Financial Services Commission

Press Release

April 22, 2024

TASKFORCE ON ESG FINANCE HOLDS MEETING AND DISCUSSES KEY DETAILS OF ESG DISCLOSURE STANDARDS

- Authorities discuss details of an open draft on domestic ESG disclosure standards.
- The open draft aims to meet global consistency (ISSB standards) and strike a reasonable balance between the needs of investors and the cost to businesses.

The Financial Services Commission held the 4th taskforce meeting on ESG (environmental, social and governance) finance with related ministries, industry groups, investors, and experts on April 22 to have discussions on details of an open draft on domestic ESG disclosure standards. FSC Vice Chairman Kim Soyoung presided over the meeting and outlined basic principles and key details of the draft standards.

A SUMMARY OF VICE CHAIRMAN'S REMARKS

First, this open draft on domestic ESG disclosure standards is consistent with global standards as it amply takes into account cases from overseas. In this regard, the draft standards have been formulated to ensure interoperability with the ESG disclosure standards of other major countries to minimize the burden of redundant disclosure duties for domestic businesses. In addition, the draft standards will mandate climate-related disclosures first, while keeping the disclosure of information on other non-climate-related ESG elements on a voluntary basis. Second, the draft standards have been prepared to provide quality information to investors. Instead of simply requiring businesses to list up relevant data on climate risks and opportunities, the draft standards will actually promote behavioral change from businesses through a more systematic provision of information disclosures based on important categories, such as governance structure, strategy, risk management process, and so on. Third, the draft standards also take into account the needs of enterprises and ensure that there is no excessive burden placed on them. Considering domestic firms' capabilities and level of preparedness, authorities will provide detailed guidelines and allow companies to disclose qualitative information—instead of quantitative data—for certain types of indicators prone to a large degree of subjectivity in their measurement. This open draft on ESG disclosure standards also takes into consideration the need for our economy to address some of the newly emerging risks, such as the problem of low birth rate and aging population. Specific details about the timetable for implementation will be discussed further.

KEY DETAILS OF ESG DISCLOSURE STANDARDS

The open draft on ESG disclosure standards consists of the following three parts—(a) general issues, such as terms and definitions, (b) mandatory climate-related information disclosures, and (c) other non-climate-related information disclosures on a voluntary basis.

The draft standards will require businesses to disclose climate-related factors on a mandatory basis. Accordingly, businesses will be required to disclose information about climate-related risks and opportunities, which can have an impact on investment decisions made by investors. More specifically, businesses will be required to disclose climate-related information in accordance with the following four categories—(a) governance structure, (b) strategy, (c) risk management process, and (d) current and target indicators. First, “governance structure” means the decision-making process, protocol, and procedure utilized for the supervision and management of climate-related risks and opportunities—for instance, information about an internal decision-making body for climate risk management and the management’s oversight role. Second, “strategy” refers to the methodology adopted by companies in managing their climate-related risks and opportunities. In this regard, companies are required to identify[1] their own climate-related risks and opportunities that can have an impact on their valuation and disclose how these factors can affect their business models or value chains. Companies will be required to provide impact analysis about the short-, medium-, and long-term effects on their financial performance. Based on these impact analyses, business will disclose information about their climate response strategy and resiliency. Third, businesses will be required to describe their “risk management process,” from the stage of identification to evaluation and management of their own climate-related risks and opportunities. Lastly, businesses need to disclose information about their “current and target indicators,” which include cross-industry indicators (mandatory), industry-based indicators (voluntary), climate-related target indicators, and other performance-related indicators.

The open draft on domestic ESG disclosure standards also contains disclosure standards for the issues that need to be addressed or are currently being dealt under the government’s ESG policy schemes, such as low birth rate and aging population. On a voluntary basis, businesses will be able to disclose their implementation or compliance status regarding statutory information disclosures or those requested to be disclosed by related government ministries. This will allow a more systematic and effective provision of information on ESG disclosures, which is currently scattered across various government websites. In this way, user convenience and information utility will be increased. This will also help the government and businesses to more closely work together in tackling newly emerging risks, such as the problem of low birth rate and aging population.

A full version of the open draft on domestic ESG disclosure standards is expected to be made public on April 30 after further discussions between related ministries and an approval from the Korea Sustainability Standards Board (KSSB).

The FSC expects that domestic ESG disclosure standards will help to boost the competitiveness of domestic economy and businesses and lay foundation for a more sustainable growth. Introducing ESG disclosure standards will also help domestic enterprises to more effectively cope with the tightening of global ESG regulations and facilitate our economy in finding new growth drivers amid a rapidly changing global environment, such as the transition to a low-carbon society.

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For press inquiry, please contact Foreign Media Relations at fsc_media@korea.kr.

[1] Providing detailed explanation on whether a particular risk factor constitutes a physical risk or a transition risk and expected scenarios on changes and uncertainties regarding particular climate risks and opportunities.