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Asian countries expected to adapt ISSB standards to local needs

By Stanley Yupu Li June 29, 2023

Local realities will weigh on the adaption of the standards and capacity building is still a challenge for companies

With a common language established for corporates and investors in the sustainability and climate reporting space, jurisdictions in Asia are expected to get on board gradually with their own variations when adapting the long-awaited inaugural sustainability disclosure standards unveiled by the International Sustainability Standards Board (ISSB).

The standards, which were released this week after more than 18 months of intense discussion, is an answer to growing demands from global investor communities to have more verifiable and consistent information as they navigate the fragmented and, sometimes confusing, ESG reporting landscape.

“The ISSB standards have been designed to help companies tell their sustainability story in a robust, comparable and verifiable manner,” said Emmanuel Faber, ISSB chair. “We have consulted closely with the market to ensure the standards are proportionate and will result in disclosures that are relevant for investment decision-making.”

Within the standards, the S1(general) requirement provides the overarching disclosure requirement designed to enable companies to communicate to investors about the sustainability-related risks and opportunities while S2(climate) is a specific climate-related disclosure requirement that takes factors, such as physical risk and transition risks, into consideration.

“The guidance is not intended to provide a one-size-fits-all solution, it needs to be read in conjunction with the Global Reporting Initiative and must be implemented in each indorsing jurisdiction and will be applied according to local modifications,” said Ben McQuhae, founder at Ben McQuhae & Co.

In Asia, economies are at different states of development with various interests and objectives which could impact the adaption of the ISSB standards in the short term. But in the long run, Diana Parusheva-Lowery, executive director for public policy and sustainable finance at ASIFMA, believed that “slowly but surely, people will get on board, but we have to wait and see”.

While helpful for investors to gain access to high quality ESG data to make their assessments, the new guidance is not a silver bullet and for many, the final version represents a missed opportunity that lacks ambition and falls short of expectations, according to McQuhae, who is also the co-founder at Hong Kong Green Finance Association.

“The insistence on single materiality and removal enterprise value, a key component of helping companies prioritise what to disclose, seems to undermine the ambition to create a global baseline of sustainability-related financial language,” he said.

Engaging with Asia

Across Asia, the publication of the ISSB standards was warmly greeted by regulators. Jurisdictions including Australia, Japan, Hong Kong, Malaysia, New Zealand, and Singapore have indicated their intentions to refer to the ISSB standards in their own reporting regimes.

Julia Leung, chief executive officer at the Hong Kong Securities and Futures Commission (SFC), said in her keynote speech at the ASIFMA China Capital Markets Conference 2023 on Tuesday that the SFC “welcomes the ISSB standards and will study them closely with a view for proportionate implementation in Hong Kong”.

As mainland Chinese firms account for about 80% of the equity market capitalisation in Hong Kong, Leung urged companies “to take advantage of this communication medium, especially if they do not want to be bypassed by international capital”.

The SFC released a public consultation, which is open until July 14, on new climate-related reporting requirements for Hong Kong listed companies in and the consultation conclusions will take market feedback and the final ISSB standards into account.

The ISSB has been ramping up its efforts to have more dialogues with jurisdictions in Asia. This month, it opened its Beijing office after the signing of a memorandum of understanding between the IFRS Foundation and the Ministry of Finance of China in December 2022.

The Beijing office will work with the foundation’s other offices in supporting the ISSB’s work, with staff focused on leading and executing the ISSB’s strategy for emerging and developing economies, acting as a hub for stakeholder engagement in Asia.

The nature of the ISSB standards as a voluntary reporting scheme means that it is up to individual countries to adapt the standard to suit their own needs.

“The coming weeks or months will be very important for us to watch out for who is going to raise their hand and say we’ll go and adopt these standards,” said Parusheva-Lowery with ASIFMA. “There will be some variations between different jurisdictions and how big these variations might be will also matter.”

She continued: “We are hoping that a lot of them(regulators) will, which will then provide the real baseline, because the standards by themselves don't do anything. You need people to adopt these standards.”

Phasing in the requirements

The ISSB said it will work with jurisdictions and companies to support adoption. A Transition Implementation Group will be created to support companies that apply the standards and launch capacity-building initiatives to support effective implementation.

The board previously decided in April to prioritise climate-related disclosures to support initial application. The relief package will remove some pressure off companies, allowing them to focus initial efforts on ensuring they meet investor information needs around climate change.

For companies that have not yet prioritised sustainability and ESG data collection, the biggest challenge is going to be catching up and preparing for mandatory scope 3 emissions reporting, a major undertaking that requires first, figuring out supply chain traceability, and then supplier engagement to collect emissions data, in addition to collation and reporting, according to McQuhae.

"Even with the transition period, it's going to be a challenge, including for some first movers in corporate ESG reporting," he said.

With further emphasis placed on the importance of being able to understand and identify climate risks relative to a client mandate, McQuhae anticipates law firms will increasingly need to ensure their lawyers understand, or have access to experts who understand climate risk, to be able to provide comprehensive legal advice to clients.

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