ADOPTION OF THE ISSB STANDARDS IN ASIA

ASIFMA Asset Management Group Position Paper

July 2024

ASIFMA is an independent, regional trade association with over 160 member firms comprising a diverse range of leading financial institutions from both the buy and sell side including banks, asset managers, accounting and 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 and competitive 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 U.S. and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

If you have any comments or questions, please reach out to Yvette Kwan, Executive Adviser, Asset Management Group (ykwan@asifma.org).

ASIFMA would like to extend its gratitude to all the individuals and member firms who contributed to the preparation of this Paper

ASIFMA Asset Management Group's position on the adoption of the ISSB Standards in Asia

ASIFMA Asset Management Group ("AAMG") represents some of the largest global asset managers operating in Asia. We have supported the formation of the International Sustainability Standards Board ("ISSB") since the International Financial Reporting Standards ("IFRS") Foundation's consultation on the topic in December 2020.

We welcome and support the efforts of regulators, listing exchanges and standard setters across Asia in implementing the IFRS Sustainability Disclosure Standards ("ISSB Standards" or "IFRS S1 and IFRS S2") in their respective jurisdictions. As jurisdictions adopt or begin to consider adoption of the ISSB Standards within the region, we would like to share our position on the nuances that adoption entails and hope that it will be of use for stakeholders in understanding the views and expectations of global investors.

TOPIC	COMMENTS
(A) OVERALL	
1. Global baseline	The ISSB Standards are a **global baseline** and will help improve the consistency, comparability and usefulness of sustainability disclosures on a global basis. From an investment perspective, there is a strong rationale for regulators globally to require companies to adopt these reporting standards as a baseline. We believe that accurate, timely disclosures by companies are essential for market participants to effectively assess sustainability risks and opportunities to inform financial decision making, which is ultimately to the benefit of clients and beneficiaries. Disclosure standards, where all companies publish the same type of information according to common methodologies, are essential for investors. Globally standardised and comparable corporate data is useful for investors who make investment decisions across markets. Those companies which provide more disclosures may potentially have more access to markets for their products and services, equity and debt financing, and more likely be targets for sustainable investing. Notwithstanding this, we note that some Asian companies will actually come into scope of the EU's Corporate Sustainability Reporting Directive ("CSRD"), the minimum requirements of the European Sustainability Reporting Standards ("ESRS") which may compel them to provide more disclosures.
2. Adoption of IFRS S1 and IFRS S2	It is important to adopt both IFRS S1 and IFRS S2, preferably simultaneously, given that IFRS S1 (General Requirements for

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	Disclosure of Sustainability-related Financial Information) provides the foundation on which IFRS S2 (Climate-related Disclosures) and future sustainability standards will be built. For example, underlying concepts, such as materiality, are found in IFRS S1. Adoption in 2025 (for IFRS S2) aligns with the implementation timeline in key Asian markets, including Hong Kong and Singapore.
3. Transition relief - Phased adoption by: **a. Listed companies** **b. Unlisted companies**	There is a risk of a '**country or market discount**' until all relevant requirements of the global baseline have been introduced within a jurisdiction. However, we also recognise that investee companies are at different stages in developing their reporting, and have different requirements, motivations and aspirations for it. As such, we believe a phased approach to adopting these standards can help improve the quality and usefulness of disclosures and reduce superfluous reporting. We are therefore supportive of efforts to introduce a more consistent approach, provided there is also an emphasis on ensuring that disclosures do not become excessively burdensome. In particular, we believe disclosures should always maintain a focus on what is most material for each individual company. **Listed companies** Phased adoption does not allow for full comparability across a market, but we acknowledge that the largest, most sophisticated companies (determined by size, index inclusion, or main versus growth board) may have more resources and capabilities to comply first. Different industries are exposed to different material climate-related risks and opportunities. We would suggest that to the extent there is phased adoption by size (as determined ideally by a combination of market capitalisation, revenue and headcount) it should be overlaid with a prioritisation for those industries where climate-related risks and opportunities are most material. **Unlisted companies** Adoption of reporting by large unlisted companies prevents public-private market arbitrage and can better support a jurisdiction's broader sustainability initiatives e.g. economy-wide net-zero targets. We would suggest that the timeline for phased adoption by unlisted companies be determined after regulators have conducted reviews before the end of transition reliefs for listed companies, and factor in the implementation experiences of listed companies.

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4. Other reliefs	We support the ISSB Standards' built-in reliefs. The ISSB Standards are the **global baseline** of sustainability disclosures to meet the needs of investors. There is flexibility for an individual jurisdiction to add building blocks to meet the needs of local stakeholders (for example, GRI Standards and their metrics) but these should be **above and not below** the requirements of the global baseline. We do not support additional reliefs beyond the built-in reliefs available within the ISSB Standards. They would otherwise lead to regulatory fragmentation, undermining the purpose of a globally consistent baseline. For example, only requiring disclosure of certain categories of Scope 3 emissions across all in-scope companies. The materiality of different categories of Scope 3 emissions can vary by sector, and thus **relevance** and **materiality** should be the determinants of which categories a company should focus on disclosing (refer to CDP Technical Note[1] for their relevant categories by sector).
5. Annual report alignment	Our preference is for companies to include their sustainability disclosures as part of the annual report. Given the financial implications associated with climate change and other sustainability issues, it will be important that sustainability disclosures can easily be linked to balance sheet, cashflow and/or profit and loss statement, per the concept of **connected information** under the ISSB Standards. We are concerned that separating sustainability disclosures from the general-purpose financial statements may dilute materiality and risk non-performance. Ensuring that sustainability disclosures are embedded within the general-purpose financial reporting will also help ensure that sustainability disclosures are kept up to date, in line with a company's positioning, strategy and finances. We recognise that currently many companies may opt to issue stand-alone climate or sustainability reports. However, we believe this may make it difficult to locate and access investor-focused climate and/or sustainability information. As an interim measure, we support companies reporting this information separately but at the same time as the annual report. Applying existing statutory timelines for general-purpose financial statements to sustainability-related reporting is important for investors, so that sustainability-related considerations can be incorporated into proxy voting decisions.

[1] CDP Technical Note: Relevance of Scope 3 Categories by Sector, Version 3.0, 2024

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6. General view of decision-useful disclosures	We encourage disclosure of progress against targets, implementation plans, explanations of delays, and qualitative descriptions where quantitative disclosures are not available. The ISSB Standards provides transition relief from providing comparative information in the first year in which an issuer applies the standards. Investors would still find it useful for regulators to encourage the provision of prior year data to make disclosures comparable and assist with trend analysis.
7. Reporting boundaries	The reporting boundaries of sustainability reporting should align with the financial statements. Any non-alignment runs the risk that companies cherry pick entities and operations to disclose on. For example, we do not support disclosures for principal business segments only. As conglomerates are prevalent in Asia, it may be difficult to identify principal business segments.
8. Group exemptions	We encourage the provision of exemption from mandatory sustainability reporting if a foreign parent company already prepares ISSB-equivalent/-aligned sustainability reports which are readily accessible, to reduce unnecessary compliance burden.
9. Financial institution (“FI”)-specific disclosures (asset manager, banks, insurers)	We note that the data, controls and methodologies for computing greenhouse gas (“GHG”) emissions associated with some asset classes are still emerging and flexibility is needed in terms of regulatory expectations of disclosures. Scope 3 GHG emissions Category 15 Investments under the GHG Protocol represent 99.84% of total emissions for the FI sector[2]. Therefore, disclosure of this category is reliant on data from a FI’s investment / lending portfolio. The requirements imposed on investee companies for such disclosure items therefore needs to precede the requirements imposed on FIs. We support the phasing of such requirements for FIs, using a “comply or explain” approach that still encourages the disclosure of Scope 3 GHG emissions, including financed emissions.

[2] Ibid

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CLIMATE-RELATED	
10. Scope 1 & 2 GHG emissions	We advocate for mandatory disclosure of Scope 1 and 2 GHG emissions and for the scope to be clearly disclosed. This allows investors to understand a company's climate impact and how it is being managed. Disclosure for all consolidated entities is strongly encouraged.
11. Scope 3 GHG emissions ("Scope 3")	**Importance of Scope 3 disclosures** Scope 3 disclosures help us determine a broader understanding of companies' long term growth potential, including: • The **relative maturity** of a company's approach to climate and can mean it has developed the capacity to look beyond its direct footprint to its broader value chain from a climate perspective. This can be an indicator that the company is more advanced in identifying, and possibly managing, potential climate-related risks and opportunities that could affect stability and growth. • Insights into the **carbon intensity** of value chains themselves, and therefore the potential for those value chains to experience change and disruption in future as carbon as an externality is increasingly priced in by markets. This can in turn provide a more holistic picture of companies themselves. It can help us identify competitive edge in materials, sourcing, markets and customers. • Help to determine **how aligned** a company is to an appropriate net zero emissions pathway. If a company has included material Scope 3 in its strategy, and is disclosing appropriately, this helps investors gain confidence that the strategy is robust and broad enough in its scope. **Implementation of mandatory Scope 3 disclosures** We appreciate that companies are at different stages on their disclosure journey, but we believe that Scope 3 disclosures can be an indicator of potential investment risks or opportunities and are therefore useful to the research process. We believe companies should be free to determine the most material categories to disclose, per the ISSB Standards. This should be explained clearly in a way that allows shareholders to challenge the company if needed. Given the challenges associated with data coverage, poor estimation models and differing interpretations of materiality, we encourage the largest companies to help with capacity building along their value chains to improve their own Scope 3 disclosures. Regulators may find it useful to support such endeavours through policy initiatives.

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12. Sectoral guidance	Many useful climate / sustainability metrics are specific to individual sectors. ISSB requires sector-specific disclosures although guidance from SASB Standards remains voluntary. The Transition Plan Taskforce has also published Sectoral Guidance that includes metrics and targets by sector, as well as deep-dive guidance for seven sectors. We would encourage companies to refer to guidance provided by international bodies as relevant, as consistent and comparable sector-specific disclosure is important to investors. We find Scope 3 reporting useful especially for key sectors where Scope 3 emissions are material. For example, Scope 3 account for nearly 90% of total GHG emissions in the oil & gas sector[3]. Additionally, different categories of Scope 3 are relevant and material for different sectors (refer to CDP Technical Note[4] more generally and Topic 9 of this Paper for commentary on FI-specific disclosures). Some of our members already expect investee companies to provide material Scope 3 disclosures by the 2025 reporting year at the latest. For very large or heavy emitting companies, they may already have expected these disclosures for the 2023 reporting year. Investors' expectations will evolve as data availability and quality improves.
13. Scenario analysis	We see value in the disclosure of anticipated effects and scenario analysis to help understand related risks and opportunities. We want companies to have internal processes and thinking on the topics. Analysis can be qualitative for those companies that are just starting out. Full transparency, including of the scenarios utilised and other assumptions made, should be mandatory so that investors can understand the source of estimates. Physical risk assessments are critical for many sectors.
14. Evolving methodologies	We expect industry standards to evolve and standardise over time, and we see a role for regulators to ensure full transparency in the disclosure of methodologies in the meantime. For example, some of our investors would like to see consistent reporting of emission intensity. This is especially important for emerging markets companies as they commonly set intensity-based targets. Disclosure is not always comparable or informative, since companies may use different denominators (e.g. for real estate, the use of gross floor area versus conditioned floor area; or the use of revenue as a denominator which could lead to fluctuation over years

[3] Ibid
[4] Ibid

TOPIC	COMMENTS
	due to, say, commodity prices). Investors would find it useful if there are industry-specific guidance / standards on how GHG emission intensity should be calculated and reported, including the appropriate unit of production as denominator.

(B) NON-CLIMATE-RELATED

TOPIC	COMMENTS
15. Governance – Remuneration	We note that remuneration linked to the management of sustainability risk and opportunities is incorporated into the ISSB Standards. Our members are keen to understand the linkage between remuneration and broader performance metrics and targets, and would expect that sustainability risk and opportunities are incorporated into any balanced scorecard assessment, where appropriate to the business. Where companies choose to include sustainability criteria in remuneration, they should be as rigorous as other financial or operational targets. When companies integrate sustainability-related criteria in their incentive plans, it is helpful if they clearly explain the connection between what is being measured and rewarded and the company's strategic priorities. Not doing so may leave companies vulnerable to reputational risks and/or undermine their sustainability efforts. As companies plan for low-carbon transition scenarios, we anticipate more will respond to investor interest that they include relevant GHG emissions reduction targets or energy transition-related metrics in their incentive plans. Appropriate use of financial and other metrics aligned with long-term risk management – as well as investment in renewable energy and product innovation, to name a couple of examples – may be increasingly important to some companies, given the materiality of these issues to their business models. As investors, we find it helpful when companies disclose these.

(E) DATA AVAILABILITY / LIABILITY FRAMEWORK

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16. Comply-or-explain	We encourage a 'comply-or-explain' regime, in preference to a voluntary regime, to encourage more rather than less disclosures when relevant climate data, science, standards, controls, and reporting methodologies are still evolving and may diverge among different sectors. Where jurisdictions may choose to adopt a voluntary regime, wording should be strong enough to encourage disclosures, where it is practicable. We are mindful that adopting a regime with mandatory prescriptive requirements for premature and onerous disclosures could have the

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	unintended consequence of discouraging early adopters or divert companies' efforts from other disclosure items. When relevant standards and methodologies are not developed enough for data to be properly collected and rigorously reviewed, it is uncertain how the disclosure of such data would help long-term investors. We believe that under a "comply or explain" regime, issuers' determinations of whether to comply or explain will inevitably change as standards and methodologies mature and become more widely adopted, as well as when reporting infrastructure becomes more well-developed, leading to increasingly more comprehensive climate disclosures over time. We support the adoption of a liability framework that provides meaningful protection from legal liability for disclosures provided in good faith as standards continue to evolve.
17. Lack of data Concerns that more comprehensive disclosures could impact negatively on a company	We are interested in **direction of travel** i.e. improvement in performance, versus perfect disclosures from the outset. Where no data is provided, ESG data providers will likely incorporate 'nil' response rather than an estimate. It is preferable to provide data even if it is not 'perfect'. A company which reports more comprehensively may disclose higher emissions which potentially penalises them against a company that does not. Transparency is therefore important so investors can understand underlying assumptions, challenges, and estimations. Disclosure of variations should include attribution to changes in methodology and estimations.

(F) ASSURANCE

	Independent assurance can help to improve the quality and accuracy of companies' reporting, although we need to be mindful of "qualified" opinions on certain metrics which may have less value and others where only a "qualified" opinion may be received. We support further international standardisation as offered by the proposed International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements. We would encourage regulators to **delay mandating assurance requirements** until after the finalisation of ISSA 5000. We refer to the International Federation of Accountants' position[5] that in order for sustainability disclosures to be trusted they must be

[5] International Federation of Accountants, IFAC's Vision for High-Quality Sustainability Assurance, 2021

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	subject to high-quality, independent, external assurance. We believe that over time and subject to appropriate feasibility studies, the current expectation in certain jurisdictions of obtaining limited assurance should transition to reasonable assurance to further enhance trust and confidence on sustainability information. We understand the merits of financial auditors also providing sustainability reporting assurance. However, we are concerned that this could lead to a further concentration of the audit market. As such, our preference is a sustainability-assurance regime that is profession-agnostic and where companies have the option to choose a provider not limited to their financial auditor.

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Contact us at
ykwan@asifma.com

www.asifma.com