



Our Ref.: C/FRSC

Sent electronically through the IFRS Foundation Website (www.ifrs.org)

30 December 2020

Mr Erkki Liikanen
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Mr. Liikanen,

IFRS Foundation Trustees' Consultation Paper on Sustainability Reporting

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 and ethics for professional accountants, in Hong Kong. We are grateful for the opportunity to provide you with our views on the Consultation Paper on Sustainability Reporting (CP).

The HKICPA considers that sustainability reporting is an area of increasingly urgent importance both in Hong Kong and internationally. There are additionally various sustainability initiatives already in place in Hong Kong. We hence greatly appreciate the initiative of the Trustees of the IFRS Foundation to begin consultation in this area.

We agree that there is an urgent need for a global set of sustainability reporting standards, and that the IFRS Foundation is well positioned to be involved with setting these standards. We furthermore agree that the development of a sustainability standards board under the structure of the IFRS Foundation is an appropriate approach, with acknowledgement that there are requirements for success.

We consider that it is important that the IFRS Foundation proceed rapidly with this initiative given the international demand. We recommend that the IFRS Foundation leverage on the expertise of existing initiatives to ensure that this urgent need is addressed.

Our detailed comments are provided in the Appendix.

If you have any questions regarding the matters raised in this letter, please contact me, Cecilia Kwei, Director (ceciliakwei@hkiipa.org.hk) or Tiernan Ketchum, Deputy Director (tiernanketchum@hkiipa.org.hk) of the Standard Setting Department.

Sincerely,

A handwritten signature in black ink that reads 'Chris Joy'. The signature is written in a cursive, slightly slanted style.

Chris Joy
Executive Director, Standards and Regulation

Work undertaken by HKICPA in forming its views

The Hong Kong Institute of Certified Public Accountants:

- (i) issued an Invitation to Comment on DP/2020/1 on 7 October 2020 to its members and other stakeholders;
- (ii) sought input from its Sustainability Committee, which is comprised of a diverse selection of senior-level sustainability experts; and
- (iii) developed its views through its Financial Reporting Standards Committee. The Committee comprises academics, preparer representatives from various industry sectors, regulators, as well as technical and industry experts from small, medium and large accounting firms.

This submission outlines the HKICPA's views and summarises our stakeholders' comments on the CP. You may access our stakeholder responses here:

<https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Our-views/pcd/financial-reporting-submissions/2020>

Detailed comments on the CP

Question 1 – Need for a global set of sustainability reporting standards

Stakeholders' views

1. The vast majority of our stakeholders agreed that there is a need for a global set of internationally recognised sustainability reporting standards. The majority of our stakeholders also agreed that the IFRS Foundation should play a role in setting those standards.

HKICPA analysis and recommendation

2. We agree with our stakeholders that there is a need for global sustainability reporting standards. We also consider that it is apparent, as is noted in the CP, that global calls for sustainability reporting and global initiatives related to sustainability are growing in prominence.
3. We also agree that the IFRS Foundation should play a role in setting these standards. As noted further in our response to Question 2, we think that the IFRS Foundation is well suited to this role given its existing structure, processes and experience with setting global financial reporting standards.

Question 2 – Development of a sustainability standards board

Stakeholders' views

4. The majority of our stakeholders welcomed the development of a sustainability standards board (SSB) under the governance structure of the IFRS Foundation.
5. One of our stakeholders commented that the SSB could build on the IFRS Foundation's existing experience in international standard-setting, as well as its well-established and supported processes and governance structure. Another stakeholder similarly suggested that there is no need to 'reinvent the wheel', as the IFRS Foundation already has an established structure, processes and track record.
6. Another stakeholder noted the ongoing efforts of other bodies in this area, and indicated that they would remain open-minded as to which framework of sustainability reporting standards will ultimately come to be internationally dominant.

HKICPA analysis and recommendation

7. We agree with our stakeholders that a new SSB within the structure of the IFRS Foundation would be an appropriate way forward. We think that the IFRS Foundation offers a robust governance structure with requisite processes, standard setting experience, and key formal and informal relationships. We are nevertheless cognizant that there will be challenges to achieve success in establishing a globally adopted set of sustainability standards, as we note further in Question 3.

Question 3 – Requirements for success

Stakeholders' views

8. We noted the following comments from stakeholders:
 - a. The SSB would need to integrate persons and organisations with appropriate knowledge of environmental and social issues into the standard setting process.
 - b. The SSB's structure must provide a robust way of developing reports that facilitates making investment decisions that lead toward sustainability goals (e.g. capital allocation must be consistent with the Paris Agreement's objectives).
 - c. There is some lack of clarity as to how "success" is measured, specifically what is the nature and extent of support that is required from key stakeholders, and how the IFRS Foundation would respond if certain institutions challenged the SSB initiative.

HKICPA analysis and recommendation

9. We observe that there is increasing and pressing international demand for high-quality, global and comparable sustainability reporting standards. Additionally, there are a number of significant initiatives being undertaken by other actors. Overall, it is hence of utmost importance that the IFRS Foundation work quickly to address this urgent demand.
10. In addition to our stakeholder's comments above, we consider that the CP identifies a number of relevant hurdles to success. At a high level, we consider that one of the most important issues will be ensuring the support of public and capital market authorities to promote adoption. The IFRS Foundation may consider the process by which global financial reporting convergence was achieved in this respect. At a more fundamental level, we think that resourcing and talent sourcing will be a key issue. Consideration should be given to how the SSB can ensure that it will be able to attract and retain high-quality, technical, sustainability reporting experts.
11. Noting that the SSB will aim to establish a global set of sustainability reporting standards, it will be important for the SSB to set up appropriate groups and channels to foster international collaboration and connection to relevant experts and bodies. We discuss this further in Question 5 and 6.
12. We also think that diversity should be a key consideration in establishing the SSB, both with regard to the geographical representation of its board and staff, and with regard to its work with other initiatives and jurisdictions.

Question 4 – Relationships with stakeholders to aid adoption and application



Stakeholders' views

13. Our stakeholders generally noted that the IFRS Foundation would be well placed to leverage its relationships with stakeholders to aid global adoption and application.
14. A couple of stakeholders commented that the IFRS Foundation could follow a similar approach as to what was used in achieving global financial reporting standards convergence.

HKICPA analysis and recommendation

15. We think that one of the key strengths that the IFRS Foundation has in approaching sustainability reporting is its relationship with various stakeholders, including public authorities, policymakers and standard setters. Similar to what was required for the global convergence of financial reporting standards, we think that establishing a set of global sustainability reporting standards will require international buy-in. As such, working with relevant international stakeholders is pertinent not only to supporting adoption and application, but to the overall success of the initiative.
16. As a standard setter, we would particularly highlight the close relationships between the IASB and jurisdictional and regional standard setters as a model that should be considered for the SSB. Standard setters like the HKICPA work with the IASB directly as well as through regional and international groups and forums to support the financial reporting standard setting process.
17. We recommend the IFRS Foundation consider formally replicating or expanding on these relationships, groups, forums and consultation channels with respect to a new SSB.

Question 5 – Building on and working with existing initiatives

Question 6 – Building on and working with existing jurisdictional initiatives

Stakeholders' views

18. The majority of our stakeholders commented that a new SSB should leverage off existing initiatives.
19. We noted the following additional comments from stakeholders:
 - a. The SSB should collaborate with other existing initiatives to achieve consistency and reduce complexity in reporting.
 - b. There is a great deal of concepts in existence, but there is a lack of linkage and consistency amongst them. As such, a key point missing from existing sustainability reporting is consistency in reporting and the ability for users to compare entities. The stakeholder suggested the IFRS Foundation can add value by providing a standardised way in which to structure reports, as well as to disclose and measure various sustainability items. Another stakeholder shared similar comments, and that there is a need for a body with sufficient authority to combine the large amount of existing content in a harmonised way.
 - c. Preliminary work may be required to take stock of the existing sustainability reporting landscape. Interaction with existing initiatives should be clarified with an aim of eliminating duplication where possible, and avoiding the SSB contributing to an increase in complexity and fragmentation.
 - d. The IFRS Foundation may need to consider if a different framework and due process would need to be applied in adopting and building off existing

- sustainability standards, in comparison to developing new standards.
- e. One stakeholder commented that existing initiatives would not necessarily need to be consolidated. Instead, the setting of sustainability standards could be done in a manner similar to the global convergence of financial reporting standards. Jurisdictions could then still retain flexibility to allow the use of 'local' standards.
 - f. In contrast to point (e), another stakeholder noted that the benefit of establishing the SSB as a global standard setter may be undermined if other overlapping or duplicate initiatives continue to exist after the establishment of the SSB.
 - g. One stakeholder suggested that firstly a common set of principles should be established for defining the content and quality of reporting. Then, SSB standards should be based on the work of Integrated Reporting (IR), the Global Reporting Initiative (GRI) and the Task Force on Climate-related Financial Disclosures (TCFD) as the starting point.
 - IR is recommended given the overall framework it provides, its fundamental concepts of value creation and types of capital, and its guiding principles.
 - GRI is recommended because: (1) it has a flexible, principle-based approach that already allows for a number of levels of adoption, (2) GRI's system of allowing format flexibility while requiring a 'GRI Index' to enable users to find data is user friendly, and (3) it is used by the largest number of entities.
 - TCFD is recommended as it provides a structure for assessing, managing and reporting on climate change risks. Its approach to covering longer-term issues is important and gathering support.
 - h. A multilingual taxonomy should be established for sustainability reporting.

HKICPA analysis and recommendation

20. We fully agree with the view of our stakeholders that the SSB should leverage off existing initiatives. There is a significant amount of existing momentum and expertise, and the IFRS Foundation should build on and consolidate these initiatives to leverage off the significant work already performed and to avoid duplication of effort. This is particularly key given the urgent need for the IFRS Foundation to move forward quickly with this initiative. In this respect, existing recognised issuers of sustainability reporting recommendations and guidelines should be seen as important stakeholders.
21. In particular, we think that the SSB may consider performing a broad survey of existing initiatives (in which it could benefit from the IFRS Foundation's existing relationships) to take stock of the current reporting landscape.
22. As part of this, we believe that the SSB should endeavour to understand the objectives of other initiatives in order to develop a holistic view of the reporting needs by different stakeholders across different jurisdictions and industries, e.g. why were the different initiatives established in the first place? What gaps in the then extant literature were they trying to fill? Then, through a due process of consultation, the SSB may determine how best to build on the existing work.
23. We think that the SSB's sustainability standards should be principles-based. Overall, we recommend the SSB start by developing a conceptual framework with defined principles for sustainability reporting based on the existing body of work, upon which detailed standards could be built in a harmonious and consistent manner.

24. We suggest that the IFRS Foundation make reference to its history in establishing a global set of financial reporting standards for insight as to how it has benefited from interaction with other jurisdictions and initiatives. We would also recommend that the IFRS Foundation carefully consider its due process for building on other work so as to ensure that there is an appropriate level of exposure and consultation, and ensure that express effort is made to consider and incorporate geographically diverse jurisdictions and initiatives.
25. We also suggest that it is preferable for a global set of sustainability reporting standards to be, as best as possible, comprehensive and self-contained (i.e. capable of being referenced in a consolidated SSB-issued format rather than requiring reference to other non-SSB sources). Any adopted resources should be incorporated under SSB copyright rather than left outside the SSB's official remit.
26. There are various jurisdictional initiatives ongoing in Hong Kong. We would highlight the following:
 - a. Since 2016, Hong Kong Exchanges and Clearing has required listed companies to issue an ESG report in accordance with its ESG Reporting Guide.
 - b. In May 2020, a number of Hong Kong market authorities including the Hong Kong Monetary Authority and Securities and Futures Commission established the Green and Sustainable Finance Cross-Agency Steering Group to co-ordinate the management of climate risks, and support sustainable finance and Hong Kong's climate strategies.
 - c. In October 2020, the Securities and Futures Commission launched a consultation on proposed requirements for fund managers to take climate-related risks into consideration in their investment and risk management processes and make appropriate disclosures.
 - d. In November 2020, the Council for Sustainable Development finalised its report on Hong Kong's long-term decarbonisation strategy with the view that Hong Kong should advance to net zero carbon emissions by 2050.

Question 7 – Initially developing climate-related financial disclosures

Question 8 – Definition of climate-related risks

Stakeholders' views

27. The majority of our stakeholders agreed with initially prioritising climate-related financial disclosures given the SSB's limited time and resources, but also noted that sustainability is a broad concept and there are other areas of sustainability reporting that the SSB should ultimately expand into.
28. We noted the following additional comments from stakeholders:
 - a. The SSB should have a focused definition of climate-related risks given there are different understandings in the market of what the scope of climate-related risks encompasses.
 - b. The SSB should use the work of the TCFD as a starting point.
 - c. While priority may be given to climate risks given the urgent needs in this area, the SSB should consider expanding firstly into broader global environmental areas, and then into local social and governance issues. A clear timeline, framework and roadmap should be established on how to achieve this gradual expansion into broader ESG topics.
 - d. As part of the expansion plan, given there are many different types of

sustainability, ESG and non-financial information in the market, it will be vital for the SSB to clearly define its scope of work and remit upfront. This could be facilitated with a clear and consistent glossary for usage of terms.

- e. The SSB's work should facilitate reporting that adequately covers special interest issues (e.g. concerns raised by relevant international organisations on working conditions or biodiversity).

HKICPA analysis and recommendation

29. We agree with the view that the SSB should initially prioritise climate-related financial disclosures, and note that climate-related risks require the urgent attention of the accounting profession. We also note and agree with our stakeholder comments that sustainability is a broad topic, and that the ultimate objective of a global set of sustainability reporting standards should be to capture broader aspects of sustainability.
30. This is again an area where we think the IFRS Foundation needs to work quickly to establish itself. If a climate-first approach is taken, the SSB should have a clear and timely path forward to address overall sustainability reporting needs, and avoid further ongoing fragmentation in the market as other actors continue to work to address unanswered sustainability reporting issues.
31. With this in mind, we suggest that IFRS Foundation should carefully consider the SSB's work plan and resources to strike an appropriate balance between an ultimate goal of broader sustainability reporting standards, and its ability to address the urgent reporting needs around climate-related risks successfully.
32. In this area in particular, we think that the SSB would be well served to utilise existing initiatives to help guide the determination of its initial scope of work. We agree with our stakeholder comment that the work of the TCFD should be referenced as a starting point.

Question 9 – Approach to materiality

Stakeholders' views

33. Our stakeholders expressed mixed views on the approach to materiality. The majority of our stakeholders commented that material issues should be those that impact the value of an entity. Many of our stakeholders further commented that the value of an entity, and the ability of an entity to create value, can be impacted by broader issues that may not be conceived under a traditional financial (inward) materiality approach. As such, issues that impact the financial returns of an entity may arise under both financial (inward) and double (inward and outward) materiality. These stakeholders would hence prefer a broader materiality approach that is focussed on enterprise value creation. If that cannot be achieved initially in a timely manner, it should be the ultimate objective.
34. We noted the following additional comments from stakeholders:
 - a. A few stakeholders suggested that the SSB should focus on a financial materiality approach.
 - This would be consistent with the materiality concept under International Financial Reporting Standards in terms of which non-material financial information need not be disclosed in the financial statements.
 - One stakeholder noted that the IFRS Foundation's primary stakeholders

have historically been users of financial information, and the IFRS Foundation's strength lies with users of information for capital allocation decisions. As such, the IFRS Foundation should focus on sustainability information that is directly relevant to financial decision making.

- Nevertheless, one proponent of this approach suggested that it should be made clear upfront that financial materiality is only one aspect of the broader materiality concept in sustainability reporting and that the SSB should set a timeline for broadening the scope of materiality in the future.
- b. Other stakeholders preferred an approach based on enterprise value creation. One of these stakeholders commented that there are certain items (e.g. certain environmental information) that may not meet the threshold of financial materiality at a given reporting date, but that which may become more impactful as circumstances change over time. There are also environmental and social issues that may materially impact the ability of an entity to create value, and hence the value of the entity over time. The first version of the SSB's sustainability reporting standards should explicitly address this.
- c. Another stakeholder commented that the objective of sustainability reporting should be to support capital allocation decisions. As such, the information reported should be precise and directly related to whether the value of an entity is impacted (i.e., an approach focusing on enterprise value creation).
- d. One stakeholder suggested that a potential way forward would be to require two reports, one 'strategic report' based on financial materiality, and then another 'sustainability report' based on a broader concept of materiality. A good approach for the strategic report would be to take the International Integrated Reporting Council's (now Value Reporting Foundation's) framework as a basis, and then for the sustainability report to use GRI's work as a basis.

HKICPA analysis and recommendation

35. We generally agree with our stakeholders who take the view that a broader definition of materiality focusing on enterprise value creation should be the ultimate goal for the SSB. We do however recognise that it may be reasonable to start with the proposed approach focusing on financial materiality, particularly in consideration of the need to proceed quickly. We think that if the IFRS Foundation pursues an approach based on financial materiality, it should note that such an approach is preliminary, and that the longer-term objective of the SSB is to explore and branch into broader materiality concepts.
36. At the moment it is not clear how the SSB would define a broader materiality concept and how its threshold should be established. We would recommend that the SSB define with sufficient specificity and examples the materiality concept that it has in mind.
37. Regardless of the approach taken, we would suggest that entities be required to disclose their policies and judgements made in determining materiality in this area.

Question 10 – Auditability

Stakeholders' views

38. One stakeholder commented that sustainability information should be auditable and subject to external assurance, and that public accountability should be held at a high level. To achieve this, the information should be subject to audit using existing auditing frameworks.



39. Another stakeholder suggested that the standards should facilitate multiple assurance options in a way that provides recognition for more robust options.
40. Yet another stakeholder noted assurance on sustainability information might be more challenging with respect to certain forward-looking or qualitative disclosures.

HKICPA analysis and recommendation

41. We think that sustainability information should ultimately be auditable and capable of being subject to external assurance. We suggest that the IFRS Foundation leverage its relationships with the IAASB and audit profession to develop this going forward.
42. In Hong Kong, listed companies are encouraged by the HKEX's ESG Reporting Guide to seek independent assurance to strengthen the credibility of ESG information disclosed. Where independent assurance is obtained, the entity should describe the level, scope and processes adopted for the assurance given. In December 2020, the HKICPA published [Technical Bulletin AATB 5 Environmental, Social and Governance \(ESG\) Assurance Reporting](#) to provide practical non-authoritative guidance intended to assist practitioners in performing assurance engagements on ESG information. AATB 5 is adapted from the IAASB's Proposed Guidance: *Extended External Reporting (EER) Assurance*, and tailored with reference to the ESG reporting circumstances in Hong Kong. The basis of the reporting framework for AATB 5 is HKSAC 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, which is converged with ISAE 3000 (Revised).

Question 11 – Other comments

Stakeholders' comments

43. We noted the following additional comments from stakeholders:
 - a. The SSB's sustainability reporting standards should be designed taking into account the differing levels of sophistication among entities. As such, there could be basic layers of standards applicable to small and medium sized entities, and more advanced layers applicable to larger entities. It would be desirable to have principles in place to facilitate entities to move from more basic layers to more advanced layers.
 - b. The CP has not yet proposed much in the way of an overall framework. This stakeholder noted that there is a need for such a framework with agreed principles in key areas such as double materiality, completeness, and stakeholder inclusiveness.
 - c. It would be beneficial if the SSB's proposals are sufficiently advanced before the 2021 United Nations Climate Change Conference in November 2021, with the goal of looking to receiving adoption support from that conference.
 - d. There is currently a lack of sufficiently detailed climate scenarios for meaningful reporting. As such, it is important that the SSB provide, or otherwise support arranging, for high quality potential future climate change scenarios to be published and widely available. This will be important to help support comparability.
 - It should however also be noted that entities may have overall legal concerns about reporting forward-looking information and predictions. An instance where this concern arises is in the event that entities disclose forward-looking information that affects their share price, and that prediction ultimately does not unfold, then they may be subject to legal



action by shareholders. As such, it would be recommended that the SSB work with appropriate parties to mitigate this concern; for example, by helping to foster 'safe harbour' provisions that limit the liability of entities reporting information under such scenarios.

- e. There is a strong need for industry-specific standards in sustainability reporting. GRI Standards and other investor institutions already reflect this.
- f. The SSB should also consider whether, in addition to standard setting, it can provide accreditation/certification and training. A globally recognised accreditation programme would in particular help to support consistency in application and the provision of assurance services.
- g. The term "sustainability" should be clarified. In particular, it is unclear whether the term "sustainability" as compared with the concept of "ESG" is synonymous, or whether "sustainability" is a narrower topic.
- h. The SSB should consider whether industry-specific guidance is needed, and whether sustainability standards should be rules-based or principles-based.

HKICPA comments

- 44. We think that the interaction between sustainability reporting and financial reporting, and hence the SSB and the IASB, would need to be carefully considered. So long as an SSB and the IASB exist as distinct entities under the IFRS Foundation, there should be formal procedures in place to enable each board to leverage off the other's expertise in a due process-compliant manner. In addition, consideration should be given to scope and to the question of how issues will be resolved in cases where there is scope-creep or overlap between financial reporting and sustainability reporting. Clarifying this interaction will furthermore be of benefit going forward as considerations arise around more broadly integrated reporting.

~ End ~