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27 October 2024

Bloomberg response to Hong Kong exposure drafts for sustainability disclosure standards

Key Discussion Points for International ISSB Adoption

What is the current ISSB adoption landscape?

A growing number of jurisdictions have stated their commitment to adopting the ISSB global baseline within their regulatory reporting frameworks, with roughly 25 jurisdictions involved in this process as of October 2024.

The increasing adoption of the ISSB standards is a positive development, which enhances the role of reliable, comparable, and consistent sustainability and climate-related disclosures in supporting the transition to a net-zero economy. Widespread adoption of ISSB standards is crucial for delivering consistent and comparable sustainability-related financial information globally and addressing transparency and comparability issues identified by market participants and regulatory bodies. The IFRS Foundation has issued its Inaugural Jurisdictional Guide[1] to support this process.

In addition, the extraterritorial nature of reporting rules, especially the EU's Corporate Sustainability Reporting Directive (CSRD)[2], highlights the need for a common framework to minimize costs for market participants affected by different regimes. Alignment with ISSB standards can further help those using the Interoperability Guidance[3] developed with the European Financial Reporting Advisory Group (EFRAG) to meet the CSRD requirements.

However, there are notable differences in how jurisdictions are considering adopting the ISSB standards. A jurisdiction's commitment to adopting these standards does not mean they will adopt them in full, and national bodies may modify the ISSB standards to better fit their domestic needs and frameworks. As a result, there may be significant variations in terms of the scope of

[1] IFRS Foundation, Preview of the Inaugural Jurisdictional Guide for the adoption or other use of ISSB Standards.
[2] DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.
[3] ESRS-ISSB Standards Interoperability Guidance.

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application, whether reporting requirements are voluntary or mandatory, implementation dates, assurance requirements, disclosure formats, and whether jurisdictions adopt both IFRS S1 and IFRS S2, or only IFRS S2.

Different jurisdictions implementing their versions of the ISSB baseline with modifications can lead to market fragmentation, reduced transparency, and increased transaction costs for firms operating globally. Modifications may limit access to consistent and comparable sustainability-related financial information. Conversely, limiting modifications promotes consistency and coherence across regulatory requirements, meeting investors' needs for consistent information and reducing reporting burdens for companies with multiple reporting obligations.

Alignment between the IFRS S1 and S2 and domestic reporting frameworks

Jurisdictions should strive to incorporate the ISSB baseline within their regulatory frameworks to the greatest extent possible to prevent regulatory fragmentation and maintain comparability for global market participants. In order to enable clarity for investors and stakeholders, and to build an interoperable reporting system, some key principles should be applied.

What key elements should be considered?

1. Climate-related Risks and Opportunities

For greenhouse gas emissions,

- Companies should report gross emissions (excluding offsets) in addition to net emissions, with a breakdown by type of greenhouse gas to avoid misleading disclosures, especially for Scope 3 emissions.
- Bloomberg welcomes the breakdown of company emissions across Scope 1, Scope 2, and Scope 3 enshrined in the ISSB standards.
- Company emissions should be broken down across Scope 1, Scope 2 and Scope 3. In addition, we believe it is important for companies to disclose, wherever applicable, a breakdown of its emissions across types of greenhouse gas. An omission of this breakdown could result in misleading disclosures, as two companies with the same emissions could report different aggregate amounts due to differences in assumptions about the conversion of their GHGs in terms of CO2 equivalent. This is particularly important for Scope 3 disclosures.
- It would furthermore be helpful if companies report the share of their emissions that is covered under a regulatory emissions compliance scheme. Emissions covered under a compliance scheme create a direct cost to the company and are therefore material from a reporting standpoint.

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- Ideally, companies would also report on their energy consumption. This information is relevant in itself from a climate-alignment point of view, and can furthermore be used to validate company-reported Scope 2 emissions.

For climate-related targets,

- Bloomberg welcomes the reporting of Target Year, Base Year, Target Scope (part of the entity to which the target applies), Target Ambition (metric used to set the target) as outlined by the ISSB standard for each target as these elements are critical to capturing consistent reporting of climate targets.
- It would furthermore be helpful if companies, in addition to reporting whether scope 1, scope 2 or scope 3 greenhouse gas emissions are covered by the target, also reported the percent of total emissions of the selected scope(s) that are covered by the respective target. Similarly, when disclosing whether scope 1, scope 2 or scope 3 greenhouse gas emissions are covered by the target it would be beneficial if the company makes and explicit disclosure as to the scope 2 reporting methodology associated with the target (e.g., location or market based).
- Ideally, companies would also report the status of each of their targets on an annual basis. This would reduce confusion for stakeholders when evaluating which targets are active in any given reporting period.

For physical risks, it is key to have data on:

- Company asset locations, as depending on where an asset is located, it may be more or less vulnerable to climate-related risks, such as floods and wildfires. Companies should be encouraged to report asset locations and metrics pertaining to the economic value of those assets (e.g. asset value, or the asset's share of production or revenue) and their resilience to climate-related risks to be able to serve the financial impact from asset impairment.
- Opportunities for adaptation to climate change, and specifically any actions the company is taking to increase its resilience to physical risks.

2. Standardized Metrics and Categorical Answers

Bloomberg recommends using standardized metrics and quantitative information for better comparability. In addition, for open-ended disclosure requirements, predetermined categorical answers should be provided to aid comparability.

- For disclosure requirements that are open-ended, it will aid comparability of responses if there are pre-determined categorical answers to choose from.
- For example, for IFRS S2 disclosure requirement 6a (ii), "how and how often the body(s) or individual(s) is informed about climate-related risks and opportunities," categorical answers could be:
    - At least once per month;
    - At least once per 3 months;

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  - At least once per 6 months;
  - At least once per year;
  - Other.

3. Unit of Reporting

For quantitative reporting requirements, guidance should be given on the unit of reporting (e.g., monetary value, percentage of revenues).

- For example, for IFRS S2 disclosure requirement 29e, “capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities,” disclosures would benefit from guidance on whether this should be expressed as a monetary value, a percentage of revenues, or categorically (e.g. “high,” “medium” or “low”).

4. Scenario Analysis Parameters

Companies should follow specified parameters for scenario analysis, including considering both “Paris Aligned” and “Hot House World” scenarios, defining time horizons, indicating metrics used, and specifying the scope of analysis. Specifically, the disclosure requirements could specify that:

- At least one “Paris Aligned” scenario (<2°C global warming) and one “Hot House World” scenario (>2°C global warming) should be considered;
- The following time horizons should be considered: short term (<5 years), medium term (5 to 15 years), and long term (>15 years);
- The metric(s) used to measure the results of the scenario analysis should be clearly indicated;
- The scope of the analysis (e.g. which physical assets, business units or supply chain partners are in scope) should be indicated;
- When results are presented in a qualitative way, they provide a sense of whether the measured risk is low/medium/high, along with an interpretation of those classifications.

What additional elements should be considered?

1. Scope and timeline of disclosures

Some jurisdictions may wish to phase in sustainability reporting requirements to ease the reporting burden on companies. Jurisdictions should consider a timetabled approach based on the company’s size and the industry in which it operates, which enables firms to prepare and adapt their reporting strategies accordingly. However, the overarching objective should be to

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introduce mandatory reporting for listed companies to ensure a consistent application of the ISSB baseline across jurisdictions.

2. Frequency and location of reporting

Entities should be required to report their sustainability-related financial disclosures at the same time and within the same reporting period as their related financial statements.

It is important to enable consolidated level reporting for the entire report. Climate-related disclosures should cover the same scope of entity as financial statements to avoid misleading information.

3. Digital reporting of data

It is important for disclosures to be available in both machine-readable (such as XBRL) and human-readable (such as HTML) formats to facilitate digital consumption of sustainability-related information, while retaining full control over the appearance of the statement. To this end, we recommend using the iXBRL format, which allows reporting entities to add machine-readable tags (XBRL) to an electronic file that can be read by humans.

The IFRS Sustainability Disclosure Taxonomy[4] has been designed for tagging sustainability-related financial disclosures prepared applying IFRS Sustainability Disclosure Standards, and will help:

1. users of general purpose financial reports to consume sustainability-related financial information digitally;
2. regulators that require the digital reporting of sustainability-related financial information; and
3. an entity to implement digital reporting of sustainability-related financial information, enabling tagging without undue cost.

Using a global format for machine-readable sustainability information will help improve accessibility, enable easier extraction, and foster less error-prone data collection by users of this information.

4. Assurance

Both IFRS S1 and IFRS S2 do not address assurance. To enhance the credibility and reliability of data disclosures, Bloomberg recommends that supervisory and regulatory authorities consider

[4] IFRS Sustainability Disclosure Taxonomy 2024. https://www.ifrs.org/content/dam/ifrs/publications/amendments/english/2024/issb-tu-2024-1-ifrs-sustainability-disclosure-taxonomy.pdf.

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a phased approach on data assurance for information disclosed under both sustainability- and climate-related requirements. At the minimum, information should be reviewed by an internal audit function and eventually be verified externally by a third party. This should start with limited assurance, and gradually progress to reasonable assurance, where the supervisory and regulatory authorities deem appropriate.

5. Comparability across multiple periods

To ensure comparability over time, entities should disclose quantitative information for both current and preceding periods. Entities should clearly point to material errors made in prior periods to ensure data comparability over multiple periods.

What is the impact of the EU Corporate Sustainability Reporting Directive (CSRD)?

The CSRD aims to harmonize sustainability disclosures across the EU by introducing detailed reporting rules that will require roughly 50,000 companies to report against a mandatory set of sustainability standards – the so-called European Sustainability Reporting Standards (ESRS) – encompassing environment, social and governance issues.

The extraterritorial nature of the CSRD underscores the importance of having a common framework for data inputs to minimize the costs of market participants captured by these different regimes. The European Financial Reporting Advisory Group (EFRAG) – which is responsible for preparing the ESRS – and the ISSB have jointly issued interoperability guidance[5] to describe the alignment of disclosure requirements and information that an entity starting with each set of standards needs to know to enable compliance with both sets of standards. Close coordination between local regulatory authorities and the ISSB can help create and promote common baseline metrics and inputs for market participants, as well as consistent terminology and definitions, where feasible.

The CSRD covers:

A. All listed companies on an EU regulated market (including listed SMEs, but not micro-enterprises);

B. All large companies exceeding two of the three following criteria:
   a. 250 employees during the financial year;
   b. Balance sheet total EUR 20 million;

[5] ESRS-ISSB Standards Interoperability Guidance. https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/esrs-issb-standards-interoperability-guidance.pdf.

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c. Net turnover EUR 40 million;

C. Non-EU companies generating a net turnover of more than EUR 150 million and having a subsidiary in the EU that follow the criteria applicable to EU companies (i.e., being listed on the European market except micro or being within the large company threshold in point b) above) or a branch in the EU generating more than EUR 40 million net turnover;

D. Captive insurance and reinsurance undertakings, as well as small and non-complex institutions, provided they also qualify as large companies or SMEs.

The law entered into force on 5 January 2023 and must be integrated into EU Member States' national policy frameworks within 18 months of that date. The Directive's implementation will take place on a phased-in basis:

- From 1 January 2024 (first reports due in 2025) for companies that are already in scope of the Non-Financial Reporting Directive (NFRD);
- From 1 January 2025 (first reports due in 2026) for other large companies;
- From 1 January 2026 (first reports due in 2027) for listed SMEs (SMEs have the option to opt-out the first two years if the SME provides a statement explaining why their management does not capture sustainability information);
- From 1 January 2028 (first reports due in 2029) for non-EU companies with branches/subsidiaries captured by the thresholds.

The first set of sector-agnostic ESRS entered into force on 1 January 2024. The sector-specific ESRS and the reporting standards for non-EU companies are due to be adopted by 30 June 2026. The sector-specific standards will describe disclosure requirements that are specific to different industry sectors. The standards for non-EU companies will cater specially for the case of non-EU companies that are in scope of the CSRD. The standards for SMEs will contain a simpler set of reporting requirements in comparison to large companies.

The EU defines[6] SMEs as companies with:

- Fewer than 250 employees; and
- Annual turnover that does not exceed EUR 50 million; or
- Annual balance sheet not exceeding EUR 43 million.

Microenterprises are also included in this general definition of SMEs, but they are excluded from the scope of the CSRD. All other companies are encouraged to voluntarily create reports to help support the overall transition to a sustainable economy.

It is important to note that the CSRD includes an equivalence mechanism for non-EU companies. For example, if the non-EU parent of an EU subsidiary reports under so-called "equivalent"

[6] European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, User guide to the SME definition, Publications Office, 2015, https://data.europa.eu/doi/10.2873/620234.

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reporting standards to the ESRS (and the EU subsidiary reporting is included within the consolidated report), certain reporting exemptions may apply. At this stage, it is challenging to understand which other standards may be considered equivalent to the ESRS, largely because the ESRS are extremely comprehensive and granular. Moreover, the ESRS integrate the “double materiality” principle, in contrast to the standards developed by the International Sustainability Standards Board (ISSB).

The criteria for assessing equivalence have not yet been established by the European Commission. One possibility that it may consider when determining equivalence is whether the non-EU company’s home jurisdiction has a local sustainability taxonomy (including reporting rules against this taxonomy) that maintains the same principles of net-zero alignment as the EU Taxonomy. In the absence of equivalence, in-scope non-EU companies would be required to report against the EU Taxonomy as per Article 8 of the Taxonomy Regulation.

Concluding points

In conclusion, regulators should consider the following points when implementing the ISSB standards:

1. **Standardized metrics:** Regulators should prioritize standardized metrics and quantitative information for better comparability.
2. **Comparative data:** Entities should disclose quantitative information for both current and preceding periods.
3. **Phased-in reporting requirements:** Regulators should favor a timetabled approach based on company size and industry, and prioritize carbon-intensive sectors, with the overarching objective to move toward mandatory reporting for listed entities.
4. **Minimum KPIs:** Entities should report minimum KPIs, including Scope 1, 2 and 3 GHG emissions, carbon emission targets, and scenario analysis for company resilience.
5. **Digital reporting:** Reporting disclosures in both machine-readable (XBRL) and human-readable (HTML) formats can facilitate digital consumption of sustainability-related information. We recommend using the iXBRL format, which allows reporting entities to add machine-readable tags (XBRL) to an electronic file that can be read by humans.
6. **Assurance of reported information:** A review by an internal audit function, at the minimum, and ultimately by a third-party, is recommended where the supervisory and regulatory authorities deem appropriate.
7. **Consolidated-level reporting:** Climate-related disclosures should cover the same scope as financial statements to avoid misleading information.