28 July 2022

International Sustainability Standards Board
The IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom

To be submitted online by 29 July 2022

ASIFMA AMG Response to the ISSB's Exposure Drafts on General Requirements for Disclosure of Sustainability-related Financial Information and Climate-related Disclosures

On behalf of the Asset Management Group ("**AAMG**")[1] of Asia Securities Industry & Financial Markets Association ("**ASIFMA**")[2], we would like to submit our comments on Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and Exposure Draft IFRS S2 *Climate-related Disclosures, together the "**Exposure Drafts**",* issued by the International Sustainability Standards Board ("**ISSB**").

Our members who are predominantly global asset managers, are pleased to have the opportunity to present our views during this consultation.

In 2020, AAMG supported the role of the IFRS Foundation in setting global sustainability reporting standards in our response to the Consultation Paper on Sustainability Reporting issued by the IFRS Foundation. AAMG is similarly supportive of the Exposure Drafts in standardising sustainability-related information to allow the consistency and comparability essential to inform asset managers' investment and stewardship decisions.

---

[1] ASIFMA Asset Management Group (AAMG) is a separate division of ASIFMA set up to represent the interest of asset managers. AAMG currently has 40 members, most of which are among the world's largest asset managers. A list of the AAMG members can be found in https://www.asifma.org/membership/members/

[2] ASIFMA is an independent, regional trade association with over 150 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive and efficient Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

ASIA SECURITIES INDUSTRY & FINANCIAL MARKETS ASSOCIATION | Unit 3603, Tower 2 Lippo Centre | 89 Queensway Admiralty, Hong Kong | Tel: +852 2531 6500 www.asifma.org

Standards development and global harmonisation

AAMG broadly supports the Exposure Drafts which bring together past standardisation efforts via a building blocks approach, i.e. incorporating the existing TCFD framework, SASB standards etc, thus creating a global baseline which jurisdictional standard setters are able to build upon, according to the requirements of individual jurisdictions. It is critical that such standard setters start with sustainability disclosures developed in a globally consistent manner to prevent the proliferation of unaligned and competing regimes.

The meaningful and inclusive involvement of Asia will be critical in the global transition to net zero. Enhancing the availability, reliability and comparability of broader sustainability and climate disclosures from Asian reporting entities is therefore particularly important. To this end, globally harmonised rules will be important to minimise the cost and complexity of making and comparing disclosures across markets.

The leveraging of existing standards has allowed for the relatively quick development of the Exposure Draft. We understand that many of the SASB standards are currently being reviewed and once finalised, will become a key component of final ISSB standards. In fact, we note that new metrics have been introduced in the Exposure Drafts which go beyond current SASB requirements, for example, those related to financed emissions. We would expect that as sustainability evolves, the ISSB standards will also evolve in an iterative process to create a comprehensive rulebook of disclosures and common metrics. Sufficient choice of metrics to allow effective regional adoption is critical, although balanced with an overriding aim for global harmonisation through a global minimum of common cross-industry and industry-specific metrics. The ability to assure such metrics is also paramount, notwithstanding that assurance requirements may be subject to an individual jurisdiction's determination.

Importance of qualitative disclosures

To the extent that the Management Discussion & Analysis ("**MD&A**") or its equivalent, provide qualitative commentary to and additional colour on the financial statements of an entity by its management, similarly any robust quantitative sustainability disclosure must be supported by meaningful qualitative sustainability disclosure, especially in this nascent phase of developments in sustainability. For example, disclosures on data calculation challenges, assumptions, and estimation models used to overcome such challenges.

Materiality

Many AAMG members support the financial materiality concept which already exists in International Accounting Standards Board ("**IASB**") standards (and their local equivalents) for financial statements. A focus on enterprise value is seen as the most practical way to achieve a truly global baseline in the near future. Rather than a single definition of materiality, they would encourage jurisdictional standard setters to adopt the same materiality threshold as is used in a particular jurisdiction's financial reporting.

Other members, especially from a stewardship perspective, would like to see the adoption of what is often seen as the higher standard of double materiality, in line with the EU's Sustainable Finance Disclosure Regulation and proposed Corporate Sustainability Reporting Directive.

We note ISSB's view that "assessing the enterprise value of an entity includes information in an entity's … sustainability-related financial information (which) 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…" We see this as the bridge between enterprise value and double materiality, and again take note that ISSB is intended to be a baseline building block and it is up to individual jurisdictions to build further upon it for their public policy objectives.

We would hope to see continued collaboration and convergence in the standard setting processes, acknowledging that this is an iterative process and a phased approach is required to achieve a workable level of consistency and interoperability.

General Purpose Financial Reporting

The proposal to include climate-related disclosures as part of a company's general-purpose financial reporting needs to be given consideration due to the practical conditions and associated liability this means in different jurisdictions.

Timing: The practical realities of collecting and reporting on climate-related data means that there could initially be a mismatch with financial reporting cycles. Reporting entities should be provided with adequate time after their financial year-end to accurately collect, analyse and report on climate-related information. For high climate-impact sectors, material climate-related data should be provided with regular reporting cycles, but more flexibility could be provided during an initial stage of adoption for other sectors (see below comments on Furnished disclosure).

Liability: As currently proposed, the legal liability that attaches to the climate-related disclosures required under the ISSB's exposure draft will depend on the liability attaching to general-purpose financial reporting in a given jurisdiction. We are concerned however that such a broad-brushed approach over-simplifies and does not give due consideration to the evolving nature of climate-related disclosures, which could have the unintended consequence of discouraging reporting entities from making extensive and robust climate-related disclosures. We believe climate-related information, even where material, should be differentiated by the evolving nature of such information and appropriate protections from liability should be afforded under jurisdictional regimes for disclosures made in good faith while standards continue to emerge. This is critical to encourage, rather than discourage, higher quality disclosures from reporting entities over time. Accordingly – for information such as GHG emissions (Scope 1, 2 and 3), transition plans, scenario analysis, emissions targets and any other information where the science, data and methodologies that underpin such information are still emerging and standards are being developed – meaningful protections from liability should be provided. This could be in the form of a comply-or-explain approach, legal safe harbours, the ability to furnish the relevant information in a separate report which does not form part of general-purpose financial reporting (see below comments on Furnished disclosure), or any other or combination of means as appropriate in a relevant jurisdiction.

Furnished disclosure: As mentioned above, we encourage jurisdictional standard setters to distinguish between information that is 'filed' as part of general-purpose financial reporting and information that is 'furnished' in a separate report which is not part of general-purpose financial reporting. We recommend this approach in particular because our members see value in certain climate-related information that may not be material but may nevertheless be useful to investors who are looking to understand an issuer's climate-related risk and opportunities. Having this information in a separate, furnished report can meaningfully supplement mandatory disclosures, and also serves to encourage issuers to not shy away from providing useful information that helps investors contextualise material disclosures as they make investing and proxy voting decisions.

Private companies

We would encourage mandatory sustainability disclosure from both public and private companies. A uniform disclosure regime would provide market participants and policymakers with a more complete picture especially of the net-zero transition, across sectors, jurisdictions and regions. It would also facilitate, over time, much better quality data for disclosures such as Scope 3 emissions as private companies in issuers' value chains would be required to provide the requisite data as well. We believe this is the better approach than to force public companies into the role of policing private company disclosures. Finally, a consistent approach across the public and private markets is essential to avoid unintended consequences such as "disclosure arbitrage" (i.e. where assets / businesses are sold from public to private hands to avoid disclosure) and private companies being increasingly disincentivised from seeking public listings to avoid disclosure.

GHG emissions disclosure

We support quantitative disclosure aligned with the GHG Protocol and also look forward to further initiatives by Partnership for Carbon Accounting Financials ("**PCAF**") in providing detailed methodological guidance to measure and disclose greenhouse gas ("**GHG**") emissions associated with asset classes not currently addressed, including sovereign bonds, derivatives and exchange traded funds.

We agree that disclosure of Scope 1 and 2 emissions estimates should be required regardless of materiality, as this information helps investors assess exposure to climate-related risks and opportunities across sectors. Some of our members would encourage a phased approach to implementation of the climate-related disclosures to not place undue pressure on small and medium enterprise. In such a case, they would encourage local jurisdictions to adopt a phased implementation, mandated initially for the most carbon intensive sectors, such as utilities, cement, oil and gas, and the extractive sectors.

Disclosure of Scope 3 estimates, however, should be differentiated from Scope 1 and 2. The methodologies for measuring Scope 3 emissions are complex and currently no standards exist. Moreover, reporting entities have no direct control over the data required from their value chains and it would be inappropriate to require reporting entities to police emissions disclosures or targets from their value chains. We therefore believe a comply-or-explain approach should be adopted at this stage, allowing reporting entities to disclose material Scope 3 emissions or explain why reasonable estimates cannot be made at this time (whether of the whole of Scope 3 or just certain emissions categories). Our members believe that as the quality of GHG emissions disclosures and methodologies improve over time, Scope 3 emissions could become a routine part of material climate-related disclosures, but at the current stage, when most reporting entities do not have the requisite capability, resources, or data available, Scope 3 should not be part of mandatory requirements.

Please feel free to contact Yvette Kwan at ykwan@asifma.org if you have any questions regarding any of our comments.

Yours sincerely

Yvette Kwan
Executive Adviser, Asset Management Group
Asia Securities Industry & Financial Markets Association