

AY-2. Are you responding as an individual, or on behalf of an organisation?

- Organisation

AY-3. Please provide the name of the organisation you are responding on behalf of:

HKICPA

AY-10. Please provide any additional details relevant to you (if responding as an individual) or your organisation (if responding on behalf of an organisation).

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing, ethics and sustainability disclosures for professional accountants in Hong Kong. We are grateful for the opportunity to provide you with our comments on the Exposure Draft (ED) on Amendments to Greenhouse Gas Emissions Disclosures. In forming our views as outlined below, we have undertaken the following activities: (a) issued an Invitation to Comment on the ED on 29 April 2025 to its members and other stakeholders; (b) conducted a targeted outreach to a group of investors and preparers; and (c) sought input and developed its views through its Sustainability Disclosure Standards Committee, having reflected on its respondents' views. The Committee comprises preparer representatives from various industry sectors, regulators, an investor, as well as technical and industry experts from small, medium and large accounting firms.

CL-1. Please provide your cover letter in the text box below.

Question 1—Measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions

The ISSB proposes to permit entities to limit their disclosure of Scope 3 Category 15 greenhouse gas emissions. This limitation would permit entities to exclude some of their Scope 3 Category 15 greenhouse gas emissions, including those emissions associated with derivatives, facilitated emissions and insurance-associated emissions, when measuring and disclosing Scope 3 greenhouse gas emissions in accordance with paragraph 29(a)(i)(3) of IFRS S2.

(a) The ISSB proposes to add paragraph 29A(a), which would permit an entity to limit its disclosure of Scope 3 Category 15 greenhouse gas emissions to financed emissions, as defined in IFRS S2 (being those emissions attributed to loans and investments made by an entity to an investee or counterparty). For the purposes of the limitation, the proposed paragraph 29A(a) would expressly permit an entity to exclude greenhouse gas emissions associated with derivatives. Consequently this paragraph would permit an entity to exclude emissions associated with derivatives, facilitated emissions or insurance-associated emissions from its disclosure of Scope 3 greenhouse gas emissions.

The proposed amendment would not prevent an entity from choosing to disclose greenhouse gas emissions associated with derivatives, facilitated emissions or insurance-associated emissions should it elect to do so.

Paragraphs BC7–BC24 of the Basis for Conclusions describe the reasons for the proposed amendment.

01-A Response. Do you agree with the proposed amendment? Why or why not?

- Broadly agree

Scope of exclusion We agree that the proposed amendment is expected to reduce the complexity of applying IFRS S2, providing entities with greater clarity and certainty regarding the requirements for Scope 3 Category 15 greenhouse gas (GHG) emissions measurements and disclosures. It directly addresses concerns raised by stakeholders in Hong Kong during our previous consultations. However, we suggest that the ISSB consider extending the scope of the exclusion to those types of loans and investments whose GHG emission calculation methodologies are still evolving, e.g. emissions from securitisation products, revenue-sharing contracts with upfront lumpsum investments and other non-traditional investment products which may not fall squarely within the ordinary meaning of 'loans, project finance, bonds, equity investments and undrawn loan commitments' as described in paragraph 29A(a) of the ED but could have features that are similar to those items. For example, securitisation products and revenue-sharing contracts could be regarded as a type of project finance depending on the context of the arrangement. Extending the scope exclusion could further simplify the requirements and encourage a broader application of IFRS S2. While this may inevitably result in some loss of information about Scope 3 Category 15 GHG emissions, it will be supplemented by disclosures on the magnitude of excluded information when the relief set out in proposed paragraph 29A(b)(ii) is applied.

Definition of derivatives We agree with the ISSB's rationale in BC19 of the ED for not proposing a definition of 'derivatives'. In addition, we consider this approach provides greater flexibility for entities in applying the relief, as it does not require them to adhere to a specific definition when determining the disclosure.

Drafting suggestion We find the wording of the proposed paragraph 29A potentially confusing and suggest the following amendments. *The proposed new text is underlined for clarity.* 29A In preparing disclosures to meet the requirement in paragraph 29(a)(i)(3): (a) an entity may limit what is included within the entity's measure of Scope 3 Category 15 greenhouse gas emissions to financed emissions... For the purposes of the limitation, an entity is permitted to exclude any greenhouse gas emissions associated with derivatives *and other financial activities*. (b) an entity shall disclose information that enables users of general purpose financial reports to understand the magnitude of the derivatives and *other* financial activities associated with the entity's Scope 3 Category 15 greenhouse gas emissions....

(b) The ISSB also proposes to add paragraph 29A(b), which would require an entity that limits its disclosure of Scope 3 Category 15 greenhouse gas emissions in accordance with the proposed paragraph 29A(a), to provide information that enables users of general purpose financial reports to understand the magnitude of the derivatives and financial activities associated with the entity's Scope 3 Category 15 greenhouse gas emissions that are excluded. Therefore, the ISSB proposes to add:

- paragraph 29A(b)(i) which would require an entity that has excluded derivatives from its measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions to disclose the amount of derivatives it excluded; and
- paragraph 29A(b)(ii) which would require an entity that has excluded any other financial activities from its measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions to disclose the amount of other financial activities it excluded.

The term 'derivatives' is not defined in IFRS Sustainability Disclosure Standards, and the ISSB does not propose to define this term. As a result, an entity is required to apply judgement to determine what it treats as derivatives for the purposes of limiting its disclosure of Scope 3 Category 15 greenhouse gas emissions, in accordance with the proposed paragraph 29A(a). The proposed paragraph 29A(b)(i) would require an entity that has excluded derivatives from its measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions to explain the derivatives it excluded.

Paragraphs BC7–BC24 of the Basis for Conclusions describe the reasons for the proposed disclosure requirements.

01-B Response. Do you agree with the proposed disclosure requirements? Why or why not?

- Broadly agree

We acknowledge the ISSB's rationale in BC24 of the ED for enhancing transparency by requiring disclosures of the amounts of derivatives and other financial activities excluded from Scope 3 Category 15 GHG emissions reporting, noting that this disclosure burden remains manageable and aligns with IFRS S2's similar requirements for financed emissions. However, we would suggest that the ISSB develop guidance to facilitate users' understanding and application of the requirements, such as highlighting the examples in BC20 (example to use the IFRS 9 Financial Instruments definition of a derivative) and BC23 (example to use revenue associated with relevant financial activities) of the ED in webcasts or publications etc. to enhance their prominence. Alternatively, the ISSB could consider moving the explanations in BC20 and BC23 of the ED to the body of the standard to make them more immediately prominent to readers of the standards. As these examples reference the amounts disclosed in the financial statements, making them more prominent may present a simple way for entities to meet the disclosure requirement while enhancing connectivity between the financial statements and sustainability disclosures.

Question 2—Use of the Global Industry Classification Standard in applying specific requirements related to financed emissions

Paragraphs 29(a)(vi)(2) and B62–B63 of IFRS S2 require entities with commercial banking or insurance activities to disclose additional information about their financed emissions. These entities are required to use the Global Industry Classification Standard (GICS) for classifying counterparties when disaggregating their financed emissions information in accordance with paragraphs B62(a)(i) and B63(a)(i) of IFRS S2.

(a) The ISSB proposes to amend the requirements in paragraphs B62(a)(i) and B63(a)(i) of IFRS S2 and to add paragraphs B62A–B62B and B63A–B63B that would provide relief to an entity from using GICS in some circumstances. Under the proposals, an entity can use an alternative industry-classification system in some circumstances when disaggregating financed emissions information disclosed in accordance with paragraphs B62(a)–B62(b) and B63(a)–B63(b) of IFRS S2.

Paragraphs BC25–BC38 of the Basis for Conclusions describe the reasons for the proposed amendment.

02-A Response. Do you agree with the proposed amendment? Why or why not?

- Neither agree nor disagree

This wording is underlined. **This wording is underlined and italicised.** We agree with the proposal of not mandating the use of Global Industry Classification Standard (GICS). We agree that the proposed amendment can help reduce costs for entities applying IFRS S2 by alleviating the reporting burden associated with the requirement. The application challenges are significant and pervasive, particularly for entities that do not already use GICS to classify their lending or investment activities, and this is one of the key concerns raised by Hong Kong stakeholders in the banking industry in previous consultations. However, we have been made

aware that for certain multinational banking groups, the majority of entities within their groups use industry classification systems (ICS) other than GICS and only a few entities within their groups use GICS. Based on the ISSB's proposed waterfall structure in paragraph B62B of the ED, the use of GICS by an insignificant part of an entity would result in the entire group's having to use GICS – this would defeat the objective of the proposal. In order to circumvent this issue, we suggest that the ISSB consider the following hierarchy when requiring an entity engaged in commercial banking and/or insurance activities to classify counterparties by industry: 1. If a part of the entity is already using GICS, require *that part* to continue to use GICS; 2. If a part of the entity is required by a jurisdictional authority or an exchange on which it is listed to use a particular ICS, require *that part* to continue to use such an ICS; 3. For the rest of the entity, allow it to choose an ICS that would provide useful information to users (i.e. these parts of the entity **do not have to** use GICS or the ICS required by another jurisdiction or stock exchange, even if they are already used by other part(s) of the group, **but they may choose to do so**). After the classification above, an entity should consider whether it would be appropriate to aggregate similar industries together to ensure a meaningful presentation of material information and add a note to explain such, as same/similar industries may be called by different names under different ICSs. Management should apply judgement in undertaking this exercise and follow the aggregation and disaggregation principles of IFRS S1.B29-B30. Entities should be required to disclose the ICSs it has used and the basis for using them. Points 1 and 2 of the above structure would ensure comparability across entities that are subject to the same ICS-related laws and/or regulations, thus enhancing comparability between entities within the same industry and jurisdiction. Point 3 would allow entities to select an appropriate ICS that would meaningfully classify the [rest of the] group's banking and/or insurance counterparties. We do not think it would be appropriate to require the rest of the entity (i.e. those falling under point 3 above) to use the ICS required by a particular jurisdiction/exchange for another part of the entity (i.e. those falling under point 2 above), as jurisdictional/exchange requirements often serve policy objectives that are particular to that jurisdiction/exchange, and thus may be relevant only in that particular jurisdiction/exchange in the context of its own facts and circumstances. As such, it may not be appropriate to impose the same ICS on the rest of the entity. Nevertheless, an entity may choose to apply the ICS required by a particular jurisdiction/exchange (i.e. those used in 2 above) should they wish to do so. Ringfencing the mandatory use of GICS and any jurisdiction- or exchange-specified ICS to **those parts of the entity that is subject to such requirements** (instead of extending it to the whole entity unless the entity chooses to do so) as proposed above could balance the need for comparability and avoid imposing undue costs or duplicative reporting requirements on entities, while providing relevant information to users. In this regard, BC35 of the ED has rightly highlighted that IFRS S1.D20 states that 'comparability is not uniformity' and that 'comparability in the context of the proposed amendment is not dependent solely on the use of a uniform [ICS]'. It notes further that information disaggregated using an ICS that is different from that used by entities with which it is being compared could still provide useful information. In any event, the ISSB may consider reaching out to relevant entities as appropriate to test the practicality of the above suggestion, especially with regard to the typical number of ICS used by multinational banking and/or insurance groups and the extent of variations in classification under the ICSs that are mostly commonly used to assess the information value of the resulting disclosure.

(b) The ISSB also proposes to add paragraphs B62C and B63C to require an entity to disclose the industry-classification system used to disaggregate its financed emissions information and, if the entity does not use GICS, to explain the basis for its industry-classification system selection.

Paragraphs BC25–BC38 of the Basis for Conclusions describe the reasons for the proposed disclosure requirements.

02-B Response. Do you agree with the proposed disclosure requirements? Why or why not?

- Broadly agree

We consider the proposed disclosure allows entities to thoughtfully select their classification approach, recognising that they will need to publicly explain their rationale. However, we recommend that the ISSB clarify the expectations for explaining the basis of classification. Specifically, whether the explanation should be limited to why entities consider GICS inapplicable to their specific business structure, and to clarify that it is not necessary to provide a comparison between GICS and the entity's own industry-classification system (as that would defeat the purpose of allowing the use of other ICSs in the first place).

Question 3—Jurisdictional relief from using the GHG Protocol Corporate Standard

The ISSB proposes to amend paragraphs 29(a)(ii) and B24 of IFRS S2 to clarify the scope of the jurisdictional relief available if an entity is required by a jurisdictional authority or an exchange on which it is listed to use a method other than the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) to measure greenhouse gas emissions for a part of the entity. The amendment would clarify that this relief, which permits an entity to use a different method for measuring greenhouse gas emissions, is available for the relevant part of the entity when such a jurisdictional or exchange requirement applies to an entity in whole or in part, for as long as that requirement is applicable.

Paragraphs BC39–BC43 of the Basis for Conclusions describe the reasons for the proposed amendment.

03-Response. Do you agree with the proposed amendment? Why or why not?

- Broadly agree

We consider that the proposed amendment can reduce the complexity of applying IFRS S2 and reduce the reporting burden and related costs to do so. Given that many listed entities in Hong Kong have operations in mainland China, if they are subject to GHG emissions reporting requirements in mainland China, then the proposed amendment will offer relief and clarity to potentially a large number of entities. We suggest that the ISSB clarify what the term 'part' in paragraphs 29(a)(ii) and B24 of IFRS S2 mean, e.g. would branches and divisions also be viewed as a 'part' or does it refer to legal structures e.g. incorporated subsidiaries within a group? Presumably associates, joint ventures and other IFRS 9 investments would not be regarded as a part of the entity (if the reporting entity is a group preparing consolidated financial statements).

Question 4—Applicability of jurisdictional relief for global warming potential values

The ISSB proposes to amend paragraphs B21–B22 of IFRS S2 to extend the jurisdictional relief in the Standard. The ISSB proposes that if an entity is required, in whole or in part, by a jurisdictional authority or exchange on which it is listed to use global warming potential (GWP) values other than the GWP values that are required by paragraphs B21–B22 of IFRS S2, the entity would be permitted to use the GWP values required by such a jurisdictional authority or an exchange for the relevant part of the entity, for as long as that requirement is applicable.

Paragraphs BC44–BC49 of the Basis for Conclusions describe the reasons for the proposed amendment.

04-Response. Do you agree with the proposed amendment? Why or why not?

- Broadly agree

We consider that the proposed amendment can reduce the complexity, reporting burden and related costs for entities applying IFRS S2.

Question 5—Effective date

The ISSB proposes to add paragraphs C1A–C1B which would specify the effective date of the amendments. The ISSB expects the amendments would make it easier for entities to apply IFRS S2 and would support entities in implementing the Standard. Consequently the ISSB proposes to set the effective date so that the amendments would be effective as early as possible and to permit early application.

Paragraphs BC50–BC51 of the Basis for Conclusions describe the reasons for the proposal.

05-Response. Do you agree with the proposed approach for setting the effective date of the amendments and permitting early application? Why or why not?

- Broadly agree

We support the ISSB's proposed approach for setting the effective date of the amendments and allowing early application, as stakeholders may wish to apply the amendments concurrently with the implementation and adoption of the standard. In addition, we suggest that the ISSB clarify how an entity that has fully adopted IFRS S1 and S2 before the amendments take effect, and subsequently elects to adopt the proposed amendments, should treat its comparative information.

Question 6—Other comments

06. Do you have any other comments on the proposals set out in the Exposure Draft?

No.