

December 15, 2020

IRFS Foundation
commentletters@ifrs.org

Dear Sir/Madam

IFRS Foundation Consultation Paper – Consultation Paper on Sustainability Reporting

On behalf of the ESG Disclosure and Integration Work Group of the Hong Kong Green Finance Association (see appendix 1 for the background of the Association), we wish to express our full support to the IFRS Foundation for its proposal to set up a new Sustainability Standards Board (“SSB”).

The proposal, if implemented, would represent a major step towards the establishment of a common global framework of sustainability standards. Currently, there is a plethora of definitions, standards and metrics, with different focuses and methodologies. The fragmented nature leads to confusion, inconsistency and is not conducive to investment decision-making and efficient asset pricing.

It is imperative to have a comprehensive global corporate reporting system that prioritizes and incentivises sustainable investments and outcomes. The framework should cover environmental and social topics relevant to capital allocation decisions, which will be integrated with financial reporting so these topics are given adequate weight in capital allocation decisions. It should establish a reporting format for ESG metrics that have implications for enterprise value accounting but also enable stakeholders to convey the implications that their operations have on sustainable development.

We understand there are different perspectives across stakeholder groups and jurisdictions on sustainability reporting and disclosures, which global sustainability reporting standards will need to accommodate. IFRS/SSB’s role in the integration should be similar to its role for financial reporting, namely to take the lead to work with the relevant parties (such as IOSCO, FSB and the various standard setters) to develop non-financial reporting standards which are to be used globally for corporate reporting. They should build and leverage on the existing initiatives to foster harmonisation; and agree with the relevant stakeholder groups on the objective of the corporate reporting and then decide on the principles for determining ‘Materiality’.

In terms of materiality and issues, we believe that the limited scope as put forward in the Consultation paper i.e. (only financial) and issues (only climate) is not sufficient. The narrow scope will not be able to provide the full spectrum of information on a range of sustainability topics that are material to investors. The framework needs to cover all sustainability topics/issues and not just climate. While we understand that to manage the complexity of the exercise, it is probably more practicable to focus on climate at the initial stage, IFRS/SSB should upfront make it explicit that that it would bring the full range of sustainability reporting topics and double materiality within scope of its future standards and set out a roadmap, with clear time line, on when will work on these areas commence.

To take into account the nuances of different jurisdictions and stakeholders, we believe a modular approach to harmonisation that builds on a shared set of standards across markets would be optimal.

Furthermore, reports which cover all the ESG issues a company impacts are usually very long which dulls their impact on investors decisions. We therefore would advocate that the Reporting Standards require companies to:

- Produce a 'strategic report' focused on key information likely to impact capital allocation decisions and hence the sustainability and quality of life for human civilization and the rest of the biosphere.
- Produce such 'sustainability reports ("SR")' as appropriate for addressing the needs of stakeholders with important concerns focused on a particular geography or particular topics. For example, a large company which has operations near an area of high biodiversity value should provide a separate SR on how it manages its impacts on this area. This extra 'SR' should be referenced by the strategic report but not discussed in it unless the issue might impact the decisions of many investors.

The reporting framework should be proportionate and consider what is appropriate for both large MNEs and Small Cap listed companies. Specifically, it should look for ways reporting can be made manageable for small companies while allowing easy graduation to full reporting as they grow.

We would be pleased to lend support to this important initiative. Our members include representatives from asset managers, asset owners, academia, index providers, standard setters as well as other service providers. As the membership spans the full spectrum of the value chain, we are well positioned to provide substantive and comprehensive inputs. If there is anything we can lend support or contribute to the discussions, please don't hesitate to contact us. We are committed to lending full support.



Hong Kong Green Finance Association

Yours sincerely

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c.c. Standard Setting Department, HK Institute of Certified Public Accountants;
HK Cross-sector Steering Group

Appendix 1

Founded in September 2018, the Hong Kong Green Finance Association (HKGFA) is a platform that offers channels and opportunities to facilitate the development of green finance and sustainable investments in Hong Kong and beyond. It aims to mobilise public- and private-sector resources and talents in developing green finance policies, to promote business and product innovation within financial institutions. HKGFA's main goal is to position 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 in markets along the Belt & Road Initiative. This is in line with the global trend of implementing the UN sustainable development goals and the Paris Agreement. Currently, the Association has members of over 100 financial institutions, companies, service providers and other key stakeholders.

<https://www.hkgreenfinance.org>