HKAB's Comment on the International Sustainability Standards Board (ISSB) Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

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<tr><th>Questions from ISSB</th><th>HKAB Comments</th></tr>
<tr><td colspan="2">Question 1—Overall approach</td></tr>
<tr><td>The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it.

Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general-purpose financial reporting to assess enterprise value.

(a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?

[…]</td><td>We are supportive of this global single set of comprehensive standard on sustainability disclosures. It is critical for sustainability disclosures being applied to both financial and non-financial corporates to build up necessary ESG related datasets. This will support better investment and financing decisions across different sectors.

Please see our response to question 1(a):

(a) The Exposure Draft states clearly the requirement for an entity to identify and disclose material information about all of the sustainability-related risks and opportunities to which it is exposed to. However, where such risks and opportunities are not yet addressed by a specific IFRS Sustainability Disclosure Standard (as will be the case for climate-related disclosures covered by IFRS S2), it would be clearer if there are case studies or examples to illustrate these risks and opportunities and how IFRS S1 would be applied.</td></tr>
<tr><td colspan="2">Question 2—Objective (paragraphs 1–7)</td></tr>
<tr><td>The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value.

Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of</td><td>While the ISSB is expected to conduct further consultation later on its standard-setting priorities and feedback on other sustainability-related risks and opportunities, this development of industry-based requirements building on SASB Standards may be relevant to the assessment of enterprise value.

While we note that the definition of "enterprise value" is provided in the appendix, we also note that it is stated in paragraph 5 of the Exposure Draft that "enterprise value reflects expectations of the amount, timing and certainty of future cash flows</td></tr>
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<tr><td>capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information.

Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability related financial information should, therefore, include information about the entity's governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements. Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets.

The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value.

[…]

(b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?</td><td>over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. […]". This may lead to different interpretations and lack of comparability in disclosures. As such, we suggest ISSB clarify the definition of 'enterprise value' and its underlying concepts would therefore be helpful – acknowledging that the question of what is material to investors will change over time. We would also benefit from having illustrative examples setting out methodologies and calculations for enterprise value.

Please see our response to question 2(b):

(b) The definition of 'sustainability-related financial information' is clear. We suggest adding the definition of "sustainability-related risks and opportunities' to the list.</td></tr>
<tr><td colspan="2">Question 3—Scope (paragraphs 8–10)</td></tr>
<tr><td>Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures.</td><td>We agree that allowing entities that prepare financial statements in accordance with GAAPs other than IFRS to apply the proposals in the Exposure Draft will enhance the comparability of sustainability disclosures.</td></tr>
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<tr><td>The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction's GAAP (so with IFRS Accounting Standards or other GAAP).

Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?</td><td></td></tr>
<tr><td colspan="2">Question 4—Core content (paragraphs 11–35)</td></tr>
<tr><td>The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates.

This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting, and builds upon the well-established work of the TCFD.

Governance

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on governance would be:

to enable the primary users of general-purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.

Strategy

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on strategy would be:

to enable users of general-purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.

Risk management</td><td>Please see our responses to question 4:

(a) The disclosure objectives for governance, strategy, risk management and metrics and targets are generally clear and appropriately defined, subject to a clearer definition of "sustainability-related risks and opportunities". However, there are still some inconsistencies on objectives within the Exposure Draft that need to be corrected. For example, paragraph 25 states the risk management objective is to show how "sustainability-related risks and opportunities are identified, assessed and managed"; and paragraphs 26 also refers to both risks and opportunities. However, paragraph 11(c) states an entity shall provide disclosures on "risk management – the processes the entity used to identify, assess and manage sustainability-related risks". It is unclear why paragraph 11(c) excludes "and opportunities" versus paragraph 25-26. Furthermore, it is unclear what is envisioned by including "opportunities" as part of the section on "risk management".

(b) In general, the disclosure requirements for governance, strategy, risk management and metrics and targets are appropriate to their stated disclosure objective. However, to further enhance the clarity of the requirements, we suggest the followings:

• On Governance, expertise and training hours of sustainability-related risks and opportunities of related parties (e.g Board members, management teams, working teams, group-wide) can be added for primary users to monitor the devotion of an entity in addressing and enhancing</td></tr>
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The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be: to enable the users of general-purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes. **Metrics and targets** The Exposure Draft proposes that the objective of sustainability-related financial disclosures on metrics and targets would be: to enable users of general-purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set. (a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not? (b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?	capacity in handling sustainability-related issues, especially for entities in countries at early stage of sustainability development; • On Metrics and Targets, further guidance should be provided as to how "short, medium, long term" should be defined as different organisations' time horizon may differ from each other. More specific guidance may make it easier for primary users to compare and assess the enterprise value more effectively.
Question 5—Reporting entity (paragraphs 37–41)	
The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements. The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to	Please see our responses to questions 5(a) and 5(b): (a) In general, we agree that sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements because: • sustainability is becoming more embedded into an entity's business, risk and strategy; and

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activities, interactions and relationships and use of resources along its value chain such as: • its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain; • the assets it controls (such as a production facility that relies on scarce water resources); • investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and sources of finance. The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate. (a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why? […] (c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?	• this would allow primary users of the information to assess an entity's enterprise value more holistically. However, we suggest that the standard should be made clear of whether there are any criteria / condition(s) where the disclosures at the subsidiary level can be exempted when consolidated financial statements of a group are prepared, which may be similar to the exemption for preparing consolidated financial statements under IFRS 10. (c) We acknowledge the proposed requirement for an entity to disclose material information about the significant sustainability-related risks and opportunities related to the investments it controls, including investments in associates and joint ventures. However, identifying the related financial statements of the associates, joint ventures and other financed investments can be a challenge for some entities as the collection of relevant information and data may be difficult and time consuming. We therefore suggest ISSB reconsider this proposal. If amending this requirement is not feasible, we recommend that grace period or phased adoption approach should be granted in this regard to allow more time for communication and preparation.
Question 6—Connected information (paragraphs 42–44)	
The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements.	It would be challenging for a company to evaluate effects of all sustainability-related risks and opportunities on its financial position, financial performance, and cash flows. We would therefore recommend that the ISSB provide further guidance on this proposed feature as well as more illustrative examples presenting connectivity between various sustainability-related risks and opportunities and information in general purpose financial reporting.

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(a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not? (b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?	
Question 7—Fair presentation (paragraphs 45–55)	
The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation. To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies. To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity,	With all these sources of guidance to identify sustainability-related risks and opportunities, the scope of disclosure could be very wide and subject to different interpretation, resulting in non-comparable information between disclosing entities. We suggest ISSB provide additional guidance and clearer definitions on sustainability-related risk and opportunities. In addition, we consider that the ISSB should also provide more specific guidance on the scope of sustainability-related risks and opportunities that constitute "fair presentation", as the language currently proposed is considered insufficient. Apart from the above, we would like the ISSB consider allowing a phased approach based on the availability of data or the materiality of the sustainability-related risks and opportunities.

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an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are neutral. In making that judgement, entities would consider the same sources identified in the preceding paragraph, to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard. […]	
Question 8—Materiality (paragraphs 56–62)	
The Exposure Draft defines material information in alignment with the definition in IASB's Conceptual Framework for General Purpose Financial Reporting and IAS 1. Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'. However, the materiality judgements will vary because the nature of sustainability related financial information is different to information included in financial statements. Whether information is material also needs to be assessed in relation to enterprise value. Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date. The Exposure Draft proposes that even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would need not to provide that disclosure if the resulting information was not material. Equally, when the specific requirements would be insufficient to meet users' information needs, an entity would be required to consider whether to disclose additional information. This approach is consistent with the requirements of IAS 1.	Please see our response to question 8(a): (a) While we are supportive of the materiality consideration in the disclosure standard, we would like to seek clarification on the definition of "materiality". The proposed draft refers to "significant" and "material". The potential overlap or distinction between these two terms should be clarified. In addition, we would also like to clarify whether a "through the eyes of management" approach is acceptable when determining whether a metric is material and should be included in the disclosure or not. Otherwise, we would appreciate if concrete examples of the linkage between ISSB's definition of materiality with different concepts of materiality – such as financial materiality and double materiality – could be provided for better illustration.

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The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction. (a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not? […]	
Question 9—Frequency of reporting (paragraphs 66–71)	
The Exposure Draft proposes that an entity be required to report its sustainability related financial disclosures at the same time as its related financial statements, and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements. Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?	There are mixed views over the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate. We consider that there may be challenges in the feasibility of the proposal, given the complexity of the analysis required for the disclosures. For instance, calculation of financed emissions is based on finalised balance sheet position. Thus, it is challenging for such information to be published contemporaneously, considering the dependencies between data sources. As such, we recommend a staggered approach to sustainability reporting through a reporting lag for sustainability-related and climate-related financial information (i.e. data sources) from the fiscal reporting year of at least one year. In other words, this mean that the disclosure would be done at the same time as the financial statements while the data sources used as a basis for the sustainability-related financial disclosure would be from the prior fiscal reporting year. Given climate-related risks and opportunities will take longer to manifest into the resulting emissions in comparison to other financial disclosure's impact, we do not believe this approach would significantly impact the relevance or timeliness of disclosures. The ISSB can consider adopting the staggered approach at initial years of implementation to allow more flexibility on the timing of the publication of sustainability-related financial disclosures so that entities could have more time to get prepared to achieve concurrent publication eventually.

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Question 10—Location of information (paragraphs 72–78)	
The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—ie as part of the same package of reporting that is targeted at investors and other providers of financial capital. However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting. The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information. Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements. The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication. (a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not? (b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location? […]	Please see our responses to questions 10(a) and 10(b): (a) To enable primary users identify the relevant information more easily, we support that such disclosure should be provided in the annual report as it allows primary users to cross check the sustainability-related financial information with general purpose financial statements, e.g. in the Management Discussion & Analysis section. We appreciate that the Exposure Draft does not require the sustainability-related financial disclosures to be provided in a particular location within the general purpose financial reporting to allow flexibility for entities. To align with our suggestions in Question 9 above where staggered approach is recommended at initial years of implementation, we suggest that the time lag should be stated in the report. While the staggered approach may be inconvenient for primary users, they can still cross check the sustainability-related financial information with general purpose financial statements by retrieving the previous year's annual report. (b) No, we are not aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location.

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Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)	
The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —ie the comparatives would be restated to reflect the better estimate. The Exposure Draft also includes a proposed requirement that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements, to the extent possible. […] (b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives? (c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?	Please see our responses to questions 11(b) and 11(c): (b) We noted from paragraph 64 that comparative information related to sustainability-related financial disclosures should be retrospectively restated to reflect updated estimates. However, under the current requirement of IAS 8, change in accounting estimates requires prospective disclosure due to better information becoming available as time evolves. In addition, there may be difficulties in gathering the prior year information for retrospective measurement purposes. We would therefore like to understand whether prospective change is also allowed as an alternative which would be in line with the guidance under IAS 8. In addition, it would be appreciated if ISSB can provide additional guidance on the disclosures required where retrospective restatement of comparative information is necessary. (c) We agree with the proposal. We are not aware of any circumstances for which the requirement will not be able to be applied.
Question 13—Effective date (Appendix B)	
The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard. (a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities	Please see our responses to questions 13(a) and 13(b): (a) Subject to the complexity of the final standard, we expect (at least) a 2-year transition period for implementation. In addition, the standard should allow for a phased approach of adoption. (b) We agree with the proposed relief that provides exemption on comparative disclosures in the first year of adoption.

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applying the proposals, those using the sustainability-related financial disclosures and others. (b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?	

HKAB's Comment on the International Sustainability Standards Board (ISSB) Exposure Draft IFRS S2 Climate-related Disclosures

Questions from ISSB	HKAB Comments
Question 1—Objective of the Exposure Draft	
Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting: • to assess the effects of climate-related risks and opportunities on the entity's enterprise value; • to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and • to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities. Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not? (b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value? […]	We are supportive of the climate-related disclosure standard that provides a structured framework which would enhance comparability of disclosures that would be useful to users of financial statements in the banking sector as well as other sectors. Please see our response to questions 1(a) and 1(b): (a) The objective clearly defines the requirements for an entity to disclose its exposure to significant climate-related risks and opportunities. However, it would be helpful if the term "significant" can be further defined based on measurable criteria such as defining climate related risk as significant if it exceeds a certain percentage of an entity's earning / revenue / other measurable indicator(s), to ensure comparability of disclosures as different entities may have different interpretation. (b) Paragraph 1 of Exposure Draft IFRS S2 sets out the proposed objective of the standard according to which an entity is required to disclose information about its exposure to climate-related risks and opportunities. However, financial institutions have not yet gained as much experience with the disclosure of climate-related opportunities as they have with climate-related risks which has implications for the level of preparedness and capabilities. Certain jurisdictions therefore focus solely on the disclosure of climate-related risks or make the disclosure of climate-related opportunities optional at this stage such as the Securities and Exchange Commission (SEC) in their proposed rule on "The Enhancement and Standardization of Climate-Related Disclosures for Investors". We believe more flexibility will be needed for the disclosure of climate-related opportunities. For example, we recommend disclosing only opportunities that are publicly announced and allowing

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	companies to provide only high-level general information for unannounced ones given the detailed strategies are confidential to the entity.
Question 7—Climate resilience	

The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general purpose financial reporting needs to understand the resilience of an entity's strategy (Including its business model) to climate change, factoring in the associated uncertainties. Paragraph 15 of the Exposure Draft therefore includes requirements related to an entity's analysis of the resilience of its strategy to climate-related risks. These requirements focus on:
• what the results of the analysis, such as impacts on the entity's decisions and performance, should enable users to understand; and
• whether the analysis has been conducted using:
    • climate-related scenario analysis; or
    • an alternative technique.
Scenario analysis is becoming increasingly well established as a tool to help entities and investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. The work of the TCFD showed that investors have sought to understand the assumptions used in scenario analysis, and how an entity's findings from the analysis inform its strategy and risk management decisions and plans. The TCFD also found that investors want to understand what the outcomes indicate about the resilience of the entity's strategy, business model and future cash flows to a range of future climate scenarios (including whether the entity has used a scenario aligned with the latest international agreement on climate change). Corporate board committees (notably audit and risk) are also increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting different climate outcomes and the severity of their effects.
	Please see our responses to questions 7(a), (b)(i) – (iii) and (c):
	(a) Considering the evolving climate science and climate scenarios, we would suggest that entities should also disclose any data limitations and judgements made to facilitate comparisons of the disclosures made by an entity across years as well as across different entities.
	(b)(i) We agree with the proposal that alternative methods or techniques to assess an entity's climate resilience should be allowed where an entity is unable to perform climate-related scenario analysis due to resource and/or capability constraints to conduct climate scenario analysis. We concur that where alternative methods or techniques to assess climate resilience are used, disclosures on information to that generated by scenario analysis should be provided to enable primary users of such information to better understand an entity's climate resilience strategy. We suggest that phased adoption may be used to encourage entities to gradually develop the capacity to conduct scenario analysis.
	(b)(ii) We agree that if an entity is unable to use climate-related scenario analysis to assess the climate resilience of its strategy, it should provide an explanation of why. A "comply or explain" approach would help primary users understand the situation and progress of an entity in climate related issues and may encourage these entities to develop capability to conduct climate-related scenario analysis in the near future, to the extent that climate risk is considered to be material and relevant.
	(b)(iii) It may not be feasible for all entities to undertake climate-related scenario analysis to assess climate resilience at the time when the Climate Standard is in effect, given the resource and capability considerations (as mentioned under (b)(i) above). We suggest that grace period should be considered to encourage gradual adoption, and mandatory application may be required

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Although scenario analysis is a widely accepted process, its application to climate related matters in business, particularly at an individual entity level, and its application across sectors is still evolving. Some sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years; others, such as consumer goods or technology and communications, are just beginning to explore applying climate-related scenario analysis to their businesses. Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing. Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity's strategy. Nonetheless, by prompting the consideration of a range of possible outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity's strategic decision-making and risk-management processes. Accordingly, information about an entity's scenario analysis of significant climate-related risks is important for users in assessing enterprise value. The Exposure Draft proposes that an entity be required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience. Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal	when a majority of entities are ready, to the extent that climate risk is considered to be material and relevant. (c) We acknowledge that the proposed disclosures about an entity's climate-related scenario analysis is useful to evaluate a range of hypothetical outcomes associated with climate-related risks and opportunities by considering a variety of alternative plausible future states (scenarios) under a given set of assumptions and constraints. However, we would also like to take this opportunity to highlight to the ISSB's attention that: • the linkage between scenario analysis and current financial impacts (on the current and near term financial position) can be challenging to establish given the significant assumptions and judgment and estimates involved, as well as the availability and integrity of data relevant for the analysis; and • as climate risk is generally long tail and evolving risk, it may be challenging to quantify potential impacts on the current financial position of an entity given the uncertainties involved. Therefore, there may be a time lag before meaningful nearer term financial information (including the impact on the near-term business model/budgets and financial planning) can be provided.

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scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it disclose similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term. It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to significant climate related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted. Consideration was also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft. Paragraphs BC86–BC95 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why? (b) The Exposure Draft proposes that if an entity is unable to perform climate related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy. (i) Do you agree with this proposal? Why or why not? (ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?	

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(iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why? (c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not? […]	
Question 8—Risk management	
An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities. Paragraphs 16 and 17 of the Exposure Draft would extend the remit of disclosures about risk management beyond the TCFD Recommendations, which currently only focus on climate-related risks. This proposal reflects both the view that risks and opportunities can relate to or result from the same source of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response. Paragraphs BC101–BC104 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?	We acknowledge that while the Exposure Draft is consistent with TCFD recommended disclosures, the Exposure Draft requires additional and more granular information in describing the impact of climate-related risks and opportunities, e.g. how the entity is directly responding to these risks and opportunities, including changes to its business model, strategy, resource allocation, production processes, products, workforce; and how to resource the strategy and plans, etc. We agree that such disclosure requirements would provide visibility on an entity's risk management processes related to climate-related risks and opportunities. However, we would also like to highlight that it may be sensitive for an entity to disclose details of its business plan and strategy. We therefore suggest ISSB to provide further guidance on what is required to be disclosed in this regard, and whether flexibility in terms of the extent of disclosures would be allowed.
Question 9—Cross-industry metric categories and greenhouse gas emissions	

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The Exposure Draft proposes incorporating the TCFD's concept of cross-industry metrics and metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the Exposure Draft would require an entity to disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD's criteria were considered. These criteria were designed to identify metrics and metric categories that are: • indicative of basic aspects and drivers of climate-related risks and opportunities; • useful for understanding how an entity is managing its climate-related risks and opportunities; • widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and • important for estimating the financial effects of climate change on entities. The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions. The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3—including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity's investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol.	Please see our response to questions 9(a), (c) and (d): (a) In regard to cross-industry metric categories and greenhouse gas emissions, we agree with the proposal that an entity should be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3, expressed in CO2 equivalent and not disaggregated by constituent greenhouse gas. We are supportive of the integration of the TCFD's cross-industry metrics categories as it provides a consistent disclosure framework. However, we would like to highlight that some of these metrics may not have the same level of relevance to all sectors (e.g. internal carbon pricing is more relevant to manufacturers than other sectors). Therefore, we would like to suggest ISSB consider the option of mandating the disclosures of these metrics depending on the relevance to the industry. In addition, while some financial institutions use internal carbon price as a variable for the purpose of internal climate scenario analysis, it is not a metric that these entities may be ready for disclosing given data quality challenges faced by the industry in general and perceived relevance to climate risk measurement and portfolio alignment activities. Besides, noting the concerns on greenwashing, more clarification on the criteria for climate opportunities would be helpful. For example, we would like to clarify whether investments in corporate sustainability-linked notes or green bonds can be considered as climate opportunities. (c) We agree as the GHG Protocol is the most common methodology used, making it easier for comparability and requiring no change in current data collection. (d) We would appreciate if ISSB could provide additional guidance and illustrative examples regarding the proposed inclusion of absolute gross Scope 3 emissions (subject to materiality) as a cross-industry metric category for disclosure by all entities.

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To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose:
• separately Scope 1 and Scope 2 emissions, for:
  • the consolidated accounting group (the parent and its subsidiaries);
  • the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and
• the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity share or operational control method in the GHG Protocol Corporate Standard).
The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint.
Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy efficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.	

Questions from ISSB	HKAB Comments
For Scope 3 emissions, the Exposure Draft proposes that: • an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions; • an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general-purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported; • if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and • if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure. Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes nonmandatory Illustrative Guidance for each cross-industry metric category to guide entities. Paragraphs BC105–BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (a) The cross-industry requirements are intended to provide a common set of core climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why? […] (c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?	

Questions from ISSB	HKAB Comments
(d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))? […]	
Question 11—Industry-based requirements	
[…] The second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. To address this, the Exposure Draft proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance and asset management. The proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. The proposal builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments). Paragraphs BC149–BC172 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals for financed or facilitated emissions. (d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not? (e) Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why? (f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?	Please see our responses to questions 11(d) – (h) and (j): (d) We would like to highlight to ISSB that there are challenges faced by different industry sectors in connection with data collection, validation and analysis and measurement of GHG emissions. There are different calculation GHG methodologies even within the same industry. The banking industry would benefit from having clarifications and illustrative examples setting out GHG emission measurement methodologies and calculations, particularly for financed and facilitated emissions (i.e. Scope 3 emissions). For indicators like FN-CB-3 which relates to financed emissions, we would appreciate the focus to be on the balance sheet and allow corporates to disclose the relevant financed emissions first, as the calculation methodology of financed emissions is more mature. Some areas that require specific clarifications: • 'Scope 3 Financed Emissions Product Scope — Derivative', which is not yet defined by the Partnership for Carbon Accounting Financials (PCAF) standards, should be clarified. Derivatives are usually executed along with a loan facility to a client. Including both products can lead to unnecessary double counting. There can also be unintended consequences for different types of derivatives. For example, an interest rate swap allowing netting may produce a much smaller cash flow compared to a cross-currency swap that cannot be netted due to notional exchange in two different currencies.

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(g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why? (h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why? (j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why? […]	• Exposure Draft IFRS S2 requires all the Scope 3 financed emissions to be calculated for all sectors. The ISSB defines Mortgages to include Home Equity Line of Credit (HELOC), but the PCAF standards exclude HELOC from its methodology. Appendix B-19 for Mortgage Finance does not include financed emissions disclosure. We would like to clarify whether this is intentional given a PCAF methodology is defined for mortgage loans currently. • Exposure Draft IFRS S2 does not have explicit language about how trading book assets are to be treated. Under PCAF, most of the trading book loans and investments are considered out-of-scope for financed emission calculations. There are also no standards or methodologies defined for securities financing transactions (i.e., Reverse repo) and margin loans (investor brokerage or prime brokerage) assets on balance sheet. • The proper treatment of specialty funded securitisation assets is still open for discussion. For example, if both assets (Mortgage Loans) and liabilities (Securitisation Liabilities) are on the balance sheet, it implies that the bank does not directly fund the assets. In this case, please clarify whether the securitised assets should be included in bank's financed emissions calculation. If a bank issues the securitisation of its own loan as in the example provided above, and disclose both the financed (the mortgage part) and facilitated (the securitization part) emissions, this would result in double counting of Scope 3 emissions. • It is difficult to calculate financed emissions for an undrawn loan, considering PCAF does not have explicit guidance and there would be risks of double counting by different lenders. Member banks would benefit from having illustrative examples setting out the calculation of financed emissions where the allocation of the emissions data is required at the subsidiary level; however, data may only available at the consolidated level of a counterparty and not at an individual legal entity level. In addition, we recommend the ISSB consider the current challenges associated with quality of data and particularly the extreme difficulty for

Questions from ISSB	HKAB Comments
	financial institutions to calculate Scope 3 emissions with a high degree of confidence of accuracy and completeness given the reliance on corporates/counterparties data. We therefore recommend the ISSB introduce a transitional provision (such as a one-year period) for disclosures of Scope 3 emissions for financial institutions. (e) We are supportive of the industry-based requirements with materiality consideration. It would be helpful if a "through the eyes of management" approach can be adopted when assessing whether a metric is considered as material and should be disclosed. Separately, we would appreciate ISSB to clarify whether the criteria applied to determine an industry to be "carbon related". For example, we noted from public data that the GHG emissions from beverage and food product sector is not ranked at the top, however it is classified as "carbon related" industry in the proposal. It would be helpful to understand the criteria used to scope in the beverage and food product sector. We agree on the industries covered. However, since different jurisdictions may have different sector definitions, we would appreciate more detailed guidance on the definitions for the sectors, for example, homebuilding vs. real estate management and development. (f) We would appreciate if the proposal can provide clearer definition and methodology for quantifying intensity-based financed emissions for different industry sectors. While absolute-based measurement may be more straight forward, we would like to highlight that such measurement generally does not take into account an entity's expansion and business growth. (g) We agree with the proposal, however, we would appreciate more guidance and support (e.g. providing open source of market data) to build the data inventory. (h) We believe the guidance should prescribe an internationally accepted methodology such as PCAF for Scope 3 cat. 15. (j) For comparability purposes, we suggest that the requirements include entities disclosing the data quality score for financed emissions recommended by PCAF.

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Question 14—Effective date	
Because the Exposure Draft is building upon sustainability-related and integrated reporting frameworks used by some entities, some may be able to apply a retrospective approach to provide comparative information in the first year of application. However, it is acknowledged that entities will vary in their ability to use a retrospective approach. Acknowledging this situation and to facilitate timely application of the proposals in the Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application. [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information requires entities to disclose all material information about sustainability related risks and opportunities. It is intended that [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information be applied in conjunction with the Exposure Draft. This could pose challenges for preparers, given that the Exposure Draft proposes disclosure requirements for climate-related risks and opportunities, which are a subset of those sustainability-related risks and opportunities. Therefore, the requirements included in [draft] IFRS S1 General Requirements for Disclosure of Sustainability related Financial Information could take longer to implement. Paragraphs BC190–BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. […]	Given the quantum of disclosures required, we would appreciate a staggered approach in rolling out the requirements with further rounds of industry-wide consultation to establish implementation approach including the timeline and details of requirements to be scoped in for each phase of adoption. In addition, as different territories are in different stage of development with regard to responses to climate-related issues, the effective date should be advised by regulators of the different territories as they should have better sense of the readiness of entities and issuers in their own territories. We recommend the ISSB provide further clarifications on the applicability of IFRS standards mentioned in the ISSB exposure drafts that are not yet effective (i.e. IFRS 17 has not yet been fully effective for insurance businesses in some jurisdictions). We recommend the implementation of the ISSB sections be delayed for organizations until the referenced IFRS standards are first implemented.