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28 July 2022

Mr Emmanuel Faber
Chairman
International Sustainability Standards Board
IFRS Foundation
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

Via email commentletters@ifrs.org

Dear Mr Faber,

Re: Consultation on Sustainability-related Financial Information and Climate-related Disclosures

The Hong Kong General Chamber of Commerce is pleased to share its views on the ISSB's two Exposure Drafts.

We welcome and support the ISSB's initiative to formulate a comprehensive set of global sustainability disclosures to serve as performance guideposts for businesses, while providing consistent, comparable and high-quality environmental, social and governance reporting designed to meet investor needs. That being the case, there are also questions over the approach to and with the proposed standards, which will have to be addressed before these are rolled out. These and other comments are as set out in the attached.

We hope you will find our comments useful.

Yours sincerely,

George Leung
CEO

Encl.

Public Consultation on The ISSB Proposed Standards
On Sustainability-related Financial Information and Climate-related Disclosures
Response by the Hong Kong General Chamber of Commerce

1. The Hong Kong General Chamber of Commerce ("HKGCC") welcomes the opportunity to comment on the International Sustainability Standards Board's ("ISSB")'s two Exposure Drafts, namely, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.

2. We support the ISSB's initiative to formulate a comprehensive global baseline on sustainability disclosures designed to meet the information needs of investors when assessing enterprise value. This can also facilitate investors' evaluation of an entity's sustainability-related risks while encouraging such entities to further integrate sustainability into their corporate thinking and business strategy by, for instance, establishing appropriate governance and risk management practices, as well as disclosing their approach to and metrics on significant sustainability issues.

3. In the course of canvassing members' comments on the Exposure Drafts, we have also received feedback expressing concerns over the approach adopted for such an exercise. These concerns are elaborated in the second to last section and subsequent to our comments on the key aspects of the proposals under the two Exposure Drafts.

IFRS S2

4. The disclosure requirements as provided under the proposed IFRS S2 specify how an entity uses metrics and targets, including cross-industry and industry-based metrics, to measure, monitor and manage its climate-related risks and opportunities. These are considered appropriate given the urgency for climate action and that the market has strong demand for relevant and material information. It is also noted that the IFRS S2 reporting framework incorporates the Task Force on Climate-Related Financial Disclosures ("TFCD") recommendations, and includes metrics tailored to industry classifications derived from the industry-based standards under the Sustainability Accounting Standards Board ("SASB"), which will assist entities' transition to the ISSB's proposed standards.

5. As an international financial hub, Hong Kong-listed companies are currently obliged to make ESG disclosures in accordance with the Stock Exchange of Hong Kong's ESG Reporting Guide[1] for which the framework and disclosure requirements differ significantly from the ISSB's proposed standards. This would require support from regulators to ensure a smooth transition to the proposed standards as and when these are finalised. In this connection, we look forward to and support ISSB's continuous efforts to coordinate and streamline relevant disclosure frameworks across jurisdictions.

[1] https://www.hkex.com.hk/Listing/Sustainability/ESG-Academy/Rules-and-Regulations?sc_lang=en

6. The proposed cross-industry metrics include Greenhouse Gas ("GHG") emissions whereby entities are required to disclose Scope 1, 2 and 3 absolute emissions and intensity as provided under the GHG Protocol. The first two, which cover direct emissions from owned or controlled sources, as well as indirect emissions from the generation of purchased electricity or other forms of energy consumed by the reporting company, are well established. However, the approach to measuring Scope 3 emissions, which include all other indirect emissions from a company's value chain, can vary across entities due to a number of issues such as data availability, use of estimates, calculation methodologies and other considerations. Such emissions are an important component of investment-risk analysis because they often account for the largest portion of an entity's carbon footprint. It is therefore imperative that practical guidance be provided for entities to calculate their Scope 3 emissions in a consistent, complete and correct manner to ensure quality data and facilitate analysis, which we note is already provided for the GHG Protocol.

7. As noted in paragraph 4, IFRS S2 proposes to adopt a set of industry-based metrics based on those drawn up by SASB. These will be based on the industry that the entity is reporting in, or with a business model or underlying activities that have features common to those of an industry. That may however be problematic for companies with investments across diverse industries as it is not clear under the proposed disclosure standards whether such companies should report all industry categories in their portfolios or on the basis of the materiality of their holdings. If it is the latter, how should this be determined? Would this be based on the share (in percentage terms) of revenue, profit or net assets? Should there be a threshold and what should that be? These issues should be addressed in the interest of clarity.

IFRS S1 and S2

8. A key element in the Exposure Drafts is the requirement for an entity to disclose the effects of significant sustainability and climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term. It would be constructive if guidance could be provided on the valuation methodology, in particular on an entity's assessment of the financial implications of significant sustainability and climate-related risks and opportunities over a long-term horizon, as well as materiality assessment to help improve comparability between disclosures from different entities. Such guidance could help enhance the verifiability of the proposed requirements and balance the potential costs and benefits of implementing the proposals of the Exposure Drafts. For instance, the expected ongoing audit and assurance costs for implementing the proposed standards will likely be a key consideration for entities, especially for small and medium-sized enterprises, and one of the major factors in the adoption of the proposed standards, in particular when such disclosure requirements have yet to be made mandatory in the jurisdiction(s) where an entity operates. Otherwise, and in the absence of such guidance, there could be substantial and substantive variations in the information disclosed. Similarly, clarification should be provided on the definition of "significant" risks and opportunities to allow a reporting entity to measure objectively such metrics.

Issues of Concern

9. Concerns over the Exposure Drafts revolves around two main issues, namely, 1) the lack of clarity on when the ISSB will be fully quorate as noted from page 7 of the consultation document; and 2) as an initial draft, which although would be subject to fine-tuning by the end of the year, falls short in a couple of critical areas. The following sets out in detail perceived issues with and related to the Exposure Drafts.

- As the ISSB board is not yet quorate, this would imply the absence of a governance framework. Given the foregoing, it is rather unusual for the Exposure Drafts to be issued when the governance body had yet to be filled. As and when the ISSB is quorate, meetings should be opened to the public much like the existing practice by GRI and SASB, which allows members of the general public to attend discussions online.

- The ISSB's objective is to align sustainability reporting frameworks. It is however noted that the ISSB Exposure Drafts are essentially a direct copy of SASB standards. It is also noteworthy that no reference was made in the Exposure Drafts to GRI, which has a longer history relative to SASB and possesses a wider user base outside of the US. Such an omission or oversight is quite puzzling especially when the IFRS Foundation and GRI had recently announced an alignment agreement on 24 March 2022.

- As an extension of the preceding commentary, it is noted that the GRI standard is essentially a principle-based standard while SASB adopts a rule-based approach and is therefore more prescriptive in nature. As such, reconciling two inherently different standards would be fraught with challenges. Based on the ISSB's proposed approach, it would appear that it favours a reporting system that is based mainly on SASB standards. If that were the case, this would be inconsistent with its stated objective of consolidating existing standards.

Conclusion

10. The foregoing section notwithstanding, the proposed standards send a strong signal to the market on the importance of integrating sustainability into core business strategies. To this end, we hope that both proposed standards would be made effective simultaneously and as soon as practicable to facilitate integrated reporting by entities and provide investors with an overview of sustainability-related financial information from reporting entities. In the long-run, reporting on financial information, as well as sustainability and climate-related financial information, should be further integrated with the support of a comprehensive global baseline.

HKGCC Secretariat

July 2022