Landscape of Sustainability Reporting & Climate related Financial Disclosure

Single-line Subheadline 20 pt

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Add value.
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Content

Regulatory Framework

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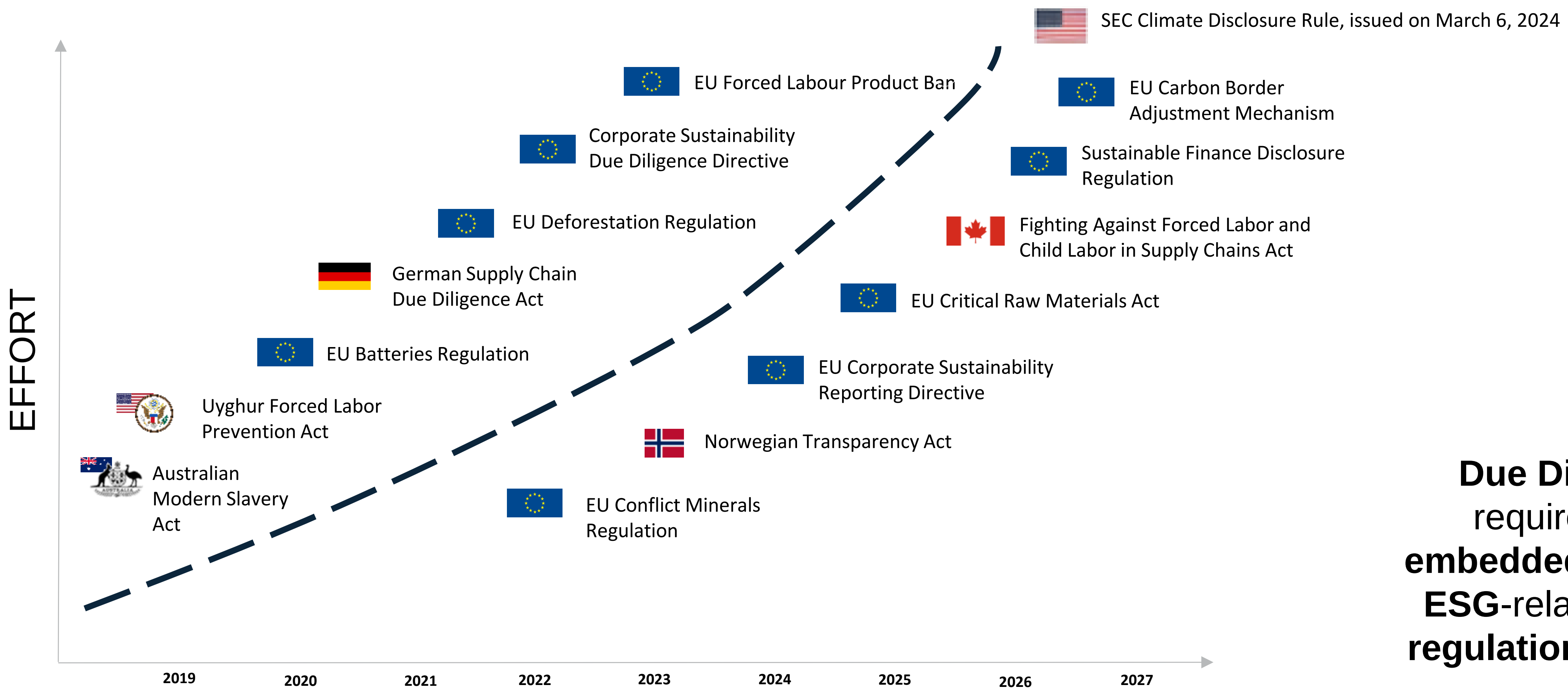
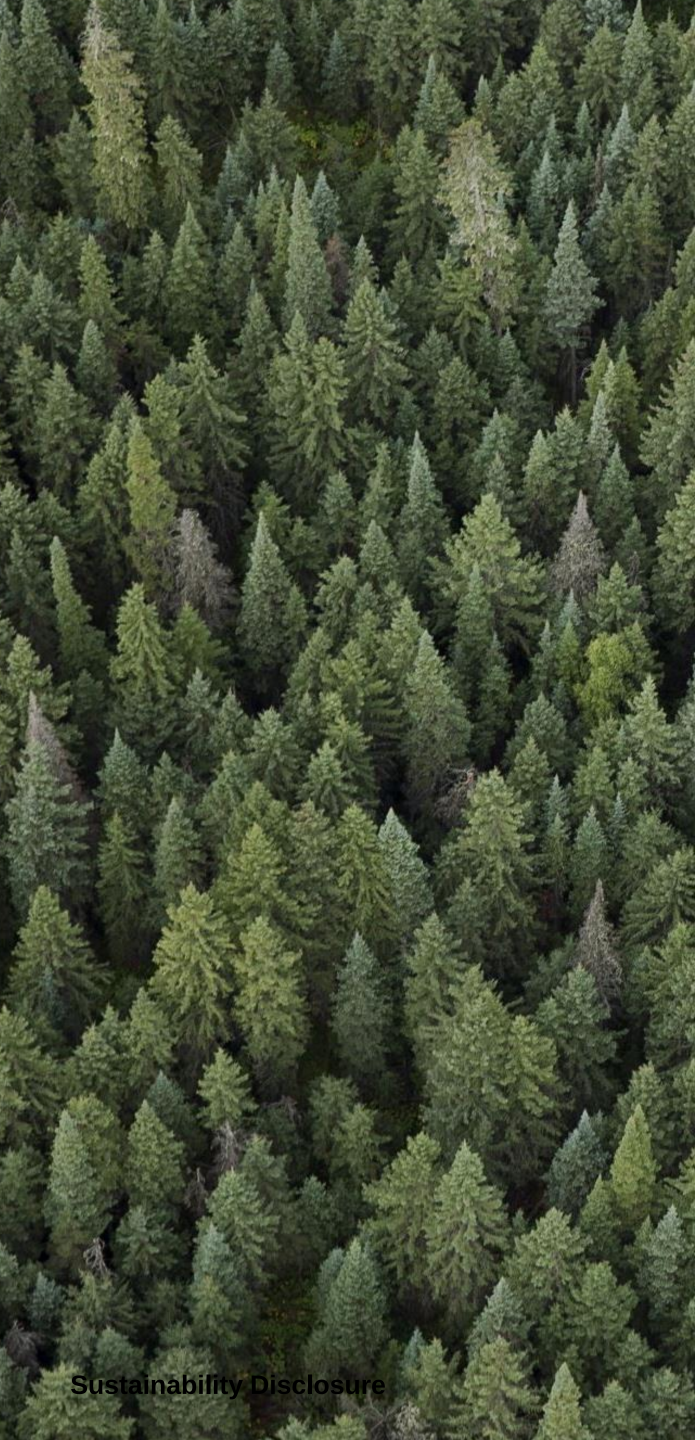
A growing effort on business to ensure compliance



Due Diligence requirements **embedded** in most of **ESG**-related recent **regulations globally**



EU Green Deal and Supply Chain Due Diligence

2023

LkSG: Germany Supply Chain DD Act – Companies are obligated to observe human rights and environmental due diligence within their supply chain

2024

EU Deforestation Regulation – Products made from commodities associated to deforestation must be supported by due diligence

2025

CSRD: Corporate Sustainability Reporting Directive – Companies shall mandatorily report material information against value chain

EU Battery Regulation – Imposes due diligence obligations on companies related to the sourcing, processing, and trading of raw materials used in batteries

2027

CSDDD/CS3D: Corporate Sustainability Due Diligence Directive – Establishes a corporate due diligence duty for companies to identify, prevent, end or mitigate negative impacts of their operations and value chains.

EU Forced Labour Regulation – Economic operators must be able to prove they performed the required due diligence regarding high-risk products

Navigating the global sustainability reporting landscape

Reporting landscape

ESG ratings and indices

Reporting framework

Regulations

Global goals and principles

Current developments in sustainability reporting

Global Level

IFRS Foundation
International Sustainability Standards Board (ISSB)

- Created a “global baseline” for reporting
- Issued first 2 global sustainability disclosure standards for financial reporting in June 2023

European Union (EU)

- Corporate Sustainability Reporting Directive (CSRD) into effect in January 2023
- Development of “EU Sustainability Reporting Standards” (ESRS) by EFRAG
- EU Member States transpose the CSRD into national law

Non-EU regions

- **USA**: SEC (Securities and Exchange Commission) with climate disclosure rule for listed companies
- **SINGAPORE**: Singapore Exchange requirements on reporting (SGX)
- **INDIA**: Business Responsibility and Sustainability Reporting Framework (BRSR)
- **CHINA**: China Securities Regulatory Commission (CSRC) with requirements for listed companies *(in progress)*

Comparative Overview of Key Global Sustainability Reporting Frameworks

Framework/Standard	Primary Focus	Primary Audience	Key Materiality Concept	Relationship/Convergence
TCFD	Climate Risk	Investors/Regulators	Financial Materiality	Basis for ISSB
ISSB (IFRS S1/S2)	Sustainability Financial Information	Investors/Capital Markets	Financial Materiality	Integrates TCFD/SASB
GRI	Impact on Economy/Society/Environment	Broad Stakeholders	Double Materiality	Aligns with ESRS
SASB	Financial Materiality	Investors	Financial Materiality	Basis for ISSB
ESRS	Double Materiality (Impact & Financial)	Broad Stakeholders/Regulators	Double Materiality	Linked to CSRD/Aligns with GRI

ISSB Framework and Content

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Reporting Requirements of ISSB Sustainability Disclosure Standards

Develop and issue a comprehensive global baseline of sustainability reporting standards for **consistent, comparable and high-quality sustainability reporting**.

IFRS S1	IFRS S2
Require an entity to disclose information about its **sustainability-related risks and opportunities** that: • Is useful to users of general-purpose financial reports in making decisions relating to providing resources to the entity. • Could reasonably be expected to affect the entity's prospects – its cash flows, access to finance or cost of capital over the short, medium or long term	• Used in accordance with IFRS S1 • Requires disclosure of material information about **climate-related risks and opportunities**, including physical and transition risks • Requires industry-specific disclosures, which are supported by accompanying guidance built on SASB Standards

ISSB Sustainability Disclosure Standards Structure

IFRS S1

General Requirements for Disclosure of Sustainability-related Financial Information

Governance

Strategy

Risk Management

Metrics & Targets

IFRS S2

Climate-related Disclosures

Governance

Strategy

Risk Management

Metrics & Targets

Industry-based Guidance (77 SASB industries)

Are markets ready for ISSB?

Core Content of ISSB Sustainability Disclosure Standards

Governance	Strategy	Risk Management	Metrics and Targets
The governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities • Strategy and decision-making • Current and anticipated financial effects • Climate resilience	The approach the entity uses to manage sustainability related risks and opportunities	The processes the entity uses to identify, assess, prioritize and monitor sustainability-related risks and opportunities	The entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation • Scope 1-3 GHG emissions • Industry-based disclosure • Climate-related targets

Incorporated TCFD structure to set up the core content

Mapping of Main Standards on Corporate Sustainability Reporting and Disclosures

Requirements
Complementarity / Collaboration
Merger

From a rather financial materiality focus → To a double materiality approach

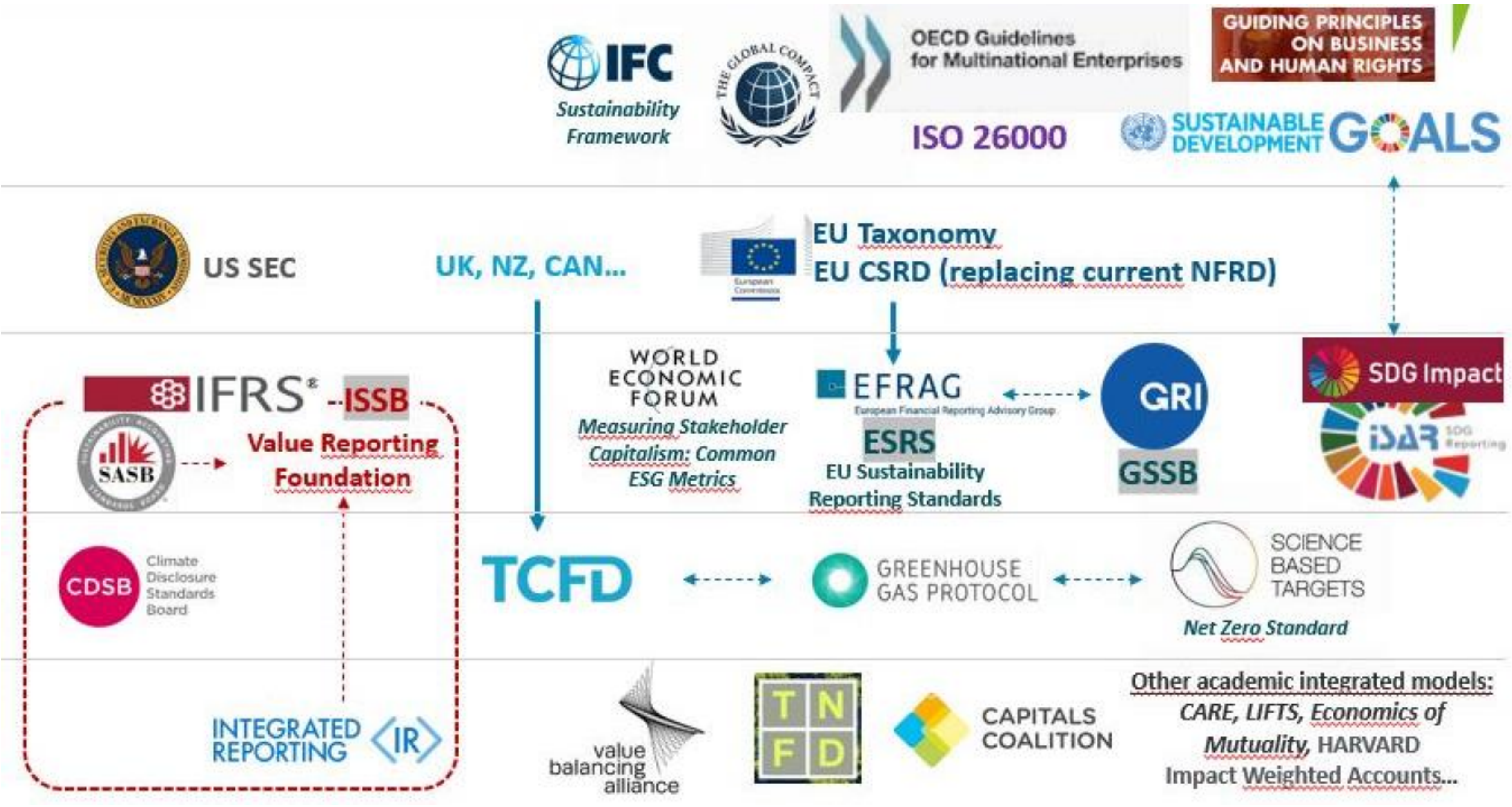
Global Sustainability Frameworks (definition, principles, goals)

Regional/National Regulations (disclosure obligations)

ESG/Sustainability Reporting Standards (reporting principles & metrics)

Climate Reporting Standards (reporting principles & metrics)

Integrated Reporting Initiatives (including multi-capitals models)



ISSB vs GRI Standards 2021

Similarities

1. Adopted the structure of “general” and “industry specific issues”
2. Overlapping of principles in report, both of which requires accuracy, comparability, validity and verifiability
3. Considered the differences in the industries and provides industry specific standards as reference.

Differences

1. ISSB focuses on the opinions of investors, while GRI focuses on the stakeholders' opinions
2. ISSB uses financial materiality while GRI considers double materiality
3. ISSB consists of 7 principles while GRI consists of 8 principles
4. ISSB discloses climate change-related risks and opportunities individually (S2), while GRI discloses along with the topic standards
5. ISSB core content follows TCFD pillars while GRI uses impact and management approach

ISSB vs TCFD

- ISSB core content framework remain the same as TCFD 4 pillars (Governance, Strategy, Risk Management, Metrics and Targets)
- IFRS S2 replaces TCFD climate-related disclosures, and with additional climate-related disclosures requirements
- TCFD can still be used for reporting
- European Sustainability Reporting Standards (ESRS) are also consistent with ISSB and TCFD

ISSB and TCFD differences:

- Uses **different wording** to capture the same information as TCFD recommendations
- Differs substantively from the TCFD guidance – but not the TCFD overall recommendations – mainly **by proposing some additional specific disclosures**
- ISSB **requires additional, more granular information** that is in line with the TCFD recommendations

Suitability of a company to adopt disclosure standards

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Developing guidelines for sustainability disclosures

What are the risks and opportunities for disclosure?

- To identify relevant risks and opportunities, a company uses ISSB standards and shall consider:
  - SASB standards
- Company may also consider:
  - CDSB application framework guidance
  - Industry practice
  - Materials of investor-focused standard setters

What information to disclose?

- In order to determine the information to be disclosed, the company uses the ISSB standards. For matters that are not climate-related, company shall consider:
  - SASB standards
- Company may also consider, to the extent it meets the investor information needs:
  - CDSB application framework guidance
  - Industry practice
  - Materials of investor-focused standards setters
  - GRI standards
  - European Sustainability Reporting Standards(ESRS)

General requirements for the content and presentation of disclosures [Climate Change]

Strategy and decision-making

- Climate-related risks and opportunities impact on company‘s strategy and decision-making:
  - How company respond and plan to deal with climate-related risks and opportunities (including disclosures on any transition plan the company has and plans to achieve its targets)
  - How the company is resourcing, and planning to resource, these plans and activities
  - The company’s progress against previously reported plans

Current and anticipated financial effects

- The effects of climate-related risks and opportunities on a company’s current and anticipated financial performance, financial position and cash flows
  - A company is required to disclose both quantitative and qualitative information. The quantitative information may be a single amount or a range
  - A company can provide qualitative rather than quantitative information when:
    a) Not separately identifiable;
    b) There is a high level of measurement uncertainty; or
    c) For anticipated effects, this is not commensurate with the company’s skills, expertise and resources

Capabilities

- The use of all reasonable and supportable information available to the company without undue cost or effort
- The use of an approach that is commensurate with its available skills, capabilities and resources
- A company does not need to provide quantitative information on anticipated financial effects if it lacks the skills, capabilities or resources to do so. Instead, they are asked to provide qualitative information.

General requirements for the content and presentation of disclosures [Climate Resilience]

Climate Resilience	IFRS S2
The resilience of a company's strategy and business model to climate-related changes, developments and uncertainties. • Climate resilience assessment • Inputs and key assumptions used in the scenario analysis Companies need to use climate-related scenario analysis when reporting on climate resilience.	Includes application guidance on how to apply scenario analysis by building on TCFD materials. The guidance requires: • A method of climate-related scenario analysis commensurate with a company's circumstances • The use of all reasonable and supportable information that is available to a company at the reporting date without undue cost or effort

Commensurate approach to scenario analysis

ISSB's application guidance draws on the range of practice outlined in documents published by the TCFD, designed to help companies:

- Identify the appropriate stage to use
- Navigate towards a more robust resilience assessment and related disclosures over time

General requirements for the content and presentation of disclosures [Scope 3 GHG emissions]

- Scope 1 – Direct greenhouse gas emissions that occur from sources that are owned or controlled by an entity.
- Scope 2 – Indirect greenhouse gas emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by an entity.
- Scope 3 – Indirect greenhouse gas emissions (not included in Scope 2 greenhouse gas emissions) that occur in the value chain of an entity, including both upstream and downstream emissions.

- In accordance with Greenhouse Gas Protocol Corporate Standard to measure GHG emissions
- Requires an entity to disclose the measurement approach, inputs and assumptions it uses to measure its greenhouse gas emissions, including any changes to these
- An entity is required to use the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) unless the entity is required by a jurisdictional authority or an exchange on which it is listed to use a different method for measuring its GHG emissions.

General requirements for the content and presentation of disclosures [Scope 3 GHG emissions]

Scope 3 GHG emissions disclosure, across 15 categories, **when the information is material.**	• Consider its entire value chain (upstream and downstream) and shall consider all 15 categories of Scope 3 GHG emissions, as described in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011). • Disclose which of these categories are included in its Scope 3 GHG emissions disclosures.

Categories

1. Purchased goods and services;
2. Capital goods;
3. Fuel- and energy-related activities not included in Scope 1 greenhouse gas emissions or Scope 2 greenhouse gas emissions;
4. Upstream transportation and distribution;
5. Waste generated in operations;
6. Business travel;
7. Employee commuting;
8. Upstream leased assets;
9. Downstream transportation and distribution;
10. Processing of sold products;
11. Use of sold products;
12. End-of-life treatment of sold products;
13. Downstream leased assets;
14. Franchises; and
15. Investments.

General requirements for the content and presentation of disclosures [Scope 3 GHG emissions – Financed Emission]

- Entity that participates in one or more of the following financial activities:
  a) Assets management
  b) Commercial banking
  c) Insurance

- Companies with emissions associated with investments (or other forms of financing) are required to report financed emissions.

Best Practices for Climate Governance in Banking Institutions

Area of Practice	Best Practice Description	Relevance to Banks
Board Oversight	Clear definition of board's role and frequency of review of climate-related matters.	Ensures strategic direction and accountability at the highest level.
Management Structure	Dedicated climate committees or executives reporting to senior leadership.	Facilitates operational implementation and coordination of climate initiatives.
Integration	Embedding climate considerations into existing risk management, strategy, and business processes.	Avoids siloed approaches and ensures climate is a core business consideration.
Accountability & Incentives	Linking climate-related Key Performance Indicators (KPIs) to executive and employee compensation.	Drives internal alignment, motivates performance, and embeds climate accountability.
Transparency	Public disclosure of the climate-related governance structure, roles, and responsibilities.	Builds stakeholder trust and demonstrates genuine commitment to climate action.

Case Study: Bank of England's Comprehensive Climate-Related Financial Disclosure

Area of Practice	Best Practice Description
Governance:	Climate risks are **integrated into the Bank's internal governance and risk management frameworks**, supported by specific climate processes, senior executive committees, and the appointment of a Chief Sustainability Officer
Strategy	The Bank views climate change and the transition to a net-zero economy as directly relevant to **its mission of maintaining monetary and financial stability.** Its strategy aims to enhance the resilience of the UK financial system and understand macroeconomic impacts, complemented by a **Climate Transition Plan (CTP) for achieving net-zero physical operations** by 2040
Risk Management, Metrics, and Targets	**Climate risks are identified, monitored, and managed within** the Bank's established risk management framework
Financial Operations	The Bank utilizes a range of metrics, including point-in-time metrics (e.g., **Weighted Average Carbon Intensity, Natural Resource Rents**), forward-looking metrics (e.g., Implied Temperature Rise), and **scenario analysis metrics to assess potential financial impacts on its sovereign bond holdings and corporate assets**
Mitigation Example	A concrete example of risk mitigation is the Bank's steps to address climate-related financial risks to residential mortgage collateral in the Sterling Monetary Framework. This includes not accepting buy-to-let mortgages with low Energy Performance Certificate (EPC) ratings and integrating flood risk projections into its haircut models, leading to higher haircuts for mortgage pools in flood-prone areas
Physical Operations:	The Bank also reports on its own carbon footprint from physical operations, demonstrating significant reductions and progress towards its net-zero targets

Fair presentation

Requires an entity to disclose information that is:

Comparable

Verifiable

Timely

Understandable

Disclose additional information

Thank you

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