China Securities Regulatory Commission (CSRC) Comments on ISSB Exposure Drafts of IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures)

The International Sustainability Standards Board (ISSB) aims to deliver a globally consistent and comparable baseline of sustainability disclosures. We hold the view that high-quality international sustainability-related reporting standards need to embrace inclusiveness, neutrality, openness and diversity, and thus better support complete, consistent, comparable and verifiable disclosures. The CSRC suggests that the ISSB should further its outreach to emerging markets to increase the inclusiveness and openness of its standards, by fully taking into account differences and potential lags in terms of development stage, investor structure, financial infrastructure and regulatory regimes of the emerging market. We believe it is necessary to provide the proportionality, scalability and phasing in the requirement and implementation of the ISSB standards by accommodating differentiated arrangements for companies in different markets, within different industries and of different sizes, which will facilitate ISSB's standards to become a truly global baseline.

I. Our main concerns

1. More inclusiveness is needed. It seems that the Exposure Drafts fail to adequately incorporate differences between developed and emerging markets, large companies and SMEs. For instance, S2 stipulates that the entities should be required to use the GHG Protocol to define and measure greenhouse gas emissions. However, the international standard ISO14064 is also widely referenced by various companies in many jurisdictions. In S2 Appendix B industry-based disclosure requirements, metrics could be more diversified as some of them could hardly be applied to emerging markets.

2. Some of the metrics are hard to implement. For example, information from unconsolidated entities such as associates and joint ventures are hard to collect and verify, as preparers usually only have limited control thereof. Information in relation to the value chain is also difficult to collect, verify, assess and report, and the strong subjectivity and uncertainty involved in this process will possibly dilute the accuracy and completeness of disclosures. Besides, calculation of scope 3 greenhouse gas emissions involves a large amount of external data and estimation, which brings the problem of data availability and accuracy. The linkage between climate considerations and the remuneration of executive management can also hardly be identified, especially for industries and posts that are less relevant to climate, because factors deciding the remuneration vary greatly across different industries and positions.

3. The reliability concerns. The large amount of predictive and forward-looking disclosures envisaged by the exposure drafts pose potential challenges to the reliability principle of the traditional financial accounting standard. Besides, the exposure drafts stipulate disclosures of comparative information of the previous period, and set requirements for the necessary revision of such information. However, revisions might be triggered by various reasons: such as errors, changes in estimation methodologies or scope of statistics, among others; non-discriminated retrospective restatement in a repetitive manner might, in reverse, harm the overall comparability of the information.

4. The consistency within the text needs to be enhanced. 1) While the exposure drafts require disclosure of information that are "material" to assess an entity's enterprise value, the concept "significant" also appears frequently, without clarification on its relevance and difference to "material". 2) Some metrics, including activity metrics, in the industry-based disclosure requirements are irrelevant to climate change risks and opportunities. For example, metrics such as suppliers' animal welfare, labor, and human rights practices contained in "social supply chain risks" of the apparel, accessories & footwear industry are actually on the social-dimension rather than on climate.

5. Specific implementation guidance is needed. Quantifying the impact of climate change on an entity in various aspects is a challenging job, and to make judgement on the climate-related data as to its quality and its stake in the company's decision-making are also hard work. Besides, due to the lack of a universal measurement method, scenario analysis, stress tests and other examinations of a company's climate resilience are also difficult in practice. All these await specific guidance for implementation.

II. General Suggestions on the Exposure Drafts

1. Enhancing inclusiveness for emerging markets. We suggest to set different implementation timetables and arrangements for developed and emerging markets, and for large enterprises and SMEs. In the meantime, it is also necessary to recognize the standards that are already universally used in relevant jurisdictions, such as ISO14064 in the measurement of greenhouse gas emissions.

2. Improving the neutrality of the standards. It is recommended that the launch of industry-based disclosure requirements should be postponed given the considerable debate over its content. Also, we propose that the requirements shall not directly invoke particular standards of certain jurisdictions, especially those industry standards that are not authoritative or neutral (such as Better Cotton Initiative, among others).

3. Promoting the appropriateness of metrics. We suggest that 1) associates and joint ventures should be removed from the scope of disclosure; 2) disclosure on the impact related to the value chain should be made voluntarily; 3) disclosure on scope 3 emissions should be left out for the time being; 4) disclosure on the internal carbon prices and the percentage of executive management remuneration that is linked to climate related considerations should be made voluntarily.

4. Enhancing the comparability of disclosures. It is suggested that subjective factors and quantitative requirements should be reduced for predictive and forward-looking disclosures, and best practices should be provided as a guidance for entities, so that the reliability of disclosures could be enhanced. In addition, there needs to be further clarifications on the identification of physical risks and transition risks, the calculation of relevant indicators thereof, the criteria for "materiality", and the definitions of "significant sustainability-related risks and opportunities" as well as their "effects over the short, medium and long term", so as to enhance the reporting comparability.

5. Improving the practicality of implementation. First, with regard to entities' quantitative disclosure of significant sustainability-related risks and opportunities, as well as key methods such as scenario analysis and stress tests, specific implementation guidance and supporting materials are needed, such as available sources of public data and models. Second, we suggest that the standards should allow jurisdictions to add exemption clauses in actual implementation, based on their own situations in respect of the specific industry or enterprise, such as around confidentiality issues.

6. About the form of disclosure and the timetable for roll-out. We suggest that 1) the sustainability report should be delivered independent from the financial report; 2) companies should be allowed to choose their own metrics in accordance with their industry features and be allowed for a transition period (3-5 years) as well.

Please refer to the appendices for the detailed feedback on each piece of the drafts.

Appendix: 1. CSRC's Detailed Comments on the Exposure Draft of IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information)

2. CSRC's Detailed Comments on the Exposure Draft of IFRS S2 (Climate-related Disclosures)

3. CSRC's Detailed Comments on the Exposure Draft of IFRS S2 (Climate-related Disclosures), Appendix B Industry-based disclosure requirements