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Hong Kong Green Finance Association (HKGFA) Comment Letter on the ISSB Exposure Drafts

Dear Sir / Madam,

Founded in September 2018, Hong Kong Green Finance Association (HKGFA) is a non-profit organization that aims at positioning Hong Kong as a leading international green finance hub by providing greater access and opportunities for Hong Kong's financial institutions to participate in green financing transactions locally, in Mainland China and markets along the Belt & Road.

The HKGFA appreciates the opportunity to comment on the ISSB Exposure Drafts. Comments and insights are collated from the HKGFA ESG Disclosure and Integration Working Group as well as the HKGFA member organizations, which consists of representatives from financial institutions, corporates and academia.

HKGFA welcomes the release of the two sustainability exposure drafts and see it as a critical step forward in the development of global standards in sustainability disclosure instruments. Exposure Drafts IFRS S1 and S2 are important advancements and sets the foundation for further unification of reporting standards. The ambitious targets set by the Exposure Drafts and the embedded broad scope reminds us of the challenges, benefits, of improving business sustainability.

1. Challenge for Hong Kong and Importance of the Exposure Drafts

In Hong Kong, completeness of issuers' sustainability and climate-related disclosures vary. The challenges for Hong Kong and where we are now, makes the implementation of these standards even more compelling. The **HKEX listed issuers are still largely reporting with a generic**

template without differentiation of industries/sectors. The upcoming new global standards will thus be a **strong push and pull factor for Hong Kong to enhance its sustainability and climate-change reporting standards and practices**. We wish to also emphasize that **industry-based standards are critical** given that the most important sustainability factors affecting the risks and opportunities of individual issuers are, in many cases, determined by the industry in which the issuer operates. We therefore support the approach taken by ISSB that **consolidates and builds upon the industry-based SASB standards and the TCFD**.

We are supportive of the objectives of the ISSB and believe that the primary users of the sustainability reports of issuers require **consistent, complete, comparable, and verifiable** sustainability-related financial information for the purposes of assessing entities' enterprise value. As ISSB works towards finalizing the disclosure standards, we strongly encourage ISSB to ensure that the standards are fit to serve as building blocks and will support and interoperate with other key regional and national sustainability and climate-related disclosure standards and regulation. The success and broad adoption of the ISSB will largely depend on the support from regional and national securities regulators.

2. HKGFA's Comments on the Exposure Drafts

2.1 Scope of Disclosure

It is stated in IFRS S1 (p.11) – Question 3 – Scope - that 'Sustainability-related risks and opportunities that cannot be *reasonably* be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures". We suggest ISSB to provide clear explication on the criteria of 'reasonableness' in the Exposure Draft.

2.2 Materiality

Materiality is closely related to 2.1 on scope, as there is an apparent reliance on the judgement of the reporting entity (the enterprise) on what constitutes *materiality* and that which decides what needs to be disclosed (that is, scope). From the perspective of the reporting entity, sufficient guidance to assessment and reporting is critical.

The materiality principle as stated provides limited guidance to assist reporting entities to derive their assessments. It stresses the variability of what accounts as 'material' due to 'nature of sustainability-related financial information'. Materiality may also vary across enterprises. Material information 'disclosed by an entity may change from one reporting period to another as circumstances and assumptions change' (IFRS S1, p.16). This means that the burden of judgements is solely on the reporting entities and any suggested template (or guideline/'standards') will not relieve them of their responsibility, since 'even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity need not provide that disclosure if the resulting information was not material'

On the other hand, IFRS S1 requests disclosure on the "significant sustainability-related risks and opportunities" to which a company is exposed to, including processes to identify such risks. Companies are likely to have varying thresholds and interpretations of "significant", with impacts identified through stakeholder engagement or the company's own risk management framework. As such, further guidance is suggested to be provided on how the term "significant" is to be defined by the company, or what constitutes.

Furthermore, the draft IFRS S1 proposes that materiality judgements should be "re-assessed at each reporting date to take account of changed circumstances and assumptions". However, the materiality and saliency of sustainability issues can change quickly and unexpectedly. We recommend that entities should take a more proactive and dynamic approach, and develop governance and monitoring systems to assess their sustainability issues on an ongoing basis.

2.3 Fair Presentation

The IFRS S1 indicates that "applying IFRS Sustainability Disclosure Standards, with additional disclosures where necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation". We endorse the sources of guidance suggested by the Exposure Draft in Question 7 to identify sustainability-related risks and opportunities and related disclosures.

Reporting entities vary significantly – not only by industry and nature of their business, but also by scale, and by location (which affects the cultural and institutional (regulatory) environment in which the entities are operating). Thus, how to enable a global set of requirements that can be of practice utility for a diverse group of reporting entities is a major challenge. The current reporting practice has revealed a large range of differences across reporting entities, sometimes making analysis itself difficult – this suggests the need for more research and analysis. We encourage that comparison/mapping of different mainstream metrics/methodologies shall be done to contribute towards this process of learning and development.

2.4 Timeframe of Disclosure

We support the publication of both financial statements and sustainability-related financial disclosures at the same time. This helps to provide a holistic view of a company, its operations and sustainability. Publication of reports will help to foster greater engagement between departments and business units and embed a sustainability culture across a company's business. While generally embracing the frequency of reporting suggested in the Exposure Drafts, more frequent reporting frequency (e.g., request on interim sustainability report aligning with financial report) is overall embraced by the primary users, which are defined by ISSB consultation paper, of the sustainability report.

2.5 Assurance and Accuracy

All disclosures made within a sustainability report should be verifiable and subject to controls and processes to ensure data accuracy. We encourage that sustainability data, where material, be independently audited in line with good practice. We encourage entities to obtain independent assurance of the governance of sustainability issues (including board oversight, management reviews, and internal controls and processes), to identify material and salient sustainability issues, and relevant sustainability metrics.

Your sincerely

Hong Kong Green Finance Association (HKGFA)