CHARTERED GOVERNANCE
Hong Kong

The Hong Kong Chartered Governance Institute

Submission

IFRS Foundation
Consultation Paper on:

[Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information & [Draft] IFRS S2 Climate-related Disclosures (Exposure Drafts)

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[Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information & [Draft] IFRS S2 Climate-related Disclosures (Exposure Drafts)

We refer to the consultation paper (**Consultation Paper**) on the above topics. Terms and expressions used under this submission (**Submission**) are as defined under the Consultation Paper.

About HKCGI

The Hong Kong Chartered Governance Institute (**Institute/HKCGI**), formerly known as The Hong Kong Institute of Chartered Secretaries (**HKICS**), is the only qualifying institution in Hong Kong and the Mainland of China for the internationally recognised Chartered Secretary and Chartered Governance Professional qualifications.

With over 70 years of history and as the Hong Kong/China Division of The Chartered Governance Institute (**CGI**), the Institute's reach and professional recognition extend to all of CGI's nine divisions, with more than 40,000 members and students worldwide. HKCGI is one the fastest growing divisions of CGI, with a current membership of over 6,800, 300 graduates and 3,000 students with significant representations within listed companies and other cross-industry governance functions.

Believing that better governance leads to a better future, HKCGI's mission is to promote good governance in an increasingly complex world and to advance leadership in the effective governance and efficient administration of commerce, industry and public affairs. As recognised thought leaders in our field, the Institute educates and advocates for the highest standards in governance and promotes an expansive approach which takes account of the interests of all stakeholders.

Support for the Exposure Drafts

Our Institute is firmly committed to and supports the developments of sustainability-related best governance practices including those related to managing climate change risks which have now taken centre stage as 'the' major sustainability topics. Intimately related, and a major applied governance issue is reporting on material climate change disclosures which our members are involved in directors' training, stakeholders' engagement (to identify material concerns), data collection, report production and regulatory compliance.

Given the myriad of reporting standards that are out there in the marketplace, our members have faced difficulties both in dealing with management buy-in, reporting and stakeholder engagement (especially where different stakeholders have different agendas). As such, our Institute welcomes the establishment of a global baseline by ISSB under the Exposure Drafts following the establishment of ISSB announced at COP26 supported by G20 leaders, the International Organization of Securities Commissions (IOSCO) and others.

Our Institute firmly believes that given the pre-eminent position of the IFRS Foundation and IASB on setting financial reporting standards across over 140 countries, and the approach of building on the work of others, including TCFD and SASB, the ISSB standards, under the Exposure Drafts, will find ready and widespread country and market acceptances. For example, Appendix B, S2 is largely taken from SASB but adapted to make it more international and to take into account additional requirements for financial institutions. The reporting items are also conducive to reducing the scope for greenwashing. There was therefore much thought and work from ISSB under the 600-page long document covering over 60 plus industries. For entities with activities that span more than one industry, more guidance should be provided to assist them to identify the industries and disclosures that are relevant to the assessment of enterprise value, with examples to assist the entities to navigate the various industry-specific disclosure requirements in Appendix B.

We further agree that in assessing the materiality of climate change disclosures in terms of risk and opportunities, enterprise value, a major concern of primary users, as being proposed by ISSB under the Exposure Drafts is appropriate. There is no doubt that from the applied governance perspective, the funding and investment choices of primary users serve as powerful catalysts in shaping climate change corporate reporting. It is also consistent with investor stewardship and principles of responsible ownership which are other governance topics supported and promoted by our Institute. It will also give structure to stakeholder engagement, at least with primary users as an important class of stakeholders.

In terms of the standards being proposed under the Exposure Drafts, we agree with the overall concepts under IFRS S1 and S2. We agree with the core content under S1 and governance as the wraparound for strategy, risk management, metrics and targets, along with the need to address physical and transition risks as the world transitions to a low carbon economy and from the impact of climate change, including extreme weather patterns.

We also agree with the direction of travel under the FAQs to the 'Exposure Draft – Snapshot', initially with high-level disclosures, and thereafter comparative ones[1]. We assume this approach applies to quantitative reporting on matters including scenario analysis and scope 3 emissions albeit paragraph 14 of the S2 Standards requires an entity to provide qualitative information if the entity is unable to provide quantitative information. The risk is that in the absence of guidance under the S2 Standards different jurisdictions may well work off different quantitative timetables.

In any event, we submit that quantitative disclosures relating to risk and opportunities should be taken in their stride to take into account market developments, the current geopolitical tensions, and the energy crisis. For example, it may well be that the financial and non-financial sectors most impacted should lead the marketplace in terms of material climate change disclosures at the quantitative level, but for the SMEs, more time must be provided to avoid pushback. This is a matter that ISSB needs to think through carefully in terms of recommended implementation timetable, especially under the S2 Standards. Also:

[1] The relevant FAQ reads 'Would the proposed Standards be phased in? The exposure drafts propose that a company would not have to provide comparative information the first time it applies its Standards, although it could choose to do so. The proposal should make it easier for a company to meet the requirements and get sustainability-related information to investors as soon as possible.'

1. Recognising there are aspects of the Standards that only companies which are mature in their reporting approaches, for example, those financial and non-financial sectors where TCFD has provided guidance, would be in a good position to report on, we call on ISSB to issue practical guidance to assist the less experienced companies started, and to provide practical examples of best reporting practices from the standpoint of the beginner, intermediate, to the advanced reporter. We are most definitely not calling for templates, but rather, for example, questions that preparers should ask of themselves, and in their supply chains, in preparing their company's climate change disclosure report. Also, where possible, the guidance could extend to how to harmonise other parts of ESG/sustainability reporting targeted to other stakeholders and other non-climate change-related matters, how to promote connectivity between sustainability-related financial disclosures and general purpose financial statements, how to present reconciliation, and

2. there should be clear guidance on reporting boundaries. This is because, to date, these have largely been left up to the reporting company to define, for example, in relation to GHG Protocol. Specifically, under the proposed S1 Standards, material sustainability information should mirror general purpose financial reporting. It nevertheless remains that ISSB should make its stance clear on reporting boundaries within the climate-related disclosures in respect of the GHG Protocol and such stance should be applied consistently for other sustainability-related risks and opportunities.

In all, we agree, in general, subject to our observations, with the issue of two IFRS Sustainability Disclosure Standards that would require a company to disclose information that enables investors to assess the effect of significant sustainability-related risks and opportunities on its enterprise value; and establish disclosure requirements specific to climate-related risks and opportunities respectively. We also call for more support and guidance, especially for SME companies. These could include training materials, and webinars (which suit Asian hours). Where possible, peer-to-peer sharing should be incorporated which would be most useful. Our Institute will do our part in promoting the standards under the Exposure Drafts before the issuance of the IFRS Sustainability Disclosure Standards S1 and 2, and thereafter, the published standards, through appropriate training and support for directors and senior management of the corporate sector. Accordingly, we look forward to working with ISSB and local regulators.

The challenges

As noted, under our support for the Exposure Drafts, there is a need for thoughts on the implementation timetable for the two IFRS Sustainability Disclosure Standards, especially in terms of quantitative disclosures for matters such as scenario analysis and scope 3. As part of thought leadership, our Institute collaborated with KPMG China and CLP Holdings under a joint report on 12 July 2022 on 'Climate Change Reporting: Imminent, Challenging & Mandatory – The Opening Moves' (Report) to assess the challenges faced by the listed companies, an important market segment of Hong Kong as an International Financial Centre, and a key sector that primary users will be concerned with.

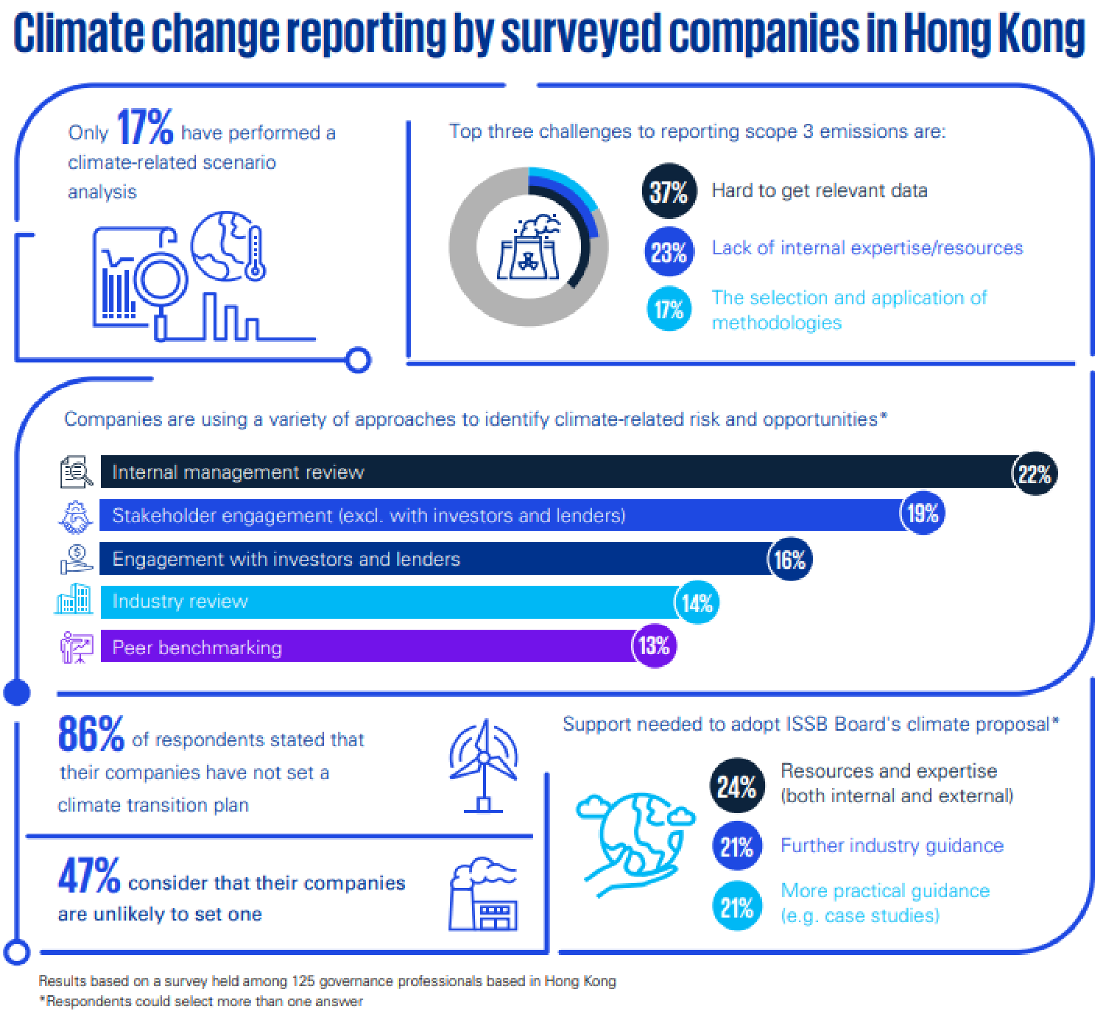
Ashley Alder, Chief Executive Officer of Hong Kong's Securities and Futures Commission, and Chair of the Board, International Organization of Securities Commissions who will shortly take up the Chairmanship of the UK Financial Conduct Authority, stated, under the Report that the publication of the ISSB standards 'is a significant milestone in the effort to retool the financial system to deal with climate change.' Bonnie Y Chan, Head of Listing, Hong Kong Exchanges and

Clearing Limited (HKEX) added that HKEX 'will review our Rules to further enhance climate disclosures, taking into account the state-of-readiness and capabilities of our issuers. Climate action is no longer a "nice-to-have". Companies must put purpose into practice by setting actionable plans for a low-carbon resilient future.'

The Report focuses on the state of readiness and capabilities of listed companies. We specifically surveyed our members on five focus areas relevant to the thoughts of the Exposure Draft's implementation timetable, namely:

1. Adopting 'enterprise value' to materiality
2. Quantifying the current and anticipated financial effects of climate issues
3. Conducting climate-related scenario analysis
4. Formulating a climate transition plan and setting targets, and
5. Determining and reporting on the metrics.

The results of the survey are set out in the following diagram:



The major takeaway from the results of the limited survey of 125 governance professionals, is that the state of readiness of listed companies needs to be improved. Importantly, and which should be the focus, in our discussions with listed companies, they know climate change reporting is coming, and value the report's message that preparers need to get ready to report

under imminent ISSB standards. They found peer-to-peer sharing, and other practical governance suggestions useful. Our Institute, will itself, and with other collaborators, contribute towards directors' training, and educating the marketplace as to the risk and opportunities relating to climate change and the transition from high carbon to a low carbon economy. The full copy of the report can be accessed here:
https://login.hkcgi.org.hk/file2.php?content=publication&id=2515&filename=climate-change-reporting.pdf

David Simmonds FCG HKFCG Chief Strategy, Sustainability and Governance Officer, CLP Holdings Limited; Vice-President and Chairman of the Membership Committee of our Institute summarises the position of our Institute, which is that the 'increasing requirements for climate reporting and climate action is the clear direction of travel which no business can ignore and this report contains a host of timely, valuable and practical recommendations for all business in tackling these issues.'

The Institute will continue to support the developments of sustainability-related best governance practices, including the eventual IFRS Sustainability Disclosure Standards, and their implementation under local regulatory timetable as part of applied governance which the Institute and its members are thought leaders and champions respectively with the corporate sector.

Other comments

In our Institute's submission on 24 December 2020 to the IFRS Foundation supporting the establishment of ISSB we referenced other ESG-related topics[2] in addition to climate change. To recap, 'we also consider that, relatively quickly, ISSB could consider broadening the scope of its approach to cover other ESG areas, so that a full (rather than a partial) solution to the standardisation of sustainability reporting can be provided. Otherwise, there is a risk that the current reporting situation will just be made even more complex.' We also noted that 'it would also be good for investors and other stakeholders to understand the IFRS Foundation's roadmap towards achieving standardised sustainability reporting. In this connection, we believe that the approach to be taken on materiality should be from the perspective of what influences the company (i.e., single materiality) acknowledging that, implicit within that, is a recognition of how the company influences the outside world. '

As IFRS S1 and S2 are narrowly focused on primary users and climate change, there might be a need for ISSB to consider, on a going-forward basis, whether there is a need to cover other relevant stakeholders and to address other ESG concerns, including by reference to other standards, for example, GRI, where appropriate. The Institute will participate in the agenda consultation from ISSB to set the further sustainability topics to be standardised through ISSB standards for creating a global baseline. The Institute also looks forward to providing governance-related input on the regulatory adoption of IFRS S1 and S2 in Hong Kong.

[2]https://login.hkcgi.org.hk/file.php?content=SubmissionAttachment&id=2406&filename=Submission+on+Consultation+Paper+on+Sustainability+Reporting.pdf&lang=eng

If there are any questions, please feel free to reach out to Ellie Pang FCG HKFCG, Chief Executive, HKCGI or Mohan Datwani FCG HKFCG(PE), Deputy Chief Executive, HKCGI at 2881 6177 or research@hkcgi.org.hk.

Yours sincerely

For and on behalf of
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