International Organization of Securities Commissions

ISSB Board

International Sustainability Standards Board

MD&A

Management Discussion and Analysis

NFRD

The EU's Non-Financial Reporting Directive

NACE

Statistical Classification of Economic Activities in the European Community

PIE

Public Interest Entity

SASB Standards

Sustainability Accounting Standards Board Standards

SEC

US Securities and Exchange Commission

SICS

Sustainable Industry Classification System

TCFD

Task Force on Climate-related Financial Disclosures

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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.

[Tracking the development of IFRS Sustainability Disclosure Standards](#)



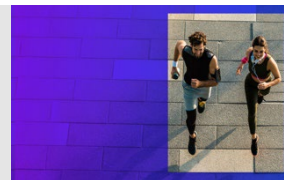
[ESG Reporting](#)

US resources for financial reporting professionals



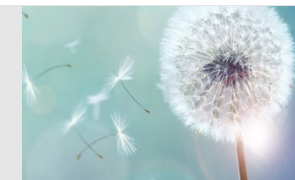
[New on the Horizon – Sustainability Reporting](#)

Detailed analysis of ISSB's general and climate-related proposals



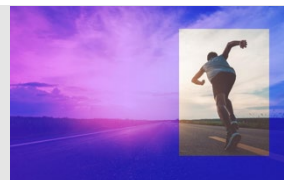
[Digesting the SEC's climate proposal](#)

What you should know now



[Get ready for IFRS Sustainability Disclosure Standards](#)

A high-level summary



[Proposals for European Sustainability Reporting Standards](#)





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