

Mr Emmanuel Faber  
Chair  
International Sustainability Standards Board  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

Dear Mr Faber,

**SFC Response to the ISSB's Exposure Drafts IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures)**

The Hong Kong Securities and Futures Commission (SFC) welcomes the ambition and steps taken by the International Sustainability Standards Board (ISSB) to develop comprehensive global baseline standards for sustainability reporting, which will provide investors with decision-useful information that meets their needs. It also appreciates this opportunity to comment on the Exposure Drafts<sup>1</sup>.

The SFC has been at the forefront of local and global efforts to develop an effective regulatory framework for green and sustainable finance. In particular, Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group, which is co-chaired by the SFC and the Hong Kong Monetary Authority, has been considering how the requirements in the Exposure Drafts could be adopted as a part of Hong Kong's domestic reporting framework under a climate-first approach. The Steering Group has also encouraged market participants to provide feedback on the Exposure Drafts.

The SFC has been working with The Stock Exchange of Hong Kong Limited to assess the capabilities and readiness of Hong Kong listed companies in terms of climate reporting and the challenges they face. This includes conducting a soft consultation with more than 50 listed companies from different industries and several professional bodies or industry associations based on the Climate Exposure Draft.

With Hong Kong's financial market composed of a large portion of Mainland Chinese businesses or businesses with sizable operations and value chain exposure in Mainland China, the SFC has also been engaging with the securities regulators on the Mainland and other parts of the Asia Pacific region to exchange views on the proposed requirements and applicability and implementation challenges in our markets, with a view to enhancing consistency across the region. The SFC has also engaged with international stakeholders and contributed to International Organization of Securities Commissions' (IOSCO) technical analysis of the Exposure Drafts.

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<sup>1</sup> The IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures Exposure Drafts are collectively referred to as the Exposure Drafts. References to the Climate Exposure Draft refers to the IFRS S2 Climate-related Disclosures Exposure Draft.

The SFC believes, having conducted independent analysis and engaged with various local and international stakeholders, that the Exposure Drafts represent significant progress towards global alignment. But we have some high-level observations highlighted below that we believe could further maximise the breadth and pace of international implementation.

### *Interoperability*

In order for the future ISSB Sustainability Disclosure Standards to become the global baseline, it is of utmost importance that the requirements can be implemented across all organisations and jurisdictions, to encourage global convergence and limit fragmentation.

Global baseline disclosure standards can support jurisdictions' adoption, whether under voluntary or mandatory regimes, promote consistency, and help combat greenwashing when companies are held accountable for green or sustainable claims. The SFC recognises that while the baseline standard should be ambitious, there is a need for some degree of flexibility to allow jurisdictions to build on it, having considered their own sustainability needs and circumstances.

The SFC believes that the ISSB should also continue its active engagement with stakeholders and standard-setters across jurisdictions to promote consistent adoption of the proposed standards.

### *Phasing of Requirements*

Companies and jurisdictions are at different stages of the sustainability reporting journey. Preparers' readiness to report in line with the proposed requirements in the Exposure Drafts differs by size, industry and jurisdiction. In particular, emerging economies and small and medium enterprises are likely to face challenges in meeting the requirements in the near future and will require a transition period.

For example, in Asia, data challenges present a significant obstacle to implementation. Specifically for Hong Kong, given many listed companies have a Mainland operational footprint, the required disclosures would have dependencies on data located in Mainland China. Another example would be challenges associated with implementing the granular industry-based requirements in the Climate Exposure Draft, which is drawn from the Sustainability Accounting Standards Board standards (SASB).

Therefore, the SFC suggests that the ISSB considers providing some limited flexibility by phasing in the requirements, which could include indicative implementation timelines as well as options for incorporating industry-based content. The SFC considers that stakeholders' feedback during the consultation period could be helpful to the ISSB in identifying areas where flexibility in application might be required, including sector-based or size-based phasing approaches. This could also help ensure that the ISSB standards could serve as an effective global baseline under both voluntary and mandatory regimes.



### *Implementation Guidance and Proportionality*

Considering the need to balance ISSB's ambition with pragmatism in implementation which may include scaling and phasing of requirements, the ISSB may need to provide guidance to preparers.

With companies having differing capabilities and readiness, the ISSB could consider providing practical implementation guidance and illustrative examples on technical aspects as set out in the attached appendix. The SFC also encourages the ISSB to consider stakeholder feedback in the consultation period to identify targeted areas where preparers face the most challenges and require guidance. This would not only help support preparers' implementation but also promote consistency in disclosures.

The SFC will continue its local and international stakeholder engagement and actively engage with the ISSB bilaterally and within IOSCO in the upcoming months. The SFC is committed to promoting global baseline sustainability reporting standards and developing Hong Kong into a regional green finance centre with its adoption of a global standard serving as an example for emerging markets both within and outside the Asia region.

The availability of sufficient, relevant and reliable information from financial and non-financial companies on the impact of climate-related risks and opportunities for business operations and strategies is integral to the growth of green finance. Consistency and comparability of such information are necessary for informed pricing and can lead to increased investment in sustainable products and activities.

The SFC looks forward to the issuance of the IFRS Sustainability Disclosure Standards. If you have any questions regarding matters raised in this letter, please contact the SFC's International Affairs and Sustainable Finance team at [international@email.sfc.hk](mailto:international@email.sfc.hk).

Sincerely,

[Signed]

Julia Leung  
Acting Chief Executive Officer and  
Executive Director, Intermediaries

## Technical aspects and practical guidance

To assist preparers to understand and comply with the requirements and promote comparability and consistency of disclosures, we suggest that the ISSB consider providing implementation guidance and illustrative examples on the following areas.

### a. Climate resilience

The Climate Exposure Draft requires issuers to disclose how it carries out climate resilience analysis and the results of the analysis.

There are a number of climate-related scenarios<sup>2</sup> available involving different assumptions and parameters. Depending on the scenarios adopted, companies may come up with diverse results and analyses, which reduces the comparability and relevance of the information disclosed. To enhance consistency in the disclosure of climate resilience, we suggest that ISSB provides examples of commonly used and publicly-available climate-related scenario analysis methodologies and guidance on the types and number of scenarios as well as the expected time horizons to be included in the analysis.

While the Climate Exposure Draft allows the use of alternative methods or techniques to assess climate resilience where an entity is unable to use climate-related scenario analysis, it is unclear what these alternative methods are and how an entity should apply these alternative methods to assess climate resilience and what the entity should disclose. We suggest that ISSB provides illustrative examples of alternative methods or techniques for assessing climate resilience and the expected disclosures that an entity should make.

### b. Financial impact

The Climate Exposure Draft requires an entity to disclose the financial impact of significant climate-related risks and opportunities on an entity. Whilst it might be easier for an entity to quantify such financial impact on its most recently reported financial statements, it might find it more challenging to quantify the anticipated financial impact over time given that this involves the use of assumptions and estimates relating to a future event. There is also a lack of standardised methodology to govern how anticipated financial impact over time should be assessed and presented. It would be helpful if ISSB could provide guidance by way of worked examples to illustrate how financial impact should be quantified in respect of an entity's most recently reported financial statements and the entity's financial information over time respectively. In addition, guidance on the expected qualitative disclosure in the event that the entity is unable to provide quantitative information would also be useful.

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<sup>2</sup> E.g. IPCC's representative concentration pathways and shared socioeconomic pathways, IEA's stringent pathway and business-as-usual pathway, and NGFC's orderly pathways, disorderly pathways, hot house world pathways.

c. Greenhouse gas emissions

The Climate Exposure Draft requires an entity to disclose greenhouse gas (**GHG**) emissions measured in accordance with the Greenhouse Gas Protocol Corporate Standard (**GHG Protocol**). Given that the GHG Protocol has issued numerous standards, it would be helpful if ISSB could specify the applicable GHG Protocol standard to be used in respect of Scope 1, Scope 2 and Scope 3 emissions<sup>3</sup> disclosures.

Some jurisdictions have also developed local methodologies for measuring GHG emissions. To promote wide adoption of the ISSB climate standard when it is issued and avoid any potential conflict that may arise with the domestic requirements in some jurisdictions, the ISSB may consider clarifying that the adoption of other methodologies is permitted as long as they achieve outcomes that are similar to or consistent with the GHG Protocol.

d. Cross-industry metrics (transition risks, physical risks, climate-related opportunities and capital deployment)

The requirement to disclose cross industry metrics is relatively new to preparers in some jurisdictions and as such it would be helpful to provide guidance and worked examples to illustrate how the relevant amounts (i.e. amount and percentage of assets or business activities) are defined, assessed and calculated, as well as on the applicable time periods and calculation methods.

e. Internal carbon prices

The Climate Exposure Draft requires disclosure of the internal carbon price that an entity uses to assess the costs of its emissions. Globally, the carbon markets are at different stages of development and hence, carbon prices vary significantly between markets. Consequently, any projected internal carbon price would be highly uncertain, and this affects the comparability of information. We suggest that ISSB clarifies whether carbon price disclosure is mandatory across all sectors and entities and provide guidance on any appropriate carbon pricing methodologies and proxy disclosures, if available.

f. Industry-based disclosure requirements

We support the introduction of a set of industry-based requirements to promote consistency and comparability of sustainability disclosure. Nevertheless, there are diverse views in respect of the status and implementation of the industry-based requirements which are attached as Appendix B of the Climate Exposure Draft (comprising 68 volumes of standards spanning over 600 pages). We appreciate that efforts have been made to internationalise these industry-based standards which are transposed from the SASB metrics, however, they remain quite true to their original form and do not sufficiently incorporate standards used in other jurisdictions. In addition, the disclosure topics seem to go beyond climate issues and address other sustainability topics such as marine resources, biodiversity and labour issues. In light of this,

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<sup>3</sup> GHG Protocol Corporate Accounting and Reporting Standard, GHG Protocol Scope 2 Guidance, Corporate Value Chain (Scope 3) Accounting and Reporting Standard

mandating the disclosure of industry-based metrics may discourage full adoption of the eventual ISSB climate standard by some jurisdictions, thereby undermining the objective of a global baseline disclosure standard. Given the sheer volume and importance of these industry-based requirements, it would be worthwhile subjecting the requirements to the ISSB's proper due process and separate market consultation. Until then, the requirements could serve as non-binding guidance.