



Status of Korean Sustainability Disclosure Standards

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According to a press release by the Financial Services Commission on December 30, 2024, the final version of the draft Korean Sustainability Disclosure Standards (KSDS) along with an implementation roadmap and guideline are expected to be published in the first half of 2025. The draft KSDS was published in April last year by Korea Sustainability Standards Board (KSSB) for public comments which was followed up with a hearing with relevant industry associations and conglomerates in September and an expert meeting in December.

Noteworthy features of the draft KSDS were as follows:

- i. The KSDS's full name is "Sustainability-Related Financial Disclosures". It forms part of the financial reporting. It provides information on sustainability-related risks and opportunities that are reasonably expected to affect the reporting entity's cash flows or cost of capital over the short, medium or long term.
- ii. The scope of sustainability-related disclosures should be consistent with that of financial statement disclosures. In other words, the reporting entity preparing consolidated financial statements must also provide sustainability-related information for its subsidiaries.
- iii. Climate-related risks and opportunities that are reasonably expected to impact a reporting entity need to be disclosed. Reporting entities shall disclose climate-related and other sustainability-related risks and opportunities within a framework of 'governance', 'strategy', 'risk management', and 'metrics and targets'.
- iv. A disclosure framework has been introduced to encourage the implementation of government policies, such as family-friendly business, respect of human rights and employment of persons with disabilities.

1. Drafting Principles and Structure

KSSB aims to establish disclosure standards that provide useful information to investors, considering "international alignment" as well as "feasibility." International alignment means ensuring interoperability with ISSB disclosure standards and those of the EU/US, thereby minimizing the compliance burden on Korean companies operating internationally. Feasibility means considering the situation and characteristics of domestic industries and the disclosure capabilities and preparedness of Korean companies to ensure that the application of disclosure standards does not impose an excessive burden on them.

Structure of the KSDS Draft

Type	No.	Name	Note
Mandatory	1	General sustainability-related financial information disclosures	Presents conceptual bases and general items related to sustainability issues (based on IFRS S1)
	2	Climate-related disclosures	Presents disclosure requirements related to climate-related risks and opportunities (based on IFRS S2)
Optional	101	Government policy-related disclosures	Covers issues related to sustainability that are encouraged to be disclosed according to government policies

2. Section Details

No. 1: General sustainability-related financial information disclosures

The purpose is to have companies disclose information on sustainability-related risks and opportunities that are useful for investors' investment decisions. This section covers general principles and overall framework of disclosure. It does not require the disclosure of information on all sustainability-related risks and opportunities. However, information on climate-related risks and opportunities, as outlined in No. 2, must be disclosed in accordance with the general framework set by No. 1. Information on other sustainability-related risks and opportunities other than climate, such as biodiversity or human rights, may be disclosed in accordance with the framework set by No. 1.

No. 1's Key Aspects

Reporting Entity	The entities that need to provide sustainability-related financial disclosures should be consistent with that of financial statement disclosures. For instance, a reporting entity preparing consolidated financial statements under K-IFRS (Korean International Financial Reporting Standards) must also provide information on its subsidiaries. However, if the information of a subsidiary is not material enough to influence investors' decision-making, it may be omitted.
Materiality	Information is considered "material" if omitting, misstating, or obscuring it could reasonably be expected to influence investors' decision-making. The reporting entity must disclose material information regarding sustainability-related risks and opportunities that are reasonably expected to impact such entity's outlook. Even if the draft KSDS requires the disclosure of certain information, it may be omitted if it is not material.
Core	Information on sustainability-related risks and opportunities should be disclosed in terms of the

Elements	<p>core elements: ‘governance’, ‘strategy’, ‘risk management’, and ‘metrics and targets’. These core elements demonstrate how the reporting entity manages risks and opportunities. This aligns with recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)..</p> <ul style="list-style-type: none"> • Governance: Information on governance processes, controls, and procedures used by the reporting entity to monitor and oversee sustainability-related risks and opportunities. • Strategy: Information on the approach used by the reporting entity to manage sustainability-related risks and opportunities. • Risk management: Information on the processes used by the reporting entity to identify, assess, prioritize, and monitor sustainability-related risks and opportunities. • Metrics and targets: Information on the targets set by the reporting entity regarding sustainability-related risks and opportunities and the reporting entity's progress towards these targets.
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To identify sustainability-related risks and opportunities, reporting entities can reference frameworks published by other authoritative bodies, such as the Sustainability Accounting Standards Board (SASB) for water or the Climate Disclosure Standards Board (CDSB). In the absence of specific disclosure standards applicable to a given sustainability-related risk or opportunity, reporting entities may refer to information disclosed by peers in the same industry or region, or standards such as the Global Reporting Initiative (GRI) or the European Sustainability Reporting Standards (ESRS) to the extent they do not conflict with the KSDS.

No. 2: Climate-related disclosures

This requires reporting entities to disclose information on governance, strategy, risk management, metrics and targets concerning climate-related risks and opportunities. Climate-related risks refer to potential negative impacts of climate change on the reporting entity, which are further categorized into physical risks and transition risks. Physical risks involve damage to assets or supply disruptions caused by weather events, such as typhoons, floods, droughts and heatwaves. Transition risks refer to decreased demand for high-carbon products or regulations prohibiting the sale of high-carbon emission products during the transition to a low-carbon economy.

No. 2's Key Aspects

Governance	<ul style="list-style-type: none"> • Decision-making body: Identify the decision-making body (or individual) responsible for overseeing climate-related risks and opportunities and explain how the operating rules of this body (or individual) incorporate responsibilities for climate-related risks and opportunities. • Role of management: Describe whether the role related to climate is delegated to specific positions or committees and, if so, how oversight of these positions or committees is conducted.
Strategy	<ul style="list-style-type: none"> • Climate-related risks and opportunities: Provide a description of climate-related risks and opportunities that are reasonably expected to impact the reporting entity's outlook and their effects on the reporting entity's business model and value chain. • Current and anticipated financial impact: Furnish information on how climate-related risks and opportunities have affected the reporting entity's current financial position, financial performance, and cash flows.

	<ul style="list-style-type: none"> • Climate Resilience: Provide information on the reporting entity's ability to adjust or adapt its strategy and business model over the short, medium and long term, including scenario analysis.
Risk Management	<ul style="list-style-type: none"> • Describe processes used by the reporting entity to identify, assess, prioritize and monitor climate-related risks and opportunities.
Metrics and Targets	<ul style="list-style-type: none"> • Industry-wide metrics: There are seven common metrics that companies must disclose to allow comparison of their performance on climate-related risks and opportunities against peers, including greenhouse gas emissions and internal carbon pricing. • Industry-based metrics: These are metrics related to the business model and activities of specific industries for optional disclosure. • Climate-related targets: Disclose climate-related targets set by the reporting entity or those required by law or regulation.

No. 101: Government policy-related disclosures

Companies may choose to disclose additional information on sustainability-related issues or issues aimed at fulfilling Government policies. This is optional.

3. Other Considerations

The KSSB has introduced several mitigation measures to avoid imposing excessive burdens on companies. Notably, when disclosing the impact of climate-related risks or opportunities on the reporting entity's financial position, performance and cash flows, the reporting entity may provide qualitative information if quantitative information is difficult to provide. In addition, to ease the disclosure burden, transitional provisions exempt companies from disclosing comparative information in the first year of applying the sustainability disclosure standards.

As for the disclosure of Scope 3 greenhouse gas emissions (indirect emissions from sources not owned or controlled by the reporting entity), the final KSDS and implementation roadmap to be announced in the first half of 2025 will give clarity on whether it is required and, if it is, when it will be required.

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