Principles for Responsible Investment

PRI RESPONSE

KOREA SUSTAINABILITY STANDARDS BOARD (KSSB) CONSULTATION ON THE EXPOSURE DRAFT OF THE KOREAN SUSTAINABILITY DISCLOSURE STANDARDS

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PRI Association

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INTRODUCTION

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. We welcome the opportunity to respond to the Korea Sustainability Standards Board (KSSB) consultation on the Exposure Draft of the Korean Sustainability Disclosure Standards, which are designed for application by domestic companies.

ABOUT THIS CONSULTATION

In Korea, the Financial Services Commission (FSC) is considering the introduction of mandatory requirements for sustainability disclosure. As part of this process, the Korea Sustainability Standards Board (KSSB) of the Korea Accounting Institute (KAI) is consulting on the draft Korean Sustainability Disclosure Standards (KSDS), which build on the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards (IFRS S1 “General Requirements for Disclosure of Sustainability-related Financial Information” and IFRS S2 “Climate-related Disclosures”) by the International Sustainability Standards Board (ISSB).

The KSDS consist of two mandatory disclosure standards that build on IFRS S1 and S2 respectively. They also contain a third, non-mandatory standard called Additional Disclosure aligned with Policy Objectives, a country-specific standard that allows entities to selectively disclose additional sustainability-related information in line with domestic requirements and broader policies.

Decisions on the integration of the standards into mandatory reporting, including the scope of applicable entities, effective date and required location of reporting are subject to separate deliberation by the South Korean government.

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PRI OVERARCHING POSITION AND VIEW

Decision-useful corporate sustainability reporting is a prerequisite for responsible investment. Investors currently lack such information across their portfolios, including the most basic sustainability-related data.[1] This makes it more difficult for them to allocate capital efficiently, accounting for sustainability-related financial risks and opportunities and addressing sustainability goals.[2] A global system of comparable data can address this need, creating a strong baseline of reliable information.

The ISSB Standards (IFRS S1 and S2) are an opportunity to provide investors with the comparable, high-quality sustainability information they need from portfolio companies for decision-making. Crucially, they are underpinned by the structure and concepts of accounting standards from the International Accounting Standards Board (IASB) and build on the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommended framework, among other well established voluntary sustainability reporting frameworks. The ISSB Standards have also been endorsed by the International Organization of Securities Commissions (IOSCO).[3]

National and regional policymakers and standard setters have an essential role to play through the introduction of sustainability disclosure requirements aligned with the ISSB standards. The PRI is a strong advocate for the adoption of ISSB standards by governments around the world. Signatories regularly report to the PRI that the lack of comparable and more generally decision-useful corporate sustainability data[4] is a substantial barrier to their responsible investment practice.

We recently published a call to action for jurisdictions to commit to adoption of both ISSB standards at pace. This was issued in collaboration with the London Stock Exchange Group, UN Sustainable Stock Exchanges initiative and World Business Council for Sustainable Development – and endorsed by 120 investors, companies, stock exchanges and other organisations.

To date, in the APAC region we have engaged in consultations on the adoption of the ISSB Standards in Australia, China, Hong Kong SAR, Japan, Malaysia and Singapore (submissions available online). As we engage with local markets, we have consistently found that investors support the adoption of the ISSB Standards by international and local standard setting and policymaking bodies. Investors expect adoption to align with the ISSB Standards to the fullest extent possible in order to ensure the availability of decision-useful sustainability information. We are committed to constructively engaging with governments, relevant financial authorities and relevant standard setters (such as KAI and KSSB) to bring these investor voices to their attention.

[1] For example, FTSE Russell found that of the 4,000 large and mid-size constituents in the FTSE All World index, 58% disclose both Scope 1 and 2 carbon emissions. Source – Mind the gaps: Clarifying corporate carbon (2022).
[2] Investors around the world are increasingly committed to incorporating and pursuing sustainability outcomes such as those posed by the UN SDGs, Paris Agreement and the Kunming-Montreal Global Biodiversity Framework. Legal analysis from the A Legal Framework for Impact (LFI) project found that while there are differences across jurisdictions and investor groups, where investing for sustainability outcome approaches can be effective in achieving an investor's financial goals, the investor will likely be required to consider using them and act accordingly. The global LFI analysis and local LFI policy reports, such as the Japan Report, have consistently found that for investors to be able to pursue sustainability outcomes, market mechanisms such as mandatory sustainability disclosure are critical.
[3] IOSCO's endorsement recommends that its member jurisdictions consider ways in which they might adopt, apply or otherwise be informed by the standards.
[4] As set out in the PRI's Investor Data Needs framework, to be decision-useful, sustainability information must be available, accessible, verifiable, comparable across multiple dimensions, a faithful representation and relevant to investors.

As such, we welcome the KSSB's issuance of the draft Korean Sustainability Disclosure Standards (KSDS), designed based on the ISSB standards. We are, however, currently unable to assess the details of the full exposure draft as it is not yet available in English, and therefore our comments in this submission are based purely on the information provided in the English Press Release. We support the KSSB's principles for the establishment of the standards, especially where they note the importance of considering international alignment and corporate acceptability as well as the importance of providing investors with comparable and reliable information.

We however also note that the draft KSDS proposes changes to the IFRS S1 and S2 that potentially render the draft KSDS inconsistent with the principles of international alignment, comparability and reliability. While we recognise the need to account for the South Korean context and the benefits of providing reliefs in the interim, to uphold comparability across regions, the priority nonetheless should be to transition toward adoption of the ISSB Standards to the fullest extent possible. Furthermore, modifications should only be made in instances where they do not detract from the global standard set by the ISSB Standards, but rather contribute to improved disclosures such as by promoting higher standards of transparency, reliability and comparability.

The PRI's key recommendations are for the KSSB to:

- **Align with the IFRS S1 climate-first reporting relief[5] to set a one-year timebound limit for climate only reporting.** At the very least, we encourage the KSSB to acknowledge from the outset the need to report on all material sustainability-related information that can reasonably be expected to affect an entity's prospects.
- **Align with IFRS S1 and S2 provisions requiring entities to consider and report industry-based metrics.** These metrics enable the disclosure of comparable information on material industry-specific risks and opportunities.
- **Align with the IFRS S2 provisions requiring companies to report Scope 3 greenhouse gas emissions where material, alongside Scope 1 and 2 emissions as a baseline requirement.** Scope 3 emissions are the most impactful kind of emissions for some industries.

Areas for further consideration:

- **Align with the IFRS S1 provisions on location of disclosures and timing of reporting, including the built-in reliefs for first year reporting.**
- **Add disclosure requirements additional to the ISSB Standards, taking a building-blocks approach, that capture further information on companies' sustainability impacts and dependencies.** Depending on their mandates and duties, investors may need information to assess and interpret a company's impacts and their alignment with sustainability goals and thresholds. Such additional requirements should build on the GRI Standards given their widespread global uptake.

[5] IFRS Foundation. (2023) IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. Paragraph E5-E6 (p. 44-45)

DETAILED RESPONSE

CLIMATE-FIRST APPROACH

The proposed KSDS would only require disclosures about climate-related risks and opportunities. Disclosures about other sustainability-related matters would be voluntary. This is currently misaligned with the climate-first approach taken in IFRS S1. IFRS S1 requires that all material information about sustainability-related risks and opportunities that can reasonably be expected to affect an entity's prospects are transparently communicated, with detailed relief provisions that allow first-time reporters to disclose only climate-related information in the first year of application. Beyond climate change, investors need information on the broader environmental, social, and governance risks facing investee companies to inform assessments of their investments' financial performance.

Narrowing the scope of the KSDS to climate change will expose Korean entities to risk of misalignment with companies in other jurisdictions that will report on broader sustainability issues pursuant to IFRS S1. Global reporting requirements are already encompassing broader sustainability issues, and Korean entities can be exposed to additional costs as well if IFRS S1 is fully required in other relevant jurisdictions. Ultimately for investors that are the end-users of this information, this situation can hinder their access to comparable information that is useful to their investment decisions. PRI acknowledges the utility of a climate-first approach. However, without a clear time-bound provision to introduce reporting on other sustainability issues, the KSDS risks lending itself to a large degree of misalignment with the global baseline set by the ISSB Standards. As such, we recommend that the KSSB consider aligning with the IFRS S1's climate-first reporting relief, and clarify when reporting will be required on non-climate material sustainability-related risks and opportunities.

INDUSTRY-BASED INFORMATION

The draft KSDS do not require the disclosure of industry-based information, including metrics.

While sector-neutral metrics offer a crucial baseline of information, industry-based metrics are an additionally important element of sustainability reporting that enables the disclosure of comparable information on material industry-specific risks and opportunities. Provisions related to industry-based metrics in IFRS S1 and S2 enable entities to apply their own materiality assessment to these metrics, to identify metrics that are relevant and represent their risk exposure and management most appropriately.

As such, we recommend that provisions to consider and disclose industry-specific metrics are included in the KSSB standards.

SCOPE 3 GREENHOUSE GAS (GHG) EMISSIONS

The KSSB has specified that the obligation and timing of mandatory disclosure of Scope 3 greenhouse gas emissions will be determined based on feedback received on the draft KSDS and consultations with relevant authorities.

While PRI acknowledges the difficulty to report Scope 3 GHG emissions, we support their inclusion alongside Scope 1 and 2 GHG emissions data into IFRS S2-aligned disclosure standards. Scope 3 GHG emissions are important to investors as users of sustainability reporting because they are a key metric that enables them to understand an entity's exposure to transition risk. They are also the most impactful kind of emissions for some industries, meaning that without reporting on Scope 3 GHG emissions, some industries and entities will not be providing a significant proportion of their total emissions.

This is also an area where IFRS S2 already has built-in provisions and reliefs that consider the difficulty of implementation for first time reporters. PRI therefore recommends alignment with IFRS S2 requirements and reliefs, to provide investors with needed information while maintaining proportionality.

AREAS FOR FURTHER CONSIDERATION

MANDATORY SUSTAINABILITY DISCLOSURE SYSTEM AND FUTURE PLAN

The KSSB has noted that relevant mandatory reporting timelines, legal frameworks and/or rules, and the location of reporting will all be determined by the South Korean government following extensive discussions with domestic stakeholders. In line with recommendations made throughout this submission, PRI encourages the KSSB and the broader South Korean government to align with the relevant provisions of the ISSB Standards. Particularly on the period and timing of reporting, the ISSB Standards require alignment with that of statutory financial reporting, and on the location of reporting, they require the information to be included in general financial reports.

We also encourage the KSSB and the South Korean government to forwardly consider mandatory implementation of the KSDS in a timely manner. In our joint call to action, we call for commitment from relevant authorities across jurisdictions, by 2025, to adopt the ISSB standards – IFRS S1 and IFRS S2 – on an economy-wide basis.

ADDITIONS TO THE BASELINE – REPORTING ON IMPACTS AND DEPENDENCIES

All investors need sustainability-related information to inform their assessment of companies' risks and opportunities, but some investors also need information to assess and interpret a company's impacts and their alignment with sustainability goals and thresholds. Many institutional investors also now accept that, in acting in their clients' and beneficiaries' best financial interests, they should consider and respond to system-level risks that may affect long-term returns. With issues like biodiversity loss, human rights violations and income inequality emerging as material system-level risks, investors also need decision-useful data on their investments' risks, opportunities, and impacts across these sustainability issues.

While the ISSB standards are expected to enable disclosure of some of this information, it is unlikely they will provide investors with all the information they need on a company's impacts and dependencies. In this context, and in line with the IFRS Foundation's "building blocks" approach, the KSSB should eventually consider disclosure requirements additional to the ISSB Standards that capture further information on companies' sustainability impacts and dependencies. These should build on the GRI Standards, similar to the approach of the European Commission and Chinese Ministry of Finance.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of the KSSB further to create standards incorporating sustainability disclosure in line with international standards.

Please send any questions or comments to policy@unpri.org.

More information on www.unpri.org