

Putting ISSB in context

- 1. The Hong Kong context: How will ISSB apply in Hong Kong?**
- 2. Materiality context. NB the idea that:**
 - 1. Topics material to Enterprise Value are include per ISSB standards in the annual report.**
 - 2. Other Topics which are material to sustainability are in a separate 'Sustainability Report'.**
- 3. The Net Zero context: How should ISSB's Climate Standard require companies to report their capacity to decarbonize?**

Why is IFRS Foundation setting up the International Sustainability Standards Board?

Better Environmental & Social (E&S) standards needed:

- E&S issues increasingly impact **Enterprise Value**, and hence share price.
- Climate change
- Problems with current sustainability standards:
 - Long sustainability reports aiming to satisfy all stakeholders are not a good guide to Enterprise Value.
 - Their 'alphabet soup' multiplicity.

Why is IFRS Foundation the right body to take action?

- Its Core mission: reliable reporting Enterprise Value.
- Standards for E&S issues which impact Enterprise Value should dovetail with International Accounting Standards.
- Its strong, global governance with a 'public-interest' Monitoring Board including IOSCO.

Simplification: ISSB will build on TCFD, SASB & <IR>

10 Mar 2022 advice from the Value Reporting Foundation (into which SASB and <IR> are merging):



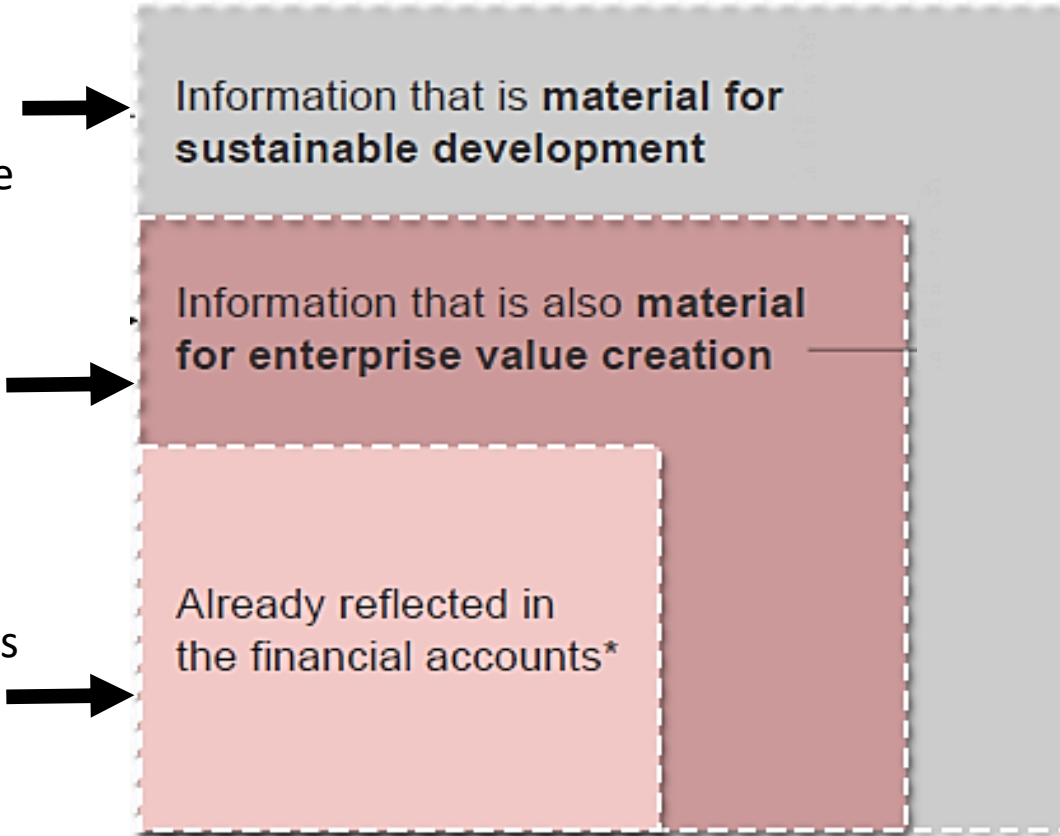
For more see: www.integratedreporting.org/wp-content/uploads/2022/03/IRFandIFRSF-020722.pdf
and: www.sasb.org/wp-content/uploads/2022/03/SASBStandardsandIFRSF-030222.pdf

ISSB will cover sustainability issues which are material to Enterprise Value but not covered by IASB

IFRS (for ISSB) Nov 2021 proto-type standard:

The three lenses for corporate disclosure:

1. Disclosures to stakeholders about sustainability matters that have impacts on people, environment and economy. — Aim to meet the needs of multiple stakeholders. **Per IFRS: ISSB will not cover. They should be in a separate Sustainability Report.**
2. Disclosures to investors, lenders & creditors about sustainability matters that affect their assessment of the reporter's Enterprise Value. **Per IFRS: ISSB will cover these.**
3. Disclosures to investors, lenders and other creditors about monetary amounts included in the financial statements. **IASB covers these.**



NB: Text abbreviated from Appendix C on page 25:
www.ifrs.org/content/dam/ifrs/groups/trwg/trwg-general-requirements-prototype.pdf

Diagram from GRI/SASB/<IR> 2020 work on harmonisation
www.sasb.org/wp-content/uploads/2020/08/Invitation-to-Comment-SASB-CF-RoP.pdf

Complexity caused by 'double' and 'dynamic' materiality

Materiality for Enterprise value reporting:

Materiality: An external issue with has a significant impact on a company's Enterprise Value.

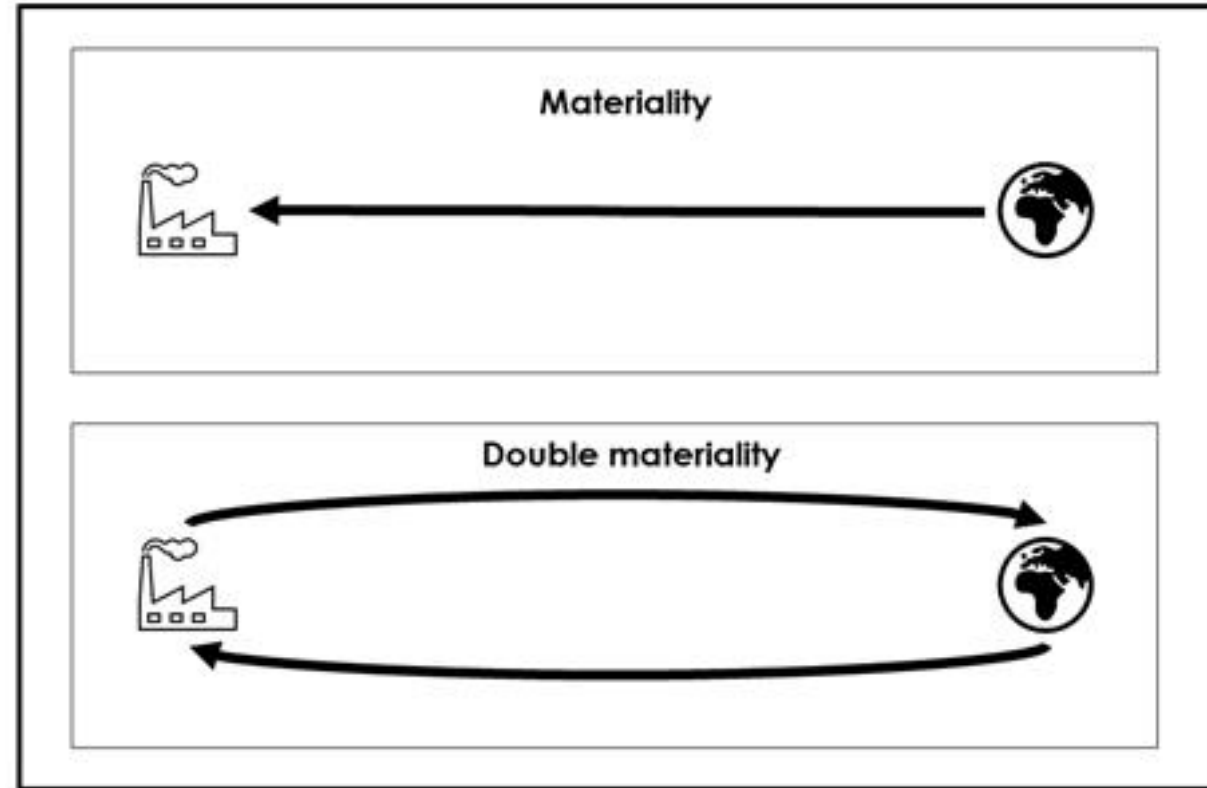
Double Materiality: A company having a material impact on the environment or people impact which causes a material impact on the company's Enterprise Value.

NB: Could be tangible impacts.

Could be reputational impacts.

Material for sustainability reporting:

The items above plus: issues where the company has a significant impact stakeholders without consequences which materially affect its own Enterprise Value.



Complexity caused by 'double' and 'dynamic' materiality



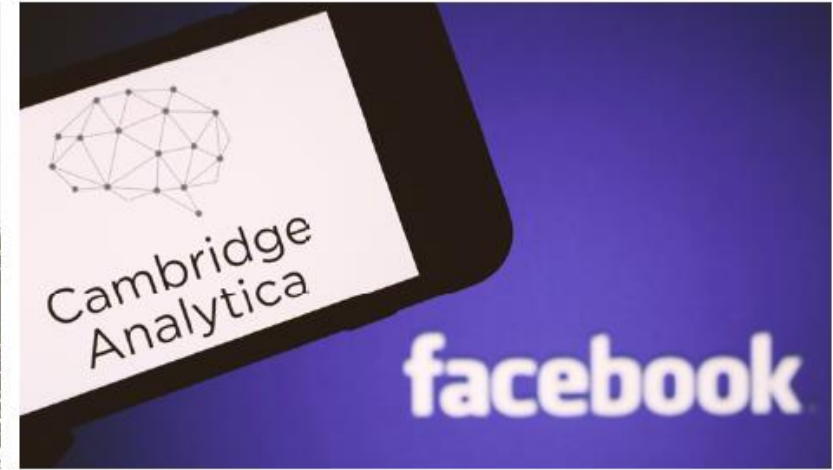
2010

The Deepwater Horizon oil spill, for which BP recorded a [US\\$53.8 billion pre-tax charge](#).



2015

Volkswagen is exposed as having rigged 11 million diesel vehicles to pass emissions tests, resulting in costs including [€27.4 billion in penalties and fines](#).



2018

Facebook sees billions wiped from its market value after [Cambridge Analytica was able to harvest personal data](#) from 87 million users without their consent.

Examples from a PRI presentation.

Double materiality:

In each case the impact on environment and society of these companies' actions caused them to lose material Enterprise Value.



Dynamic materiality:

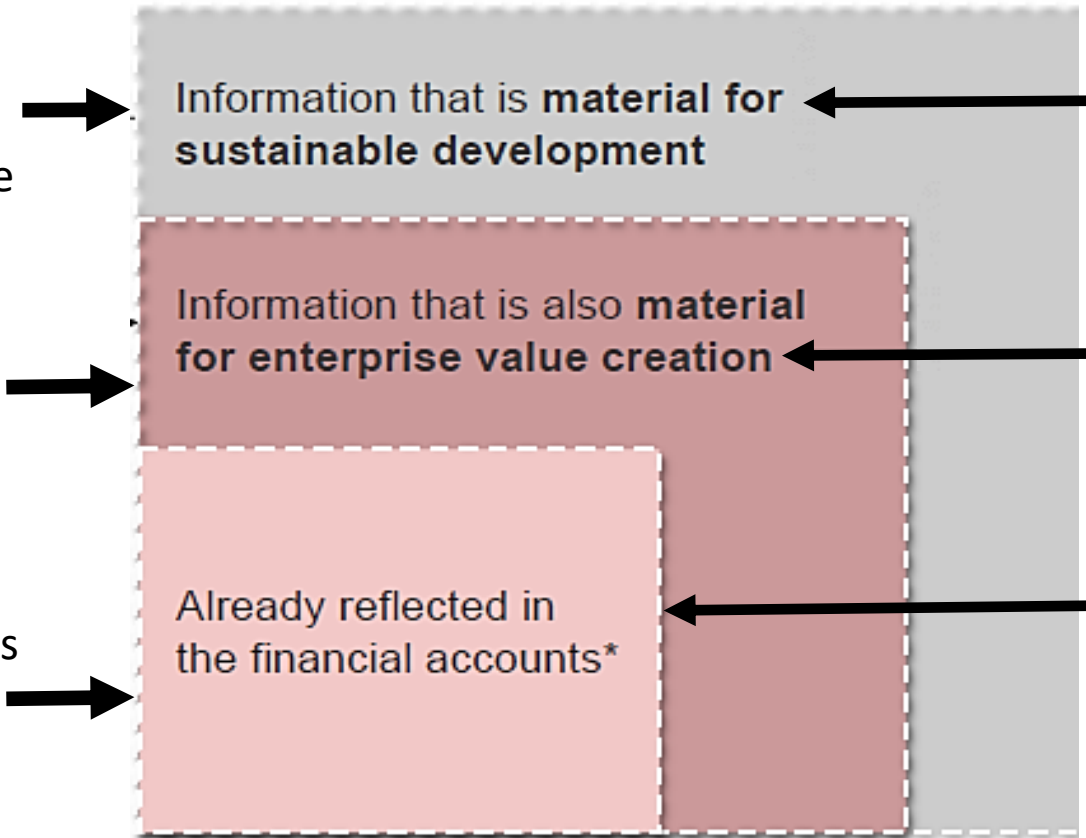
Issues which were previously of medium to low materiality became highly material and hence relevant to Enterprise Value.

ISSB will cover sustainability issues which are material to Enterprise Value but not covered by IASB

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Dynamic materiality:
sustainability topics can move – either gradually or very quickly

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Companies reporting their capacity to reach Net-Zero carbon emissions

Starting point:

- ISSB Climate standard will be based on TCFD.
- Per TCFD companies report how they will fare under future scenarios 10+ years hence.
- Companies must have a pathway to net-zero carbon emissions.

So ISSB's standard must require assurable, comparable reporting of companies' ability to decarbonise.

Proposed answer: Companies report their carbon footprint divided into:

1. How much can be decarbonise economically given future zero carbon fuel and today's technology.
2. How much more can decarbonise economically at, say, a US\$150/tCO₂ shadow carbon price.
3. The remainder where, absent new technology, offsets must be purchased or the business closed.

Merits of this approach:

- **Easier for companies** to evidence base their reports showing due diligence. Thus making themselves less vulnerable to being sued for misleading statements.
- **Easier for auditors** to assure the reports.
- **Easier for investors** to compare the reports of different companies. Hence better informed investment decisions.

Precedent: Extractive industries reporting their mineral assets split between:

- Proven Reserves.
- Under Development Reserves.

Proposed at COP26 by CPP Investments:
Richard Manley - Managing Director,
Head of Sustainable Investing

How will ISSB standards impact Hong Kong companies?

TODAY



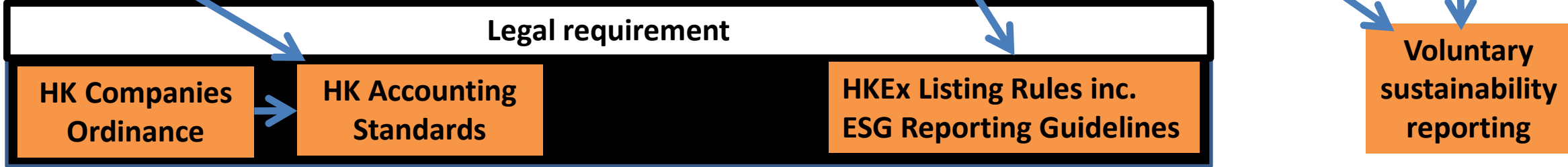
Merging to form Value Reporting Foundation
and will merge with ISSB

INTEGRATED REPORTING <IR>



Accounting for a Sustainable Future

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES



2024/5

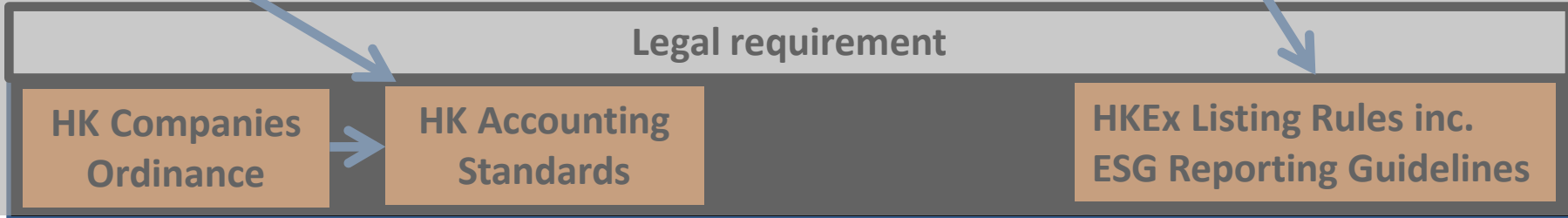
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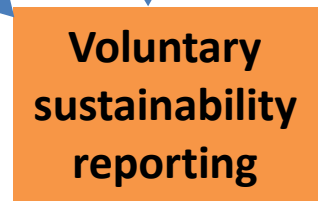


International Sustainability Standards Board

Climate & General standards

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

ISSB's SASB & <IR> guidance?



How will ISSB standards impact Hong Kong companies?

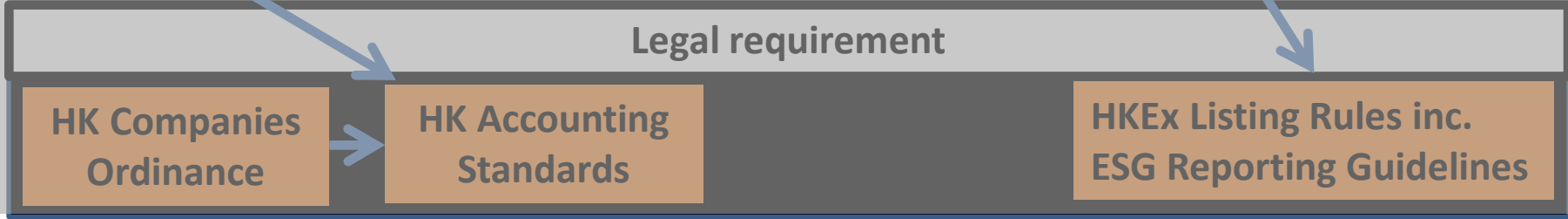
TODAY



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Voluntary sustainability reporting

2024/5



International Sustainability Standards Board

EU Sustainability Reporting Standards mandated by its CSRD
Corporate Sustainability Reporting Directive

Climate & General standards

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

ISSB's SASB & <IR>guidance?



Voluntary sustainability reporting

How will ISSB standards impact Hong Kong companies?

1. How should companies report Enterprise Value material topics for which there is no ISSB standard?

- IFRS has said: *'ISSB will start with Climate and move rapidly to other topics which are material to Enterprise Value'*.
- ISSB will include the Value Reporting Foundation with its SASB Standards and <IR> Framework.

2. Companies using ISSB standards for topics in their sustainability report.

Note:

- Most sustainability topics are material to some types of business. So ISSB should eventually cover a wide range of sustainability topics. But this will take quite a few years.
- Companies are likely to do this to avoid amend their reporting basis when a topic moves in and out of being material to Enterprise Value. (Dynamic materiality)

3. Building on the user GRI knowledge base.

- GRI was followed by 67% of the 5,200 companies surveyed by KPMG in 2020. (Link below)
Many people currently producing and assuring reports know GRI. ISSB introduction will be faster and more effective if it builds on this knowledge base.
- The EU is developing reporting standards which build on ISSB's baseline to cover a wide range of sustainable development issues. It is 'co-creating' this with GRI.

4. How to provide comparable, assurable information on a company's capacity to reach Net-Zero carbon emissions?

- See slide 8 for proposal.