



October 25, 2024

Submitted by email

Re: Hong Kong's Institute of Certified Public Accountants Consultation regarding Exposure Drafts HKFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information; and Exposure Draft HKFRS S2 Climate-related Disclosures ("Hong Kong Sustainability Standards")

T. Rowe Price¹ welcomes the opportunity to submit our firm's comments on the Hong Kong Sustainability Standards regarding adoption of IFRS S1 and IFRS S2 disclosure standards developed by the International Sustainability Standards Board (ISSB). We support adoption of the sustainability standards in Hong Kong based on IFRS S1 and IFRS S2, subject to our recommendations on timing and further assistance with Scope 3 greenhouse gas (GHG) emissions reporting.

Our support for the ISSB standards is based on its emphasis on providing environmental and social disclosures centered on financial materiality, which also includes applying an industry-specific lens to disclosures. We believe that our clients benefit from the provision of sustainability disclosures, as they help us quantify environmental and social risks and opportunities. Additionally, qualitative disclosures aid our analysis of the management team's management of risks and strategic approach in these areas.

Relevance of GHG reporting to our investment process. As a global investment management organization, we generally support regulation that facilitates disclosure of Scope 1, 2, and 3 GHG emissions, as we believe climate change is a financially material factor impacting many of the sectors in which we invest. For several years, T. Rowe Price has advocated that our investee companies adopt Sustainability Accounting Standards Board (SASB) and Taskforce on Climate-related Financial Disclosures (TCFD) reporting standards. Given the ISSB's incorporation of these two standards in its framework, we are recommending that our investee companies look to adopting the ISSB standards, IFRS S1 and IFRS S2.

Sufficient time for adoption. We support a sufficient transition period for the standards' adoption. The IFRS S1 and IFRS S2 standards became effective in January 2024. We anticipate that the most ambitious companies will use these ISSB standards for year-end 2024 reports, issued in 2025, but that most of our investee companies will require a longer period of time to transition. During this transition period, we expect that many of our investee companies will continue to report using SASB and/or TCFD standards. Many companies have invested in the infrastructure to prepare SASB and/or TCFD reporting, and we believe that forcing them to change reporting standards in a short period of time may be an undue burden. We also recognize that some multinational companies may become subject to new sustainability reporting requirements in a number of jurisdictions, thereby increasing compliance burdens over the same period of time.

In our view, large capitalization companies should not be required to make ISSB-type disclosures any earlier than 2026 (capturing year-end 2025 disclosures). Allowing a longer transition period for companies already using

¹ T. Rowe Price is a global investment management organization, serving a broad array of clients, from individual savers to large institutions and funds. Headquartered in the United States, T. Rowe Price has offices in 17 jurisdictions around the world, with global assets under management of \$1.63 trillion as of September 30, 2024.

SASB and TCFD disclosures could be reasonable. Additionally, smaller capitalization companies should be given a longer transition period than their larger peers.

Greenhouse gas emissions—timing of Scope 1 and 2 GHG reporting. We recommend that publicly listed corporate issuers should disclose Scope 1 and 2 GHG emissions at the same time as, or relatively close to, their financial results. In our experience, publicly listed company disclosure of Scope 1 and 2 GHG emissions data is fairly good; however, it is not ideal that reporting of GHG emissions often occurs much later than financial reporting. We believe that our assessment of environmental and social factors affecting our investments would strongly benefit from publicly listed corporate issuers disclosing this data, either at the same time or relatively close to their financial results.

Our current position on Scope 3 GHG emissions reporting. We strongly encourage all issuers to report their Scope 3 GHG emissions that are most material to their business. We recognize that reporting Scope 3 GHG emissions adds much more complication than reporting Scope 1 and 2 GHG emissions, with dependencies on third-party data. For some industries, estimating methodologies are still evolving. Given these challenges, we do not believe it is appropriate for us to unilaterally expect all issuers to report a full suite of Scope 3 GHG emissions categories at this time. However, we do expect that the landscape and our expectations will evolve over the next 12–24 months. In the interim, we strongly encourage issuers to report the Scope 3 GHG emissions categories most material to their business.

Phased regulatory approach—focusing on material Scope 3 GHG emissions. We look to regulators to facilitate the disclosure of material Scope 3 GHG emissions (the approach adopted by the ISSB) in their respective jurisdictions, which would significantly close the “information gap” on measuring Scope 3 emissions at the portfolio level. We find that, at a company level, Scope 3 GHG emissions tend to be concentrated within one to five categories. Therefore, if a company provides disclosure on its largest Scope 3 GHG emissions categories, the remaining portion of estimated Scope 3 GHG emissions would not be that significant, meaning investors could have much higher confidence in the data set.

Need for regulatory guidance for corporate issuers on estimating methodologies for Scope 3 GHG emissions. Based on our engagement with corporate issuers on the topic of GHG emissions disclosure, we believe that regulatory support, coordinated globally, is needed for any meaningful change in reporting to occur. In our view, the key problem sits with Scope 3 GHG emissions where only a minority of the investment universe reports the Scope 3 GHG emissions categories that are financially material to their business, as discussed above.

Based on both our discussions with our investee companies and our experience as an issuer, we know that many companies are struggling with the estimation methodologies and data sourcing for the various Scope 3 GHG emissions categories. This is, in part, due to the nascency of estimating methodologies and systems used to track sources of Scope 3 GHG emissions, and, often, the issuer’s primary concern is one of legal liability. We believe that regulators could ease this concern by providing a safe harbor or guidance to publicly listed corporate issuers on the use of estimating methodologies for Scope 3 GHG emissions.

In the absence of company-reported data, investors have become reliant on estimated Scope 3 GHG emissions provided by third-party vendors, such as MSCI, Sustainalytics, Bloomberg, and Institutional Shareholder Services, among others. While these estimates are done on a best-efforts basis, in almost all instances, the vendors do not have access to key inputs from the companies, which can be meaningful determinants of a company’s emissions profile. This means we have less confidence in this estimated data.