



# ACGA Annual Conference

10 - 11 November 2022



**EY**

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# DAY 1 - Stream A Workshop 2

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How is Asia getting ready for global sustainability reporting standards?

**Synopsis:** As the world gears up to welcome new sustainability reporting standards from the International Sustainability Standards Board (ISSB), we take a look at how Asia is responding to the challenges posed. How do accounting and financial regulators, listed companies, auditors, investors and other stakeholders view the standards? What does each group need to do to prepare? Which markets are likely to lead the way? And how will the new ISSB standards align with existing ESG reporting guidelines in Asia?

**Moderator:** **Julia Tay** | EY Asia-Pacific Public Policy Leader |

**Speakers:** **Hendrik Rosenthal** | Director, Group Sustainability, CLP Holdings |

**Kathlyn Collins** | Vice President, Head of ESG, Mathews Asia |

**Rick Wang** | Director, Taiwan Financial Supervisory Commission |

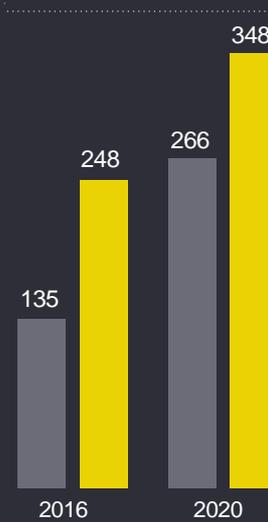
# “Alphabet Soup” of sustainability reporting requirements

## Carrots & Sticks – Sustainability Reporting Policy July 2020

Number of ESG reporting provisions by region



Totals by year



**600** number of ESG reporting provisions globally

**2x** Sustainability regulations and standards have nearly doubled over the five years

Recognizing this issue, international standard-setting bodies are consolidating...

### The Value Reporting Foundation

INTEGRATED REPORTING <IR>



Consolidation

IFRS

ISSB

Cooperation



TCFD

Source: Van der Lugt, C. T., P. P. van de Wijs, & D. Petrovics. (2020). Carrots & Sticks 2020 - Sustainability reporting policy: Global trends in disclosure as the ESG agenda goes mainstream. Global Reporting Initiative (GRI) and the University of Stellenbosch Business School (USB). Available at: <https://www.carrotsandsticks.net/media/zirzbav/carrots-and-sticks-2020-interactive.pdf>

# ISSB standards paves the way for global baseline

## ISSB's building block approach

### Sustainability reporting (broader multi-stakeholder focus)

Reporting on all sustainability matters that reflect significant positive or negative impacts on people, the environment and the economy

Jurisdictional initiatives and/or GRI

### Sustainability-related financial disclosures (investor focus)

Reporting on those sustainability-related matters that may reasonably create or erode enterprise value over the short, medium and long term

ISSB

### Financial reporting (investor focus)

Reflected in monetary amounts in the financial statements

IASB 140+ countries

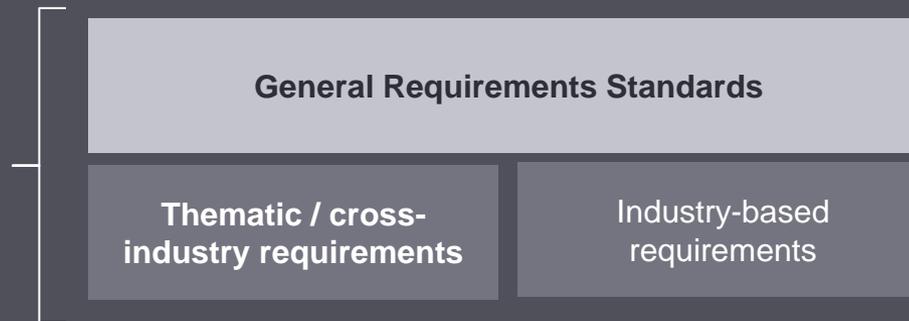
Other GAAP (e.g. FASB)

Integrated Reporting

## ISSB | Standards Architecture



Common thread – core content taken from TCFD structure



Core content used across Sustainability Disclosure Standards

## First two proposed standards



### S1 General Requirements for Disclosure of Sustainability-related Financial Information

Requires companies to provide material information on all significant sustainability-related risks and opportunities



### S2 Climate-related Disclosures

Requires companies to provide material information about climate-related risks and opportunities

Consistent with **TCFD**

Incorporates industry-based requirements from



Source: IFRS ISSB webinar session on 28 April 2022  
<https://www.ifrs.org/projects/work-plan/climate-related-disclosures/webinars-on-the-issbs-exposure-drafts/inars>

# Latest developments on ISSB standards

## Public consultation on S1 & S2

More than 700 comment letters received

## October ISSB Meeting

### Greenhouse gas emissions

- ▶ Unanimously decided to require disclosures of Scopes 1, 2 and 3 GHG emissions, according to GHG Protocol Corporate Standard
- ▶ Will develop relief provisions for Scope 3 (e.g. provide additional time, safe harbour provisions)

### Clarify key concepts in S1

- ▶ Confirmed requirements will focus on investor needs
- ▶ To remove terms that are not clearly understood, including:
  - ▶ “Enterprise value” from the objective and materiality assessment
  - ▶ “Significant” to describe sustainability risks and opportunities

### Facilitate interoperability

- ▶ Prioritized several key topics to facilitate ongoing dialogue with jurisdictions
- ▶ Confirmed use of the TCFD architecture as the basis for ISSB Standards

## Early 2023

Final S1 and S2 standards to be issued



## First half of 2023

Consultation on new areas of work

## Future priorities

Foundational work to support S1 & S2 adoption

(incl. Digital taxonomy; enhance SASB Standards; coordinate with IAS, GRI, EFRAG)

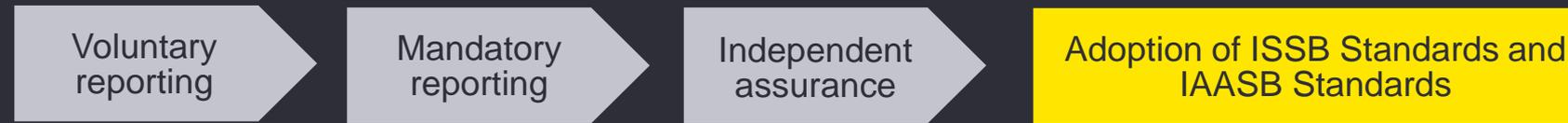
# Key global sustainability / climate reporting frameworks

	<b>TCFD</b>	<b>ISSB</b>	<b>US SEC</b>	<b>EU CSRD</b>
<b>Current status</b>	Final	Draft	Draft	Pending Parliament Approval
<b>Type</b>	Voluntary	By Adoption	Mandatory	
<b>Primary audience</b>	Investor			Multi-stakeholder
<b>Materiality</b>	Enterprise Value			Double (Financial & Social)
<b>Disclosure location</b>	Annual Report		Mixed	Management Report
<b>GHG Emissions</b>	Recommended	Scopes 1, 2, 3 <sup>1</sup>		
<b>Assurance</b>	N/A	N/A	External Assurance <sup>2</sup>	
<b>Effective date</b>	N/A	N/A	Fiscal Year 2023	Fiscal Year 2024

<sup>1</sup> US SEC requires Scope 3 GHG disclosure only if it is material or if a company as set a reduction target that includes Scope 3

<sup>2</sup> US SEC transitions from limited assurance (first two years) to reasonable assurance over Scopes 1 & 2 GHG disclosures; EU CSRD requires limited assurance over sustainability disclosures with an option of moving toward reasonable assurance

# Regulatory fragmentation evident in APAC, but moving toward right direction



## Transitioning to mandatory sustainability reporting

### Mainland China

| Voluntary sustainability disclosure | Local guidelines > Pending – Mandatory sustainability reporting

### Hong Kong

| Comply / explain climate disclosure | TCFD > 2025 – Mandatory climate reporting

### Japan

| Comply / explain climate disclosure | TCFD > 2023 – Mandatory climate reporting

### South Korea

| Voluntary sustainability disclosure | TCFD, SASB & GRI > 2025 – Mandatory sustainability reporting

### Philippines

| Comply / explain sustainability disclosure | TCFD > 2023 – Mandatory sustainability reporting

### Thailand

| Comply / explain sustainability disclosure | TCFD & GRI > Mandatory regime not yet announced

### Australia

| Comply / explain climate disclosure | TCFD > Mandatory regime expected soon

## Mandatory reporting already in place

### India

| Mandatory sustainability reporting | SDG | Voluntary assurance

### Indonesia

| Mandatory sustainability reporting | Local standards | Voluntary assurance

### Malaysia

| Mandatory sustainability reporting | TCFD & SASB | Voluntary assurance

### Singapore

| Mandatory climate reporting | TCFD |

| Mandatory review by internal audit | Voluntary external assurance

### Taiwan

| Mandatory sustainability reporting<sup>3</sup> | GRI | Mandatory external assurance

### New Zealand ★

| Mandatory climate reporting | TCFD | Mandatory external assurance

# Independent assurance of sustainability reporting



## State of play in sustainability assurance

A global benchmarking study covering 22 jurisdictions

Published in June 2021

of the **1,269** companies that disclosed ESG data,

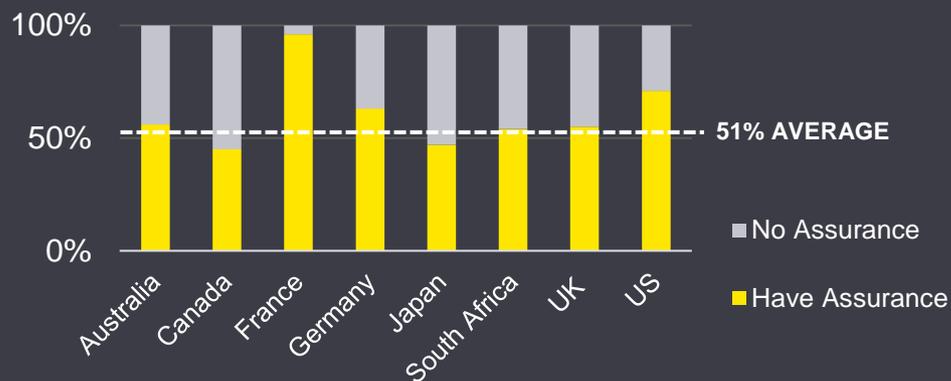
**51%** obtained assurance

**83%**

of assurance engagements resulted in limited assurance reports

**68%**

of assurance engagements used ISAE 3000 standards issued by the IAASB



There are significant differences in practices across different jurisdictions

## Assurance Requirements

### Mandatory external assurance



Limited assurance for the first two years and reasonable assurance thereafter



Limited assurance with option to transition to reasonable assurance

### Mandatory internal assurance



Internal review by the internal audit function; external assurance is voluntary

IAASB

IAASB is currently working on developing an overarching standard for assurance on sustainability reporting

Sep 2023 Public consultation of Exposure Draft

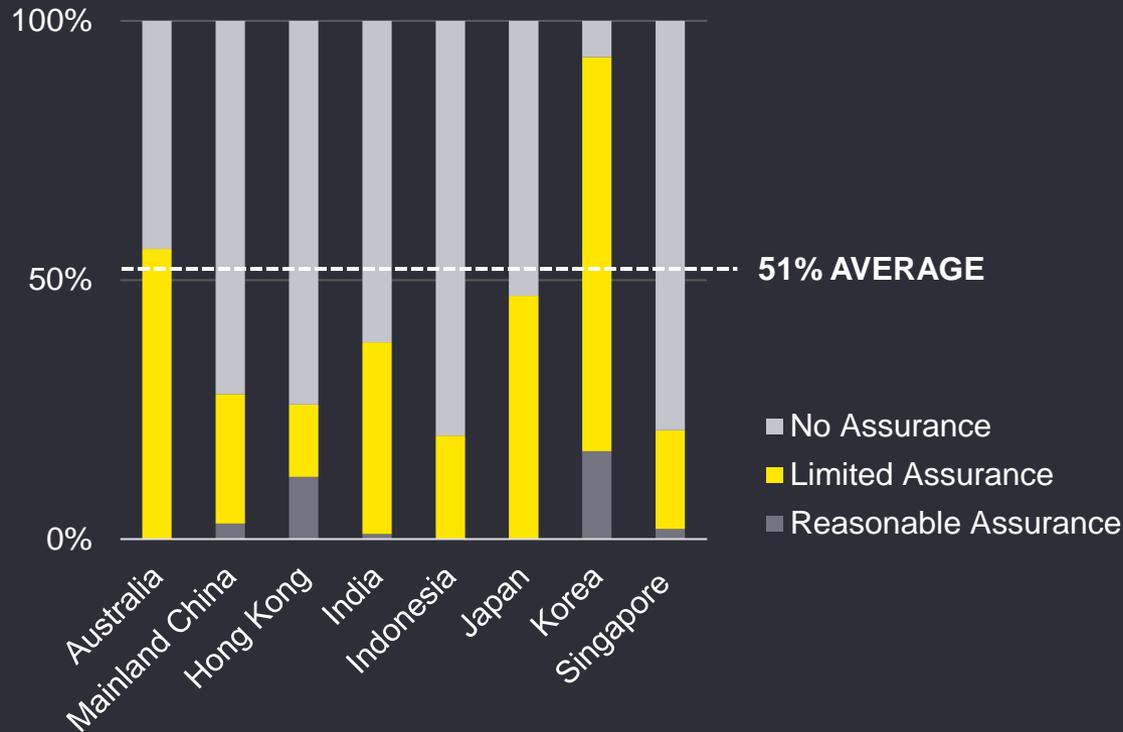
Late-2024 / Early-2025 Final standards

# APAC sustainability reporting assurance landscape



## State of play in sustainability assurance

Published in June 2021



## The Korea example

Of the 46 companies that provided ESG disclosures, 93% (43) received assurance as follows:

**18%**

Reasonable assurance

**20%**

Limited assurance

**58%**

Moderate assurance

**4%**

Not disclosed

### Assurance provider – type of firm:

**5%**

Audit firm

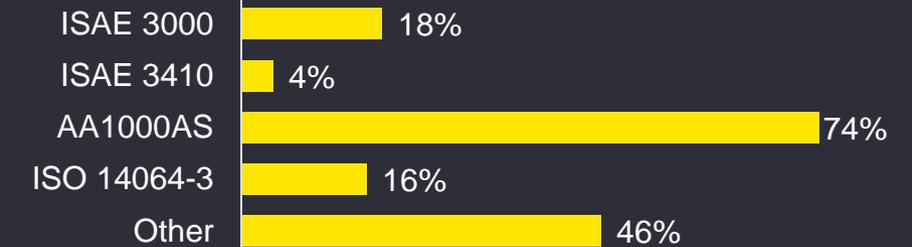
**0%**

Affiliated firm

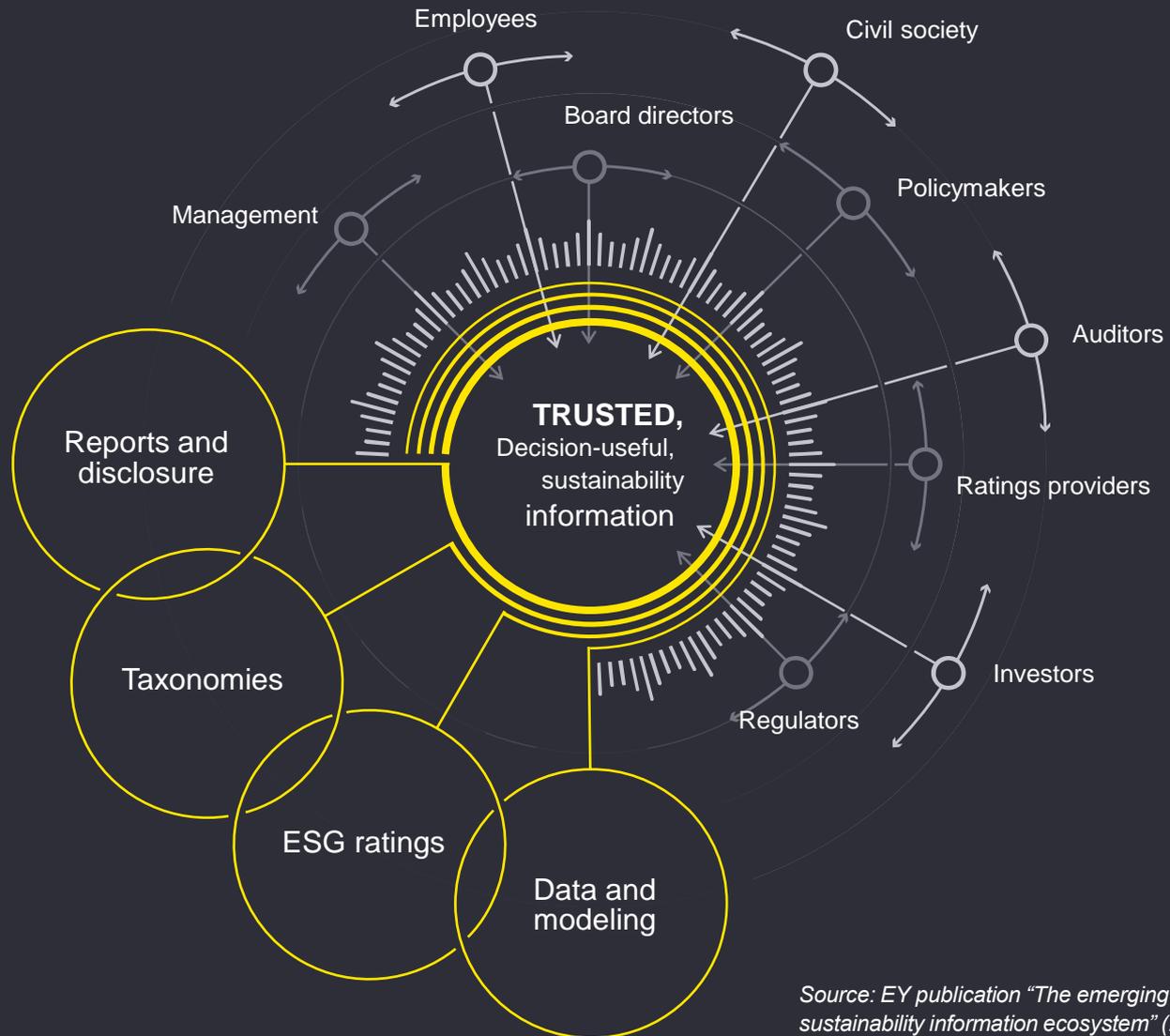
**95%**

Other service provider

### Assurance standard:



# Sustainability information ecosystem



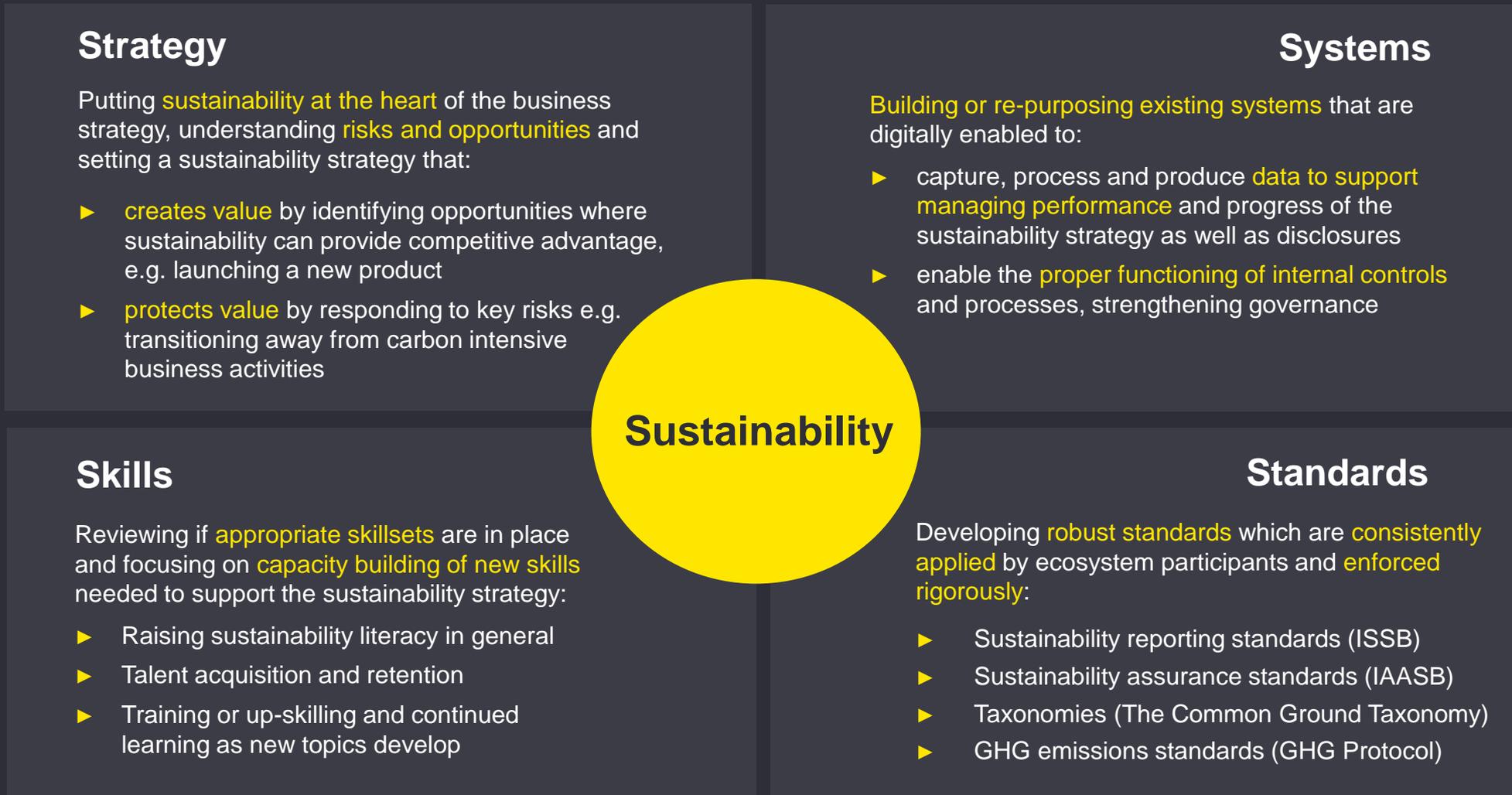
There is a **diverse set of stakeholders and interests** shaping the evolving sustainability information ecosystem

Sustainability information ecosystem stakeholders have **different roles to play** and critical contributions to make

Stakeholders need to **work together cohesively** for the **public interest** purpose of building trust and market confidence in sustainability information

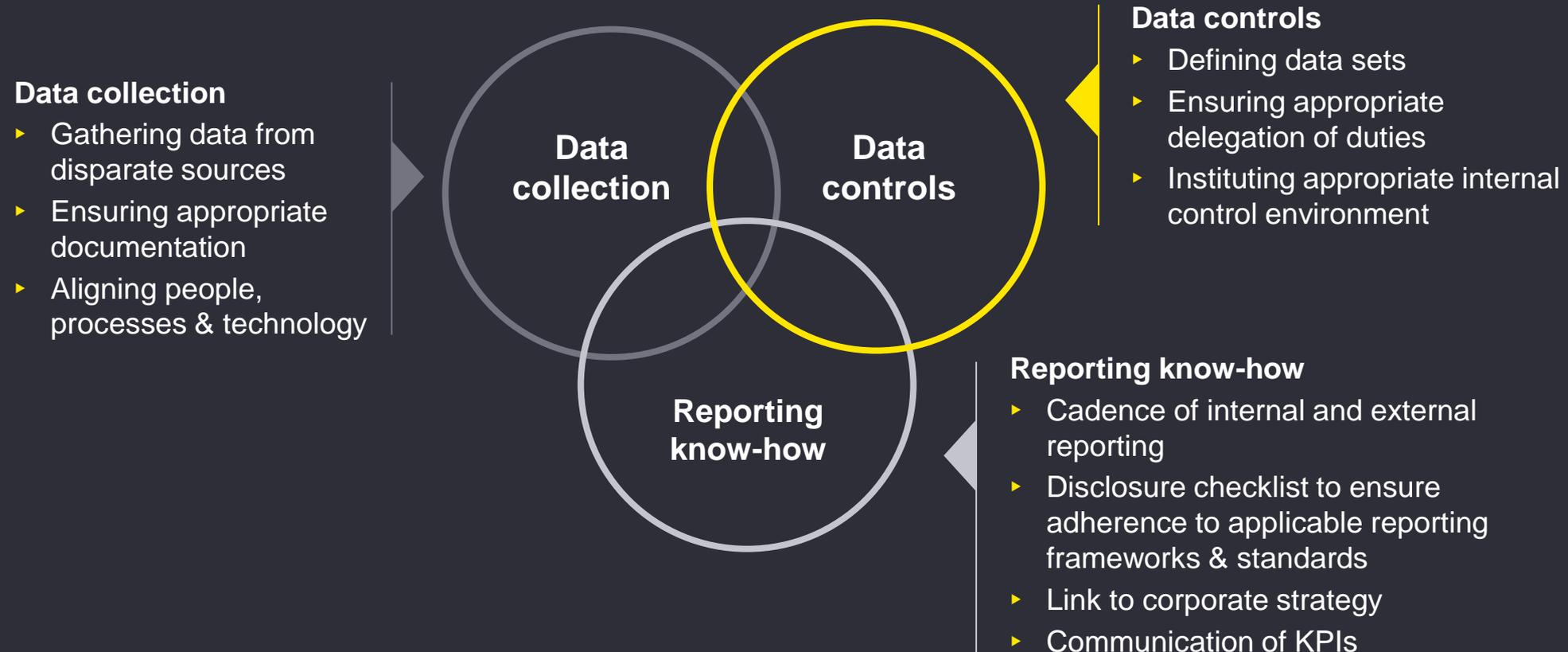
Source: EY publication "The emerging sustainability information ecosystem" (2022)

# Key elements to support the sustainability agenda



# Controls and processes needed to support sustainability reporting

An effective reporting team leverages the skill sets residing in the finance function



# Financial Reporting vs. Climate Reporting

Current standards	<b>IFRS Accounting Standards</b> <ul style="list-style-type: none"><li>▶ Climate risks and other emerging risks are not covered explicitly by existing IFRS Standards</li><li>▶ If the company considers such risks to be 'material' then it could potentially impact the financial statements, for example:<ul style="list-style-type: none"><li>▶ Impairment of assets</li><li>▶ Fair value measurement</li><li>▶ Provisions, contingent liabilities and assets</li></ul></li></ul>	<b>IAASB Auditing Standards</b> <ul style="list-style-type: none"><li>▶ Climate change is not featured in existing auditing standards</li><li>▶ Auditors are required to identify and assess the risks of material misstatement of the financial statements</li><li>▶ Climate-related events or conditions may contribute to the susceptibility to misstatement of certain amounts and disclosures</li></ul>
	<b>ISSB Climate Standards<sup>4</sup></b> <ul style="list-style-type: none"><li>▶ Require companies to provide information about their exposure to climate-related risks and opportunities</li><li>▶ Sets out the requirements for the identification, measurement and disclosure of climate-related financial information</li></ul> <p><small><sup>4</sup> Can also be climate reporting standards issued by others e.g. EU EFRAG</small></p>	<b>IAASB Sustainability Assurance</b> <ul style="list-style-type: none"><li>▶ New overarching standard for assurance on sustainability reporting being developed</li><li>▶ Will be suitable across all sustainability topics (incl. climate)</li><li>▶ Will address both limited assurance and reasonable assurance</li></ul>

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