Sustainability and climate-related disclosure requirements and public guidance:

Comparison across jurisdictions

An analysis by Frank Bold

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Summary

Over the past few years, there have been major developments in the field of corporate sustainability transparency. We have analysed and compared 15 reporting initiatives (including guidances and draft and final standards) focused on inclusion of sustainability information in annual reports issued by public authorities or stock exchanges in China, EU, U.S., Malaysia, Thailand, Brazil, Hong Kong, India, South Africa, Singapore, Philippines, Costa Rica, Nigeria and Indonesia, as well as the International Sustainability Standards Board of the IFRS Foundation.

The annotation of the assessed initiatives is provided in the Appendix. Please note that this list does not cover all jurisdictions that have adopted climate or sustainability reporting requirements or guidance, and that several of the assessed initiatives are in a draft stage and under active development, which makes publication of a detailed line-by-line analysis that we have carried out for the purpose of this comparison impractical.

The key conceptual differences among these 15 initiatives is the approach to materiality. 9 out of 15 of the initiatives explicitly or implicitly (e.g. by reference to application of GRI or by requiring specific disclosures) apply impact or double materiality, i.e. focusing on disclosures on impacts on society or the environment in their own right, rather than only effects on the enterprise and sustainability impacts insofar as those effects are concerned. This includes initiatives in China, EU, India, South Africa, Costa Rica, Thailand, Philippines, and Nigeria.

The remainder of the assessed initiatives are more narrowly driven by the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), therefore focusing on climate-related risks and opportunities from the perspective of enterprise value creation or financial materiality.

We compared primarily the climate disclosure requirements and guidance in these initiatives, but we have also briefly looked into the question of whether and how the analysed initiatives address S and G dimension.

We shared the full analysis and discussed the findings of our comparison with stakeholders in the emerging markets covered by the analysis.

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General findings

- In addition to the developments in Europe, the U.S. and, at the IFRS Foundation, which receive most attention, momentum is growing in emerging markets. In particular, the Paris Agreement on climate change and TCFD recommendations kick-started the conversation around climate reporting.

- EU and India have mandated comprehensive reporting on a broad range of sustainability topics supported by specific disclosure requirements, marking a departure from a voluntary/guidance approach. In other assessed jurisdictions (with several important exceptions) reporting is either only recommended or it is formulated as a general rule that is not supported by detailed reporting requirements. These general rules refer companies to the TCFD, UN Sustainable Development Goals, or simply to general sustainability factors. In some jurisdictions this is complemented by a limited set of more specific, predominantly environmental reporting requirements typically in the form of a targeted list of indicators such as emissions (see e.g. CERDS in China).

- Financial supervisory authorities, stock exchanges or central banks have been leading most of the developments in this area, whilst Ministries of Finance are typically in charge of national Sustainable Finance agendas. Previously, initiatives on climate or broader ESG reporting had been led by other ministries such as Ministries of Environment. Some countries are creating sustainability standards boards as part of or connected to national financial accounting/reporting standard setters.

- Global companies operating worldwide and stakeholders involved in this debate are following the developments in the EU, which is seen as a front-runner. In emerging markets, multinational companies have been so far the only ones disclosing climate and sustainability information, with national/local or smaller businesses still being new to the topic. However, supply chain relations and potential legal cases, sanctions or fines (e.g as occurred with Malaysian company Top Glove in the form of import ban to the U.S. over forced labour concerns), are increasing the attention on the consequences of companies not respecting or aligning with climate or human right rules.

Findings on climate disclosures

- Disclosure of transition plans and alignment with Paris Agreement goals are covered or referred to by a number of the initiatives. EU ESRS, the ISSB, U.S. SEC and JSE (South Africa) recognise climate transition plans as a special category of disclosures that address the adjustment of strategies and business models to address climate impacts or risks and opportunities. The same standards also integrate the description of the interaction between material impacts and/or risks and opportunities on the one hand, and companies' business models and strategies on the other. Several other standards require such disclosures indirectly through reference to the TCFD (namely PSE (Philippines), SGX (Singapore), BM (Malaysia), and to an extent SEBI (India)).

- EU ESRS provide the clearest and the most comprehensive disclosure requirements for transparency on alignment of targets and transition plans with the objective of limiting global warming to 1.5°C. JSE in its new guidance from July 2022 instructs companies to define and report on progress against science based GHG emission targets based on the Paris Agreement. Other initiatives are more ambiguous in this regard. ISSB requests information on how the latest international agreements on climate change informed the reporting entity's targets.

- In relation to climate-related targets, the main difference is the extent to which the initiatives frame disclosures explicitly from the perspective of GHG emission reductions. EU ESRS, CERDS (China), HKEX (Hong Kong), JSE, and to an extent SEBI specifically require disclosures on GHG emission reduction targets or their absence; other standards list them as possible disclosure categories of targets, but are less strict on their inclusion.

- EU ESRS, the ISSB, U.S. SEC and JSE require further information on the use of carbon offsets/credits and their role in achieving climate targets. EU ESRS provides the most comprehensive rules, including not mixing use of carbon credits and removals in the disclosure GHG emissions reduction targets (companies may rely on use of carbon credits in their broader GHG neutrality claims, if explained).

- Overall, there is alignment of GHG emission metrics with the GHG protocol. Scope 3 disclosure is required by a growing number of initiatives: EU ESRS, ISSB, U.S. SEC, JSE, CERDS, SEBI, SGX, and BM. The initiatives that are explicitly based on financial materiality, such as ISSB and U.S. SEC, instruct companies to report on GHG emission when they consider it to be financially material, which brings forth yet-unresolved methodological questions. JSE requires explanation of reasons if Scope 3 emissions are not (fully) provided because of limited data availability.

- Energy production and consumption metrics are covered by half of the standards (7), including notably EU ESRS, CERDS, and SEBI, Hong-Kong (HKEX), Philippines, BRSR, Nigeria. In addition, ISSB mentions energy usage.

Findings on social and governance disclosures:

- 7 initiatives cover social matters (S) in some form (EU, CERDS, SEBI, NSE of Costa Rica, JSE, NSE and OJK). Compared to other initiatives, EU ESRS is explicit about framing disclosures based on an impact materiality assessment aligned with sustainability due diligence and includes a robust set of S standards addressing different affected stakeholder categories (own workforce, value chain workers, communities and consumers), which best facilitates considering and reporting on just transition and social aspects of climate change mitigation and adaptation.

- EU ESRS, as well as the HKEX and JSE, require explanations about stakeholder involvement and engagement. JSE also asks for the disclosure of steps taken to ensure access to a diversity of perspectives (both internal and external to the organisation) in the identification and organisation of climate-related impacts, risks, and opportunities.

- Governance issues are covered comprehensively by 8 out of the 15 analysed initiatives. There’s a high level of conceptual alignment, although standards differ on inclusion of specific climate issues such as internal carbon pricing and remuneration.

Appendix: List of initiatives assessed

Please find an overview of the initiatives assessed for the purpose of this paper, including a short explanation for each (ordered by year of issuance - starting from the most recent, and alphabetically):

1. **China: Guidance for Enterprise ESG Disclosure (2022), CERDS (China Enterprise Reform and Development Society). Hereafter: CERDS.**

Guidance developed by a State Council-backed body, known as CERDS (China Enterprise Reform and Development Society), based on Chinese laws and regulations (including the China Securities Regulatory Commission (CSRC) 2021 guidelines on the disclosure of sustainability (environment and social) matters in companies' annual / half-year reports. Based on this, listed Chinese corporations are required to disclose carbon emissions and environmental impacts, and voluntarily disclose measures to reduce carbon emission). Focus on ESG, including climate.

2. **EU: European Sustainability Reporting Standards (June 2023), EFRAG/EU Commission. Hereafter: EU ESRS.**

Draft EU standard on climate as part of the EU sustainability reporting standards accompanying the EU Corporate Sustainability Reporting Directive. Focus on ESG, including climate.

3. **International: IFRS S1 and S2 (2023), International Sustainability Standards Board. Hereafter: ISSB.**

IFRS reporting standard on general sustainability and climate disclosures aiming to provide a global baseline for reporting on climate risks and opportunities to be adopted by national jurisdictions and stock exchanges, as well as private actors. Focus on climate (other topics are covered only by 'general' S1 standard).

4. **U.S.: Proposed Rule for the Enhancement and Standardization of CR Disclosures for Investors (2022), U.S. Securities and Exchange Commission. Hereafter: U.S. SEC.**

Proposed rules for climate-related disclosures by listed companies in the US. Focus on climate.

5. **Malaysia: Amendments to Listing Requirements RPA/ISS/TAC/RO(hm)/22 (2022), by Bursa Malaysia. Hereafter BM.**

Reporting requirements based on the integration of the TCFD recommendations.

6. **Thailand: FORM 56-1 Report for Sustainability Disclosures (2022), by the Securities and Exchange Commission of Thailand. Hereafter TH.**

Updated format for sustainability-related disclosures by listed companies in the annual registration statement, issued by the Securities and Exchange Commission.

7. **Brazil: CVM Resolution No. 59 & 87 (2021 & 2022), by the Brazilian Securities Commission (CVM). Hereafter: CVM.**

Criteria and requirements for the disclosure of information on environmental, social and governance aspects, which was previously a mere deliberation of issuers to attract investors engaged in ESG aspects, and it was not foreseen in any regulation of the autarchy. In addition *the brazilian superintendance of private insurance introduced sustainability requirements of its regulation no. 666/2022 (June 27 2022), which provides guidance for companies to manage different types of sustainability and climate risks, including physical climate risks, climate transition risks and climate risks of litigation.*

Focus on sustainability, including climate.

8. Hong Kong: **ESG Reporting Guidance (2021), by Hong Kong Exchanges (HKEX) and Clearing Limited. Hereafter: HKEX.**
Hong Kong ESG requirements for listed companies, including TCFD elements such as board's oversight of ESG matters, targets for certain environmental KPIs and disclosure of impact of significant climate-related issues.
Plans for mandatory climate reporting according to TCFD by 2025. Focus on climate.

9. India: **Circular on Business Responsibility and Sustainability Reporting (BRSR) by listed entities (2021), by Securities & Exchange Board of India (SEBI); Annex I and Annex II. Hereafter: SEBI.**
Requirements for companies to report on sustainability impacts. Applicable to the top 1000 listed entities. Voluntary for financial year (FY 2021-22); mandatory from FY 2022-23. Focus on sustainability, including climate, but also certain social and human rights aspects..

10. South Africa: **JSE Sustainability and Climate DIsclosure Guidance (2022), by Johannesburg Stock Exchange. Hereafter: JSE.**
Guidance on a) sustainability in general and b) on climate to support listed companies to navigate the complexity of reporting standards. The climate guidance complements the sustainability guidance, and is aligned with the Exposure Draft of the IFRS S2 Climate Exposure Draft, with additions reflecting the South African context (resulting in the inclusion of the impact perspective). Focus on climate.

11. Singapore: **Sustainability Reporting Guidelines (2020), SGX (Singapore Exchange). Hereafter: SGX.**
Requirements for listed companies to report on climate related risks and opportunities are outlined in the TCFD. In June 2022, ACRA and SGX set up an advisory committee to create a roadmap for Singapore's sustainability reporting. As part of its work, the Committee will provide inputs on the suitability of international sustainability reporting standards for implementation in Singapore. Focus on climate.

12. Philippines: **Sustainability Reporting Guidelines for Publicly Listed Companies (2019), by Philippine Stock Exchange. Hereafter: PSE.**
Guidelines for listed entities on sustainability. Focus on ESG, including climate.

13. Costa Rica: **Voluntary Guidance for the Creation of Sustainability Reports (2018), The National Stock Exchange of Costa Rica. Hereafter: NSE of Costa Rica.**
Voluntary guidance based on recommendations made by the Sustainable Stock Exchanges (SSE), World Federation of Exchanges (WFE) and Global Reporting Initiative (GRI). Focus on ESG, including climate.

14. Nigeria: **Sustainability Disclosure Guidelines (2018), by Nigerian Stock Exchange. Hereafter: NSE.**
Guidance providing a limited, non-exhaustive list of disclosure requirements for listed entities; it recommends companies to consult further frameworks, including explicitly GRI. Focus on ESG, including climate.

15. Indonesia: **POJK51/POJK.03/2017 (2017), Otoritas Jasa Keuangan (OJK). Hereafter OJK.**
The Financial Service Authority (OJK) issued OJK Regulation No.51/2017 (OJK, 2017), mandating Indonesian companies to publish sustainability disclosures. Requirements have applied to the Indonesian general banking industry and overseas banks operating in Indonesia since 2019, and starting in 2020, to other sectors.