Think Ahead ACCA

Hong Kong Exchanges and Clearing Limited
12/F, Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

14 July 2023

Dear Sir,

Consultation Paper on Enhancement of Climate Disclosure under its ESG Framework

On behalf of ACCA (the Association of Chartered Certified Accountants) Hong Kong, we are very pleased to have the opportunity to submit our comments regarding the captioned consultation paper.

As a global professional body advocating international standards and practices of accountancy, ACCA is supportive of the overall effort of the Hong Kong Exchanges and Clearing Limited to further enhance climate disclosure under its ESG framework.

Should you wish to clarify any of our comments on the matters discussed here, please do not hesitate to contact [redacted].

Yours sincerely

[redacted]

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Enhancement of Climate-related Disclosures Under the ESG Framework
Consultation paper issued by HKEX in April 2023
Comments from ACCA
June 2023

GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the HKEX's consultation paper, Enhancement of Climate-related Disclosures Under the ESG Framework. This was done with the assistance of a taskforce made up of ACCA Hong Kong members in June 2023. It has also been informed by ACCA global responses to ISSB Exposure Drafts on IFRS S1 and S2, namely ED IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and ED IFRS S2 Climate-related Disclosures.

ACCA has consistently advocated for a global approach to the development of sustainability disclosure standards, and we fully support the role of ISSB in setting a consistent and comparable global baseline to sustainability reporting around the world. At the same time, in developing reporting standards, it is important to ensure that the reporting catalyses the necessary systemic change: that operational changes take place in the entities making these disclosures; and that investors use these disclosures to allocate capital more efficiently and responsibly. For this to happen, the widespread application of integrated thinking is necessary.

Sustainability scope

Appendix 27 prescribes general requirements and reporting principles regarding the presentation and relevance of information contained in an ESG report, consistent with the general features for reporting of sustainability-related financial information under the ISSB General Standard. However, the ED IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information issued by ISSB in March 2022 ('ED IFRS S1') does not define what is 'sustainability-related'. As a result, the breadth and scope of the risks and opportunities that need to be considered and disclosed is left to the judgement of the preparing companies, to the potential detriment of consistent application, comparability, as well as cost and effort in reporting.

In ACCA global response, while we understand and agree that what constitutes material sustainability-related information can change over time, we would urge the ISSB to provide a clearer indication, both in the standard and through illustrative examples, as to what "sustainability" might cover. In ACCA's view, the six integrated reporting capitals can serve as useful framing for a broad and holistic understanding of 'sustainability.' Consequential amendments from ISSB shall also be made to Appendix 27. And we would urge HKEX to provide a clearer indication through illustrative examples.

Materiality determination

Given how fundamental entity-specific materiality judgements will be in driving the content of entities' reporting, much more specific guidance is needed around the materiality determination process to ensure that the sustainability-related financial information is consistent, comparable and verifiable. Application guidance should clarify the process that entities should adopt to identify significant sustainability-related risks and opportunities as well as the process that entities should use to identify material sustainability-related financial information.

The identification of significant sustainability risks and opportunities should initially incorporate a consideration of the entity's key stakeholders (beyond users of general purpose financial reporting) and their legitimate needs and interests. This step is critical, because the way in which the entity creates, preserves, or erodes value for other stakeholders will likely affect enterprise value over time. A coherent process of understanding and responding to stakeholders' needs is also necessary as entities in many countries will need to comply with impact-focused jurisdictional reporting requirements.

There is a commonly perceived misalignment between the references to 'significant' sustainability-related risks and opportunities and 'material' information. While we understand that the ISSB's intention is for entities to first identify significant risks and opportunities, and then determine information about such risks and opportunities that are material for users, the meaning of both terms and this intention need to be clearly and explicitly set out in the standard to avoid confusion.

An important aim of the materiality determination process should be ensured that material information is presented in a clear and concise way. ACCA's research has highlighted a tendency in certain jurisdictions for the annual reporting package to become increasingly voluminous, as entities apply jurisdictional reporting requirements including those covering sustainability-related disclosures. Disclosure overload will make it more difficult for investors and other stakeholders to find the information that they need. We would encourage the HKEX to consider the importance of conciseness, in finalising the disclosure requirements in this consultation paper.

More guidance is needed on the application of materiality, especially in relation to identifying material disclosure topics with reference to industry-specific SASB standards and GRI standards. The reporting principle on materiality in paragraph 11 (i) 'The threshold at which ESG issues determined by the board are sufficiently important to investors and other stakeholders that they should be reported.' requires a great deal of judgement, especially when the boundaries between 'climate-related' topics and other topics (ie water, biodiversity, social matters) can be blurred.

Value chain boundary

The identification, evaluation, prioritisation and disclosure of risks and opportunities arising in particular from the supply chain will be a new and challenging area of disclosure for many preparers. There are likely trickle-down effects beyond the entities within scope of the IFRS Sustainability Disclosure Standards, to SMEs in the supply chain, many of whom are in emerging economies with limited resources to respond to data requirements.

The determination of the appropriate boundaries for the value chain should be subject to materiality. We would recommend that disclosures about the value chain should be restricted to risks and opportunities over which the entity can exercise some level of influence.

Forward-looking information

ACCA fully agrees that forward-looking information is of important decision-useful value. However, we expect that the consideration of risks and opportunities over the short-, medium- and long-term future timeframes will be challenging for entities. Even as set out in the Hong Kong Exchange's listing rules where future-orientated reporting is required, the strategic planning horizons currently considered by entities are likely to be too short to appropriately capture sustainability-related risks and opportunities. Further application guidance and illustrative examples will be important to help entities apply the standards as intended.

It will be particularly challenging for entities to disclose information about the resilience of its strategy and cash flows in light of its sustainability-related risks and opportunities, as this is likely to be a nascent area of disclosure for the vast majority of preparers.

Interim Provision

We consider that a two-year interim provision, as suggested by HKEX, is reasonable to accommodate concerns for issuers to fully comply with all the new climate-related disclosure requirements. Despite the fact that small and medium-sized issuers may experience difficulties in sourcing financial resources, talents and skillsets in the beginning, sustainability reporting is a must-have for the future; these issuers shall prepare themselves by seeking advice from government, regulators and professional bodies during the interim period.

For the sake of fairness, the interim provision shall apply to all issuers disregarding the size and nature of the companies. However, we recognises the need for capacity building interactions to accelerate inclusion in the process to develop and implement Climate-related Disclosures and to provide a level playing field for their use by issuers. It is also suggested that more implementation support, especially through application guidance and illustrative examples specific to small and medium-sized companies, shall be provided by HKEX. Globally accessible and freely available suite of resources to educate a broad range of stakeholders shall be provided, including resources such as e-learning and feedback sessions. Also, more information should be provided by HKEX on what will happen after the interim period, for example, how HKEx will align with ISSB.

Implementation at jurisdictional level

We agree that HKEX proposes interim provisions for certain disclosures during the Interim Period, acknowledging the readiness of our issuers and the concerns expressed by issuers and market practitioners.

The determination of an appropriate period for preparation of the disclosures will largely be a matter for national/regional jurisdictions and they should take into account the urgency of some of these disclosures. It would seem appropriate for the effective date to be two years after publication of the standard.

In our global responses, we would expect that companies would want to have a ‘dry run’ before being required to fully comply with the standards. With the arrangement for the Interim Period proposed by HKEX, we expect the implementation could reflect the size of entities and the resources that they have to dedicate to implementation would be appropriate for issuers in HKEX.

We encourage the HKEX to consider field testing during the Interim Period, working with various stakeholder group, to better understand how the proposals will affect entities of different sizes, particularly smaller entities.

We agree with the possibility of early application.

Opt to disclose climate related opportunities

The ISSB Climate Standard requires disclosure of both significant climate-related risks and opportunities by the issuers; while HKEX suggested that issuers are required to disclose significant climate-related risks and may opt to disclose any climate-related opportunities.

ACCA welcomes this proposal to apply in Hong Kong. As required by HKEX D2 Risk management and internal control chapter, it is mandatory that issuers disclose the nature and extent of significant risks faced by them. On the other hand, mandating the disclosure of opportunities may affect the competitiveness of issuers and would create resistance from the market; though HKEX can encourage issuers to disclose opportunities if these concerns can be addressed.

In addition, issuers are required to publish announcements for information that is price sensitive. It is difficult for management to judge whether such ESG opportunities would affect the stock price of the issuers and the disclosure in ESG report may trigger questioning from the public for announcement publication.

Referring to *Hong Kong Accounting Standard 37 Provisions, contingent liabilities and contingent assets*, contingent liability shall be disclosed unless the possibility of an outflow of resources embodying economic benefits is remote; while contingent asset should be disclosed where an inflow of economic benefits is probable. The proposal on mandatory disclosure of risks and voluntary disclosure of opportunities provides a safe harbor for issuers to disclose opportunities only when the benefits are probable.

Linkage between impacts and risks and opportunities

Understanding the linkage between impacts and dependencies is key if the reporting in line with the ISSB standards is to lead to meaningful strategic and operational change in entities. It is also a core aspect of integrated thinking, which as we highlighted in our response to ED IFRS S1, is necessary for the effective management of sustainability-related risks and opportunities. This area is currently under-emphasised in the ED. ACCA would recommend that ISSB provides more clarity in the standard, as well as further application guidance, to illustrate the loop back between external impacts and dependencies.

Scope 3 emissions

We agree that Scope 3 disclosures are important, as Scope 3 emissions represent the large majority of greenhouse gas emissions for most companies. However, as noted in IFRS BC117, this is likely to be an extremely challenging aspect of reporting for entities. We would recommend that the ISSB undertakes further fieldtesting to assess the impact of the requirements, and provide further application guidance to assist preparers in this area. While we understand that some double-counting of emissions between entities up and down the value chain is inevitable, more clarity is needed over the boundaries for Scope 3 emission disclosures. We would recommend that entities should only be required to report emissions over which they are able to exercise a degree of influence. Such disclosures would be more useful to users in understanding how entities assess performance in this area, and in assessing risks arising from entities' emissions.

Skills and human resources gap

The demand for sustainability reporting talent far exceeds the supply in reporting entities, vendors, assurance providers and regulators. This acute scarcity of talent could have implications for the cost of compliance, and could persist beyond the initial transition period. The availability of sustainability reporting expertise is also unevenly distributed across different jurisdictions.

With Hong Kong's close ties to Mainland China and other Asian economies, the HKEX is strategically placed to serve as an ideal platform for issuers to achieve exposure to the rapidly growing mainland Chinese and other Asian markets. However, most markets are operating in developing economies, a lack of financial resources can compound the problem. The question of how and where to source additional investment to meet the cost of compliance is one that the HKEX will need to consider along with policymakers and regulators.

ACCA recognizes that achieving a truly global baseline necessitates a strong focus on supporting implementation across all economic settings so that all market participants can access its benefits. As one of the day-one partners in the ISSB Partnership Framework for capacity building, ACCA integrates sustainability as a core element of professional qualifications and provide finance professionals with education resources to continue to build capabilities. ACCA will be honored to serve as a conduit for engagement with issuers and a broad range of stakeholders to raise awareness of Climate-related Disclosures and understand capacity building needs; and work in collaboration with governments, regulators, HKEX and others to develop and deliver responsive resources and interventions with reach and relevance for HKEX issuers, helping them to upskill existing talent and build capacity in the reporting entities.

Our detailed responses to the specific questions asked are set out below.

RESPONSES TO SPECIFIC QUESTIONS RAISED

Question 1. Do you agree to upgrade climate-related disclosures to mandatory from "comply or explain"? Please provide reasons for your views

In ACCA's global responses to S1 and S2 ED, we believe that IFRS S2 should be effective at the same time as IFRS S1. However, there may be merit in allowing entities to voluntarily adopt S2 without adopting S1 at the same time, given the urgency for effective climate action and the mandatory adoption of TCFD Recommendations which has already started in many jurisdictions. We note that it may be much more challenging for entities to comply with IFRS S1 as currently drafted, because of the extremely broad scope of sustainability-related risks and opportunities that the standard covers, the very dynamic and unpredictable nature of these risks and opportunities, and the lack of commonly-agreed measurement approaches for social and governance matters in particular. Please refer to our response to IFRS S1.

We consider that two years may be an appropriate time to allow for implementation after the final Standard is issued. Given the challenge that newer requirements, which go beyond the TCFD Recommendations, will pose for implementation, it may be appropriate for both S2 and S1 to allow for a period of voluntary adoption before the Standards become mandatory in jurisdictions.

While the adoption of the standards will be a matter for national/regional jurisdictions, a roadmap for implementation from the ISSB, developed with its jurisdictional working group, would help to guide national/regional regulators in this process and to ensure consistent implementation. We look forward to more technical materials and implementation guidance to be released by HKEX, supplemented by industry association, to support listed issuers in preparing their climate-related disclosures.

A research project conducted jointly by ACCA and the University of Glasgow on climate-related disclosures in the Chemicals and Construction Materials industry showed that companies in Asia, in particular, will need a lot more support in complying with S2 requirements relative to companies in Europe and North America.

Besides providing sufficient lead time to mandatory implementation, extensive non-authoritative application guidance and education material will be essential in supporting implementation. The HKEX will also need to work with the regulator and standard setter(s) in the region on building capacity for sustainability and sustainability-related financial disclosures for a 'just transition'.

(Internal Reference: ACCA global responses to ED S2 Q14— Effective date)

Question 2. Do you agree to introduce new governance disclosures focusing on climate-related issues as set out in paragraph 1 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We agree with the proposed disclosure requirements. Specifically, we welcome the requirement to disclose related performance metrics in remuneration policies. Ensuring that boards and senior management teams have the appropriate skills and competencies in relation to climate and broader sustainability-related risks and opportunities will be a key challenge.

Further, we believe that steps should be taken to introduce relevant skills and competencies to the board (or body charged with governance of the entity as a whole), not just the body directly responsible for with oversight of climate-related risks and opportunities. Further education guidance can highlight the importance of upskilling the board, and the relevance of continuous learning for existing board members.

(Internal Reference: ACCA global responses to ED S2 Q2 - Governance)

Question 3. Do you agree to require disclosure of climate-related risks as set out in paragraph 2 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

In ACCA global response to S2 ED, we view the references in paragraph 2 of Part D to 'short, medium and long term' are not sufficiently clear. While we understand and agree with the reasoning set out in S2 BC69, in practice entities' existing strategic planning horizons and capital allocation cycles are likely to be too short to allow for meaningful consideration of climate risks and opportunities. It is common for preparers to adopt a reporting horizon of less than three years, which may not be appropriate for climate-related risks. The inclusion of a reference to asset useful lives (currently included in BC69 but not in the ED) in paragraph 9(b) would, in some industries, help point to the necessity of longer planning horizons.

ACCA's series of research in integrated reporting practice has repeatedly found that whilst most entities provide disclosures of a general nature about operating environments in the long-term future, specific discussions about strategy, risks and opportunities tend to be focused on the short term. This is to some extent due to concerns around commercial sensitivity and potential liability around forward-looking statements. However, this also often reflects the relatively short strategic planning horizons that are currently in place. The need for entities to consider extending their strategic planning horizons further into the future should also be emphasised in the application guidance and education material. Further, while we recognise that it is not possible to specifically define short-, medium and long-term time horizons in a way that works for every entity, some consistency in approach is needed to ensure comparability. In this, illustrative examples setting out the factors that entities should consider in defining these time horizons would be helpful.

(Internal Reference: ACCA global responses to ED S2 Q3 - Identification of climate-related risks and opportunities (a))

Question 4. Do you agree that issuers may opt to disclose the actual and potential effects of climate-related opportunities they may have identified in response to climate-related risks disclosed as set out in paragraph 3 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Please refer to our general comments on opting to disclose the climate-related opportunities.

Question 5. Do you agree that an issuer shall consider the applicability of and disclose the metrics when assessing and making disclosure of climate related risks and opportunities as set out in paragraph 4 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We have no comments on this point.

Question 6. Do you agree to require disclosure of how the issuer is responding to climate-related risks and, where an issuer chooses to, any climate related opportunities as set out in paragraph 5 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Yes, we agree with the disclosure requirements. However, we note that the consideration of climate-related risks and opportunities through the value chain is likely to be new to many preparers, auditors and assurance providers, and regulators in some jurisdictions. As noted in our response to IFRS S1, value chain disclosures are likely to be one of the most challenging aspects of the proposals. The application of the requirements, even in a qualitative sense, will also require a significant degree of judgement on the part of the preparer. This is especially the case when determining what information is necessary for users to assess an entity's enterprise value. Extensive educational materials, examples and application guidance are likely to be needed in this area. We note that entities will be required to consider wider sustainability-related value chain risks and opportunities under ED IFRS S1.

The associated materials, examples and guidance should therefore illustrate other sustainability-related risks and opportunities besides climate-related ones.

Further, paragraph 5 & 6 of Part D is quite dense, however, its multiple levels of sub-paragraphs making the requirements difficult to navigate. In ACCA's global response to S2 ED, we proposed The ISSB may consider separating out carbon offset disclosures into a separate paragraph. A number of key terms are used in paragraph 11 in S2, which is the paragraph 5 & 6 of Part D: 'strategy', 'business model', 'adaptation' and 'mitigation'. These should be specifically defined. We note that changes to an entity's strategy do not necessarily entail changes to its business model. With regards to 'adaption' and 'mitigation', we note that the exposure draft of the equivalent European Sustainability Reporting Standard (ESRS E1) draws a distinction between these two terms. We would encourage the ISSB to separately define the two terms, and to work with EFRAG and other jurisdictional regulators to ensure alignment in terms of language.

(Internal Reference: ACCA global responses to ED S2 Question 4 – Concentrations of climate-related risks and opportunities in an entity's value chain (a) & Question 5 – Transition plans and carbon offsets (a))

Question 7. Do you agree to require disclosure of climate-related targets set by the issuer as set out in paragraph 6 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Yes. In ACCA global response to S2 ED, we agree with the reasoning set out in S2 BC119 about not making specific reference to science-based targets. However, there is a need to align definitions with the SBTi where possible, to ensure consistent application by entities who do apply SBTi targets, aid comparability by users and reduce the risk of double counting.

(Internal Reference: ACCA global responses to ED S2 Question 10 – Targets (a))

Question 8. Do you agree that where an issuer has yet to disclose climate-related targets, it should make alternative disclosures as set out in note 2 to paragraph 6 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Yes. We believe that the disclosure requirements proposed are appropriate. Although the disclosure requirements are detailed and prescriptive, we believe that the additional detail will help users to assess the credibility of entities' plans, especially when targets are claimed to be net zero.

(Internal Reference: ACCA global responses to ED S2 Question 5 – Transition plans and carbon offsets (d))

Question 9. Do you agree to require disclosure of progress made in the most recent reporting year in respect of plans disclosed as set out in paragraph 7 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We have no comments on this point.

Question 10. Do you agree to require discussion of the issuer's climate resilience as set out in paragraph 8 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Yes. While we have not conducted investor outreach to support our response to this question, it would seem that paragraph 8 adequately reflects the information that they need in this.

(Internal Reference: ACCA global responses to ED S2 Question 7 – Climate resilience (a))

Question 11. Do you agree to require issuers to apply a climate-related scenario analysis that is commensurate with the issuer's circumstances, and to require disclosure of information on climate-related scenario analysis as set out in paragraph 9 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Yes. We note that decisions around the time horizons used in the analysis paragraph 9(h) of Part D is very judgemental, and likely to vary significantly from one entity to another. Disclosing the time horizons used is certainly beneficial. To ensure that disclosures about scenario analysis are connected to other disclosures about climate-related risks and opportunities, wider sustainability-related risks and opportunities and disclosures in the financial statements, further guidance about how the scenario analysis time horizons should relate to time horizons used for risk reporting, viability reporting and financial reporting would be beneficial.

(Internal Reference: ACCA global responses to ED S2 Question 7 – Climate resilience (c))

Question 12. Do you agree to require disclosure of the current financial effects of climate-related risks, and where applicable, climate-related opportunities as set out in paragraph 10 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Yes. In our global response to S2, we agree with the proposal set out in S2 BC65 to ‘include requirements […] that allow various analyses to form the basis for the disclosures provided, thus accommodating a range of current practices as well as evolving practices.

(Internal Reference: ACCA global responses to ED S2 Question 6 – Current and anticipated effects (a))

Question 13. Do you agree that during the Interim Period, where an issuer has yet to provide quantitative disclosures pursuant to paragraph 10(a) of Part D of the Proposed Appendix 27, it should make the interim disclosures as set out in the paragraph immediately following paragraph 10 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Please refer to our general comments on interim provision.

Further, ACCA research into the climate-related disclosures currently made by companies in the Chemicals and Constructions Materials industries suggest that this is an area of very low to non-existent disclosure. It will therefore be a particularly challenging aspect of reporting for entities. Where the methods for the quantification of financial effects are still new, there is likely to be a significant amount of evolution during the first few years of adoption, which errors and changes in estimates arising frequently. The implications for the restatement of comparatives will need to be carefully considered.

(Internal Reference: ACCA global responses to ED S2 Question 6 – Current and anticipated effects (b))

Question 14. Do you agree to require disclosure of anticipated financial effects of climate-related risks and, where applicable, climate-related opportunities as set out in paragraph 11 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We agree, but note our reservations set out in question 13 above.

(Internal Reference: ACCA global responses to ED S2 Question 6 – Current and anticipated effects (c))

Question 15. Do you agree that during the Interim Period, where an issuer has yet to provide information required in paragraph 11 of Part D of the Proposed Appendix 27, it should make the interim disclosures as set out out in the paragraph immediately following paragraph 11 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Please refer to our general comments on interim provision.

Question 16. Do you agree to require disclosure of the process an issuer uses to identify, assess and manage climate-related risks as set out in paragraph 12(a) of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We have no comments on this point.

Question 17. Do you agree that issuers may opt to disclose the process used to identify, assess and manage climate-related opportunities as set out in paragraph 12(b) of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Please refer to our general comments on opting to disclose the climate-related opportunities.

Question 18. (a) Do you agree with the proposed approach for the disclosure of scope 1 and scope 2 emissions and the related information as set out in paragraphs 13 to 14 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We have no comments on this point.

(b) Do you agree with the proposed approach for the disclosure of scope 3 emissions and the related information as set out in paragraphs 13 to 15 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We have no comments on this point.

Question 19. Do you agree with the proposed approach for the interim disclosures in respect of scope 3 emissions during the Interim Period as set out in the paragraph immediately following paragraph 15 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Please refer to our general comments on interim provision.

Question 20. (a) Do you agree to require disclosure of the amount and percentage of assets or business activities vulnerable to transition risks as set out in paragraph 16 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We have no comments on this point.

(b) Do you agree with the proposed interim disclosures during the Interim Period in respect of the metric regarding transition risks as set out in the paragraph immediately following paragraph 16 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Please refer to our general comments on interim provision.

Question 21. (a) Do you agree to require disclosure of the amount and percentage of assets or business activities vulnerable to physical risks as set out in paragraph 17 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We have no comments on this point.

(b) Do you agree with the proposed interim disclosures during the Interim Period in respect of the metric regarding physical risks as set out in the paragraph immediately following paragraph 17 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Please refer to our general comments on interim provision.

Question 22. (a) Do you agree to require disclosure of the amount and percentage of assets or business activities aligned with climate-related opportunities as set out in paragraph 18 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We have no comments on this point.

(b) Do you agree with the proposed interim disclosures during the Interim Period in respect of metrics regarding climate-related opportunities as set out in the paragraph immediately following paragraph 18 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Please refer to our general comments on interim provision.

Question 23. (a) Do you agree to require disclosure of the amount of capital expenditure, financing or investment deployed towards climate related risks and opportunities as set out in paragraph 19 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We have no comments on this point.

(b) Do you agree with the proposed interim disclosures during the Interim Period in respect of the metric regarding capital deployment as set out in the paragraph immediately following paragraph 19 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Please refer to our general comments on interim provision.

Question 24. Do you agree that where an issuer maintains an internal carbon price, it should disclose the information as set out in paragraph 20 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We have no comments on this point.

Question 25. Do you agree with the proposed approach for the disclosure of how climate-related considerations are factored into remuneration policy as set out in paragraph 21 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

In the long-run, we agree with ISSB's approach on factoring climate-related considerations into executive remuneration and disclosing such information. Mandatory disclosure would have a positive impact on the climate as such a requirement can motivate executives and board of directors to consider climate-related impacts when making decisions.

Question 26. Do you agree with the proposed approach for the industry-based disclosure requirements prescribed under other international ESG reporting frameworks such as the SASB Standards and the GRI Standards as set out in paragraph 22 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

ACCA believes that the SASB and GRI-based disclosures in paragraph 22 of Part D should be positioned as non-authoritative application guidance, with entities encouraged to adopt the metrics and disclosures subject to their own materiality judgement.

(Internal Reference: ACCA global responses to ED S2 Question 11 – Industry-based requirement)

Question 27. Do you have any comments regarding whether the manner in which the proposed consequential amendments are drafted will give rise to any ambiguities or unintended consequences? Please elaborate.

We have no comments on this point.

Question 28. Do you have any comments regarding the topics/matters that we intend to give guidance on? Is there any particular topic/matter you consider further guidance to be helpful? Please elaborate.

Linkage between impacts and dependencies

In ACCA global response to S2, we recommend that understanding the linkage between impacts and dependencies is key if the reporting in line with the ISSB standards is to lead to meaningful strategic and operational change in entities. It is also a core aspect of integrated thinking, which as we highlighted in our response to ED IFRS S1, is necessary for the effective management of sustainability-related risks and opportunities. This area is currently under-emphasised in the ED.

ACCA would recommend that more clarity in the standard, as well as further application guidance will provided by ISSB and/or local regulators, to illustrate the loop back between external impacts and dependencies. As it currently stands, 'impacts and dependencies' are not covered in the text of the standard. To emphasise the loop, more non-authoritative guidance and examples of 'transition risks' (Glossary, and BC27) will be important.

Carbon pricing strategies, including existing and future tax measures aimed at reducing greenhouse-gas emissions, are a key example of this loop between impacts and dependencies. As the OECD sets up an Inclusive Framework for Carbon Pricing, the preparers may wish to include an illustrative example around carbon pricing.

Enterprise value concept

The ED IFRS S1 requires entities to disclose information 'if material to the users of its general purpose financial reporting in their assessment of its enterprise value.' This is a very difficult judgement to make for preparers, and fundamental to compliance with the standards. Enterprise value, as currently defined under ED IFRS S1, is interpreted in different ways, giving rise to risks of significantly divergent practice and damaging comparability. As set out in our comments on ED IFRS S1, we would recommend that the regulator supplements the guidance on the definition of enterprise value to link the concept more explicitly to a consideration of the risks and opportunities over time, and the impacts of the entity's business model and activities on external stakeholders to the extent that these will translate into risks and opportunities for the entity over time.

Costs, benefits and likely effects

The implementation of the proposals, in particular those requirements which extend beyond sound common practice today (including value chain impacts, scenario analysis, Scope 3 emissions, and the industry-specific requirements) are likely to prove particularly challenging to preparers in the first few years of adoption. ACCA's research on climate-related disclosures currently made by companies in the Chemicals and Construction Materials industries suggest that those new disclosure requirements introduced by the ED, which do not currently feature explicitly in the TCFD Recommendations, are met by very few companies today. For these requirements, the benefits are unlikely to outweigh the costs in the short term. For industry-specific requirements, as we have emphasised, we do not believe that these should form an integral part of the standard.

(Internal Reference: ACCA global responses to ED S2 Question 17 – other comments & 12 - Costs, benefits and likely effects)

Question 29. Do you have any feedback on the new developments announced by the ISSB subsequent to the publication of this paper that may impact on the proposals in this paper? Please share your views with us.

We have no comments on this point.